
ARAFURA RESOURCES NL

ACN 080 933 455

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

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Directors

Peter N Walker	Non Executive Chairman
Alistair J Stephens	Managing Director
Ian J Kowalick	Non Executive Director
Marcus H Rose	Non Executive Director
I G (Mick) Muir	Non Executive Director

Company Secretary

Ross James Arancini
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Solicitors

Freehills
250 St George's Terrace
Perth WA 6000

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153

Auditor

Horwath Audit (WA) Pty Ltd
128 Hay Street
SUBIACO WA 6008

Stock Exchange Listing

Australian Stock Exchange Limited
(Home Branch - Perth)
ASX Code: ARU/ARUO
ARUO expiry date 30 June 2008

Bankers

Westpac Bank
109 St George's Terrace
PERTH WA 6000

Arafura Resources NL

ABN 080 933 455

DIRECTORS' REPORT

Your directors submit the financial report of the economic entity for the half-year ended 31 December 2005.

Directors

The names of directors who held office during or since the end of the half-year:

P.Walker	Non Executive Chairman
A. Stephens	Managing Director
I.Muir	Non Executive Director
I.Kowalick	Non Executive Director
M.Rose	Non Executive Director

REVIEW OF OPERATIONS HALF YEAR 31 DECEMBER 2005

1. Nolans Bore Project

The main focus of the half year has been on the Nolans Bore REO/U₃O₈/P₂O₅ Project Resource Increase.

The 2005 drill program has delivered remarkable success for the project by increasing the resources at Nolans Bore by three fold and identifying areas of additional mineralisation that have the potential to add to the resource estimate. The total resources are now estimated at;

- 18.6 mt at 3.1% rare earth oxides (REO), 14% phosphate (as P₂O₅) and 0.47 lb/tonne uranium oxide (U₃O₈). The details are outlined below.

Status		Tonnes (million)	REO %	P ₂ O ₅ %	U ₃ O ₈ lb/T	REE %	P %	U %
INDICATED HIGH GRADE		3.9	4.4	18.3	0.70	3.7	8.0	0.027
INDICATED LOW GRADE		6.6	2.4	11.1	0.37	2.1	4.8	0.014
TOTAL INDICATED		10.5	3.1	13.8	0.50	2.7	6.0	0.019
INFERRED HIGH GRADE		2.4	4.4	20.1	0.61	3.7	8.8	0.024
INFERRED LOW GRADE		5.7	2.4	11.8	0.36	2.1	5.1	0.014
TOTAL INFERRED		8.1	3.0	14.3	0.43	2.5	6.2	0.017
TOTAL RESOURCES		18.6	3.1	14.0	0.47	2.6	6.1	0.018

DIRECTORS' REPORT

This represents a significant milestone for the company and the project. The key issues from this 2005 exploration program are;

- That the area of known mineralisation is well enough known and extensive that we can be confident that further drilling will identify additional resources
- That the known extent of mineralisation is only limited by the extent of the drilling
- That the majority of the resource has little or no overburden
- That the resource is amenable to low cost, low strip ratio open pit mining
- That enough resources have been identified for a mine life of greater than 20 years
- That many targets remain for high grade mineralization

This allows the company to move forward with the feasibility study. Rare earths are highly strategic commodities that hold the key to many high growth applications in the electronics industries.

2. Uranium

The other focus has been on acquisition and exploration of prospective properties in the Northern Territory.

In 2005/6, the price of U₃O₈ has increased by 155% to US\$37 per pound (16 January 2006). During 2005 Arafura continued to review our strategic position for uranium and was granted access to over 7,500 kilometers of prospective ground in the Northern Territory.

Lagoon Creek (100% ARU, Laramide earning up to 60%)

Airborne geophysical exploration on Arafura's Lagoon Creek tenement (EL23573) has identified strong uranium anomalies. This tenement is located within the Northern Territory against the Queensland border along strike from the Westmoreland uranium field. Arafura's joint venture with Laramide allows them to earn 60% equity in the project with the expenditure of \$5.5 million over a five year period.

The significant results of the survey are;

- The new discovery of two zones called Debbill and Conglo
- The new zones are the strongest anomalies in the region
- All anomalies are located in favourable basement rocks, unconformity relationships and associated structural features
- The survey clearly detected all previously known mineralisation and adds to the significance of the new discoveries.

Debbill Zone

A 5 kilometre long zone in the southwest of the tenement occurring in either the Westmoreland Conglomerate or possibly in overlying Cretaceous sediments. Three high order radiometric anomalies in the zone require field checking and appear to be structurally controlled. No previous exploration results have been reported from this zone. The Debbill Zone anomaly will be a high priority target for the 2006 field season.

DIRECTORS' REPORT

Conglo

An isolated high amplitude anomaly hosted by Westmoreland Conglomerate or possibly in Cretaceous sediments which overlie the Westmoreland Conglomerate in the middle of EL 23573. No previous exploration results have been reported from this zone. This is a high priority target for the 2006 field season.

Mageera Zone

This zone has been previously explored and consists of a fault zone parallel to the Redtree dyke that hosts the main Westmoreland deposits across the border in Queensland. Previous exploration along the Westmoreland fault resulted in the following drill intercepts.

WPD 3 1 metre @ 2.3 % U₃O₈

WPD 45 11 metres @ 0.08% U₃O₈ including 1 metre @ 0.18 % U₃O₈

WPD59 5 metres @ 0.05% U₃O₈

WPD603metres @1.8%U₃O₈ including1metre@2.4%U₃O₈ +6.9g/tAu.

WPD88 20 metres @ 0.08% U₃O₈

WPD105 1 metre @ 1.05% U₃O₈

(1% U₃O₈ is equivalent to 22.04 lb/tn U₃O₈)

El Hussen Trend

This target extends across the boundary of EL 23573 to the north. Work by Laramide during the 2005 field season defined a 1400 metre long zone of mineralization in which twelve separate rock chip samples averaged 0.06% U₃O₈ over 3 meters widths. Highest sample was 3 meters @ 0.3 % U₃O₈

Planned exploration for 2006

As a result of the success of the initial aerial survey the joint venture will proceed with the planning of drilling targets for the 2006 field season.

Laramide is planning a 20,000 metre drill program of which at least 2,000 metres will be undertaken in Arafura's tenement.

3. Gold

In the second half of 2005 the gold price strengthened by 31% to US\$568 per ounce. The return to a stronger gold price and its firm outlook place Arafura in a good position to realize the value of our gold tenements.

Kurinelli (100% ARU)

A follow-up drill program at Kurinelli delivered further outstanding gold results with the return of a peak assay of 5.02 grams per tonne. The Kurinelli gold anomaly extends over a distance of about 4 kilometres and 750 metres wide with broad gold anomalism over 10 ppb. The results justify the

DIRECTORS' REPORT

Company funding and proceeding with a drill program to target bedrock mineralisation. Gold assays in soil samples indicate that the host is a greenstone dolerite rock type that is more typical of Western Australian goldfields than a typical Tennant Creek ironstone host.

Furthermore, prospecting by local prospectors has recovered over 5,000 ounces of gold in quartz veins in shallow pits in the region.

This region has not been explored before by modern exploration techniques and represents an outstanding greenfield and blue sky opportunity for the discovery of a new gold district. The company is planning a 3,000 metre drill program in the 2006 field season to test the prospect.

4. Divestments

In October 2005 Arafura and Segue Resources Ltd completed the transfer and sale of the Coronet Hill tenement. Segue Resources paid \$50,000 and issued the scrip for 500,000 shares to Arafura at an issue price of \$0.50 per share. All documentation for the transfer of the tenements ownership has been completed.

The price of the Segue shares as at 31 December 2005 was \$0.65 valuing the shares at \$325,000.

Hammer Hill JV with Mithril Resources Ltd

Arafura has entered into an agreement with Mithril Resources Ltd for Mithril to explore for nickel sulphide mineralisation on Arafura's Hammer Hill tenements, EL 9725 and EL10136 in the Northern Territory. Exploration on Mithril's Indiana project identified nickel and cobalt mineralisation with values up to 0.52% nickel and 0.06% cobalt in stream sediment samples.

The farm in allows Mithril to earn up to 70% equity on Arafura tenements by the expenditure of \$5million over 6 years. Mithril also have a strategic alliance with BHP Billiton Ltd subsidiary BHP Billiton Minerals Pty Limited. This alliance allows BHPB to enter into joint ventures on Mithrils projects as a third party.

Frances Creek

A payment of \$375,000 has been received from Territory Iron Ltd for the extension of the mining rights to the Frances Creek iron resources. Territory Iron is in the process of making all necessary applications for a mining lease over the tenement area. In addition, significant progress has been made by the Territory government with the construction of the bulk handling facility at the Darwin Port; Territory Iron is planning to commence mining in 2006 with the first shipment of iron to be completed by the end of 2006.

5. Personnel

In September, Mr George Bauk joined the company in a dual role as Business Development and Marketing Manager and Chief Financial Officer.

Mr Bauk brings to Arafura extensive experience in marketing and commercial functions from previous roles in companies like Tiwest, Outokumpu, WMC, Mitchells Transport and View Resources. Mr Bauk will be responsible for developing relationships and agreements with customers for rare earth,

DIRECTORS' REPORT

uranium and phosphate products from our Nolans Bore project.

Mr Steve Mackowski has accepted a role with Arafura effective March 2006 to manage the feasibility study for Nolans Bore. Mr Mackowski is a qualified metallurgist with extensive experience in the processing, treatment and recovery of rare earths, uranium, industrial mineral sands, nickel and iron ore and has worked at Mary Kathleen (uranium and rare earths), Westralian Sands, Mt Keith and Hamersley Iron.

Mr Kelvin Hussey has accepted a role as Principal Exploration Geologist with Arafura Resources NL effective 16 February 2006. He has over 17 years experience, with 15 years with the Northern Territory Geological survey (in Alice Springs). He has extensive experience and knowledge of the geology and mineralisation of the Northern Territory. His appointment will strengthen the effectiveness of defining ground targets, acquisitions and assessment of Arafura's exploration in the Northern Territory. Mr Hussey will be based in Darwin.

Mr John Goulevitch will remain as Consulting Geologist to Arafura Resources based in Darwin.

6. Corporate

In September 2005, Arafura raised \$1.8m through the placement of 5.8 million shares at an issue price of \$0.24 per share. This capital will be used for exploration of the company's uranium, rare earths, gold and base metals project.

Adoption of Australian Equivalents to IFRS

This interim financial report has been prepared under Australian equivalents to IFRS. There are no differences between previous GAAP and Australian equivalents to IFRS as disclosed in Note 2 of this report.

Operating Results

The consolidated entity incurred a loss for the half-year after income tax of NIL of (\$13,574) (2004: \$310,320).

Events after the end of the half-year

There has not arisen in the interval between the end of the half-year and the date of this Report any item, transaction or event of a material and unusual nature in the opinion of the directors of the Company that has significantly affected or may significantly affect:

- The operation of the Company
- The results of those operations; or
- The state of affairs of the Company

In financial periods subsequent to this half-year.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required by Section 307C of the Corporations Act 2001 is included in this report.

This report is made in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'PN Walker', written in a cursive style.

PN Walker
Director

Dated 16th March 2006

**CONSOLIDATED STATEMENT INCOME STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER
2005**

	Half -Year	
	Economic Entity	
	31.12.2005	31.12.2004
	\$	\$
Revenue from continuing operations	719,224	25,000
Other Revenue	52,146	47,235
Accounting & other professional fees	41,084	36,679
Audit expenses	326	-
Borrowing Cost expenses	556	-
Consultants fees	41,426	-
Computer and software expenses	6,506	-
Employee Benefits expenses	388,313	206,577
Exploration expenditure written off	227	-
Feasibility Study	43,713	-
Insurance expenses	26,157	33,001
Legal expenses	6,520	250
Motor Vehicle expenses	7,382	-
Promotional expenses	109,218	12,184
Rent expenses	16,385	13,280
Stock Exchange fees	34,887	13,182
Travel and Accommodation expense	31,818	16,260
Other expenses	22,178	47,461
Depreciation expense	8,248	3,681
Loss before income tax	(13,574)	(310,320)
Income tax expense	-	-
Loss from continuing operations	(13,574)	(310,320)
Loss for the half-year	(13,574)	(310,320)
Loss attributable to members of the parent entity	(13,574)	(310,320)
 Overall Operations:		
Basic earnings per share (cents per share)	(0.0002)	(0.0070)
Diluted earnings per share (cents per share)	(0.0002)	(0.0070)

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

	Economic Entity	
	31.12.2005	30.06.05
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	2,485,021	2,203,890
Trade and other receivables	52,077	43,100
TOTAL CURRENT ASSETS	<u>2,537,098</u>	<u>2,246,990</u>
NON-CURRENT ASSETS		
Available-for-sale financial assets	325,000	-
Property, plant and equipment	36,020	27,887
Exploration and evaluation costs carried forward	3,008,011	1,886,837
TOTAL NON-CURRENT ASSETS	<u>3,369,031</u>	<u>1,914,724</u>
TOTAL ASSETS	<u>5,906,129</u>	<u>4,161,714</u>
CURRENT LIABILITIES		
Payables	214,448	319,556
Provisions	12,510	36,894
TOTAL CURRENT LIABILITIES	<u>226,958</u>	<u>356,450</u>
TOTAL LIABILITIES	<u>226,958</u>	<u>356,450</u>
NET ASSETS	<u>5,679,171</u>	<u>3,805,264</u>
EQUITY		
Issued capital	6,792,895	5,065,795
Reserves	160,381	-
Accumulated losses	(1,274,105)	(1,260,531)
TOTAL EQUITY	<u>5,679,171</u>	<u>3,805,264</u>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	\$	\$	\$	\$	\$
	Share Capital Ordinary	Equity Reserve	Revaluation Reserve	Accum Losses	Total
Note					
Balance at 1.7.2004	3,876,300	-	-	(546,684)	3,329,616
Shares / options issued (net of issue costs)	-	-	-	-	-
Loss attributable to members of parent entity	-	-	-	(310,320)	(310,320)
Balance at 31.12.2004	<u>3,876,300</u>	<u>-</u>	<u>-</u>	<u>(857,004)</u>	<u>3,019,296</u>
Balance at 1.7.2005	5,065,795	-	-	(1,260,531)	3,805,264
Shares issued (net of issue costs)	1,727,100	-	-	-	1,727,100
Available-for-sale financial assets	-	-	75,000	-	75,000
Employee share options	-	85,381	-	-	85,381
Loss attributable to members of parent entity	-	-	-	(13,574)	(13,574)
Balance at 31.12.2005	<u>6,792,895</u>	<u>85,381</u>	<u>75,000</u>	<u>(1,274,105)</u>	<u>5,679,171</u>

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Economic Entity	
	31.12.2005	31.12.2004
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	-	32,260
Payments to suppliers and employees	(643,411)	(370,250)
Interest received	54,146	47,235
Royalties received	375,000	-
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(214,265)	(290,755)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of non-current assets	100,000	-
Purchase of non-current assets	(9,595)	(6,858)
Exploration expenditure	(1,322,109)	(389,425)
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	(1,231,704)	(396,283)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,818,000	-
Transaction costs from issue of shares	(90,900)	-
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	1,727,100	-
	<hr/>	<hr/>
Net increase in cash held	281,131	(687,038)
Cash at 1 July 2005	2,203,890	2,389,395
	<hr/>	<hr/>
Cash at 31 December 2005	2,485,021	1,702,357
	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF-YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by Arafura Resources NL and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and Australian equivalents to IFRS has been prepared per Note 2.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

(a) Principles of Consolidation

A controlled entity is any entity controlled by Arafura Resources NL whereby Arafura Resources NL has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF-YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on either a diminishing value or straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Office furniture & equipment	7.5% to 100%
Plant and equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF-YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

(f) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(h) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available for sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are

**NOTES TO THE FINANCIAL STATEMENTS FOR THE
HALF-YEAR ENDED 31 DECEMBER 2005**

NOTE 1: BASIS OF PREPARATION

taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(n) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(o) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(r) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

(s) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST).

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(v) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

There are no adjustments required to amounts in the Company's accounting balances previously calculated under GAAP at either 1 July 2004, 31 December 2004 or 30 June 2005.

NOTE 3: EVENTS SUBSEQUENT TO REPORTING DATE

There are no events subsequent to reporting date that have or may significantly affect the operations, results, or state of affairs of the economic entity.

NOTE 4: EQUITY SECURITIES ISSUED

	Half Year		Half Year	
	2005	2004	2005	2004
	Shares	Shares	\$	\$
As at 1 July 2005	50,547,508	43,957,508	5,065,765	3,876,300
Issue of ordinary shares during the half year	7,575,000	-	1,818,000	-
Capital Raising Costs	-	-	(90,900)	-
As at 31 December 2005	<u>58,122,508</u>	<u>43,957,508</u>	<u>6,792,865</u>	<u>3,876,300</u>

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 8 to 16:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the economic entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director



PETER N WALKER
Director

Dated this 16th day of March 2006

**Independent review report on the financial report
to members of Arafura Resources NL**

We have conducted an independent review of the accompanying financial report of Arafura Resources NL (the consolidated entity) for the half-year ended 31 December 2005. The financial report comprises the consolidated balance sheet at 31 December 2005, and the consolidated income statement, statement of changes in equity, cash flow statement, summary of significant accounting policies and other explanatory notes, and the directors' declaration for the half year then ended. The consolidated entity comprises both the company and the entities it controlled at the half-year end or during that half-year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to perform an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia and the *Corporations Act 2001*, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to inquiries of the company's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company and group, and have complied with the independence requirements of the *Corporations Act 2001*.



Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Arafura Resources NL is not in accordance with the Corporations Act 2001, including:

- (a) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date.
- (b) Complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001.

Dated the 16th day of March 2006.

HORWATH
Audit (WA) Pty Ltd

HORWATH.
GLYN O'BRIEN

GLYN O'BRIEN
Director



Horwath Audit (WA) Pty Ltd

ABN 79 112 284 787

Chartered Accountants

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Telephone (08) 9380 8400

Facsimile (08) 9380 8499

16 March 2006

The Board of Directors
Arafura Resources NL
Level 4, 16 St Georges Terrace
Perth WA 6000

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with my half-year review of the financial report of Arafura Resources NL for the period ended 31 December 2005 and in accordance with the provisions of the Corporations Act 2001.

As lead auditor I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this review
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this review

HORWATH

Audit (WA) Pty Ltd

HORWATH.
GLYN O'BRIEN

GLYN O'BRIEN

Director

Directors: Glyn O'Brien CA Anthony Bevan CA

Horwath Audit (WA) Pty Ltd conducts its practice independently of all other firms of chartered accountants who are members of Horwath International in Australia