



ARAFURA
RESOURCES NL

ARAFURA RESOURCES NL

ABN 22 080 933 455

HALF-YEARLY REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2006

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Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources NL and the entities it controlled at the end of, or during, the half-year ended 31 December 2006.

DIRECTORS

The following persons were directors of Arafura Resources NL during the whole of the half-year and up to the date of this report:

PN Walker	Non-Executive Chairman*
AJ Stephens	Managing Director
IG Muir	Non-Executive Director/ Chairman*
IJ Kowalick	Non-Executive Director

*PN Walker resigned as Chairman on the 31 January 2007 and IG Muir was appointed. On 19 February 2007, PN Walker resigned from the board.

REVIEW OF OPERATIONS

a) Corporate

In December 2006, the company undertook a non-renounceable rights issue. During that month the conversion of 8,358,737 options raised \$1.6 million and the rights issue raised an additional \$12.2 million in which shareholders were offered 2 new shares for every 5 shares held at a price of \$0.36 per share. Total money raised was \$13.8 million.

In November 2006 the company announced it had been offered an AusIndustry Commercial Ready Grant to help fund the Nolans project. The first receipt of funds was in January 2007. The grant offers to re-imburse Arafura 50% of the costs associated with research & development of the Nolans project up to a maximum of \$3.3m.

b) Nolans Rare Earths-Phosphate Project

The Nolans project continues to excel. Drilling continually defines additional mineralisation and the test work is effectively defining the process route for the recovery of rare earths, phosphate, uranium and calcium chloride. In addition, these works have defined ways to reduce processing and capital costs and improve recoveries by the removal of waste products before processing. The market for all these commodities continues to strengthen, especially the rare earth and uranium markets. There is a desperate need for additional supply of rare earths, and Arafura can provide that with our premium products. Our multiple revenue streams will make the Nolans project a superior investment return. After the demerger of NuPower Resources, the Arafura team is clearly focused on delivering further value through the development of Nolans while continuing to pursue our exploration properties. We will always be looking for ways to create shareholder wealth through exploration success and getting into production. Our plans also include exploring opportunities to start producing earlier.

In July 2006, Arafura undertook 4,363 metres in 51 holes of RC drilling to identify additional extensions of mineralisation in the southern zone of the deposit adjacent to the current main resource in the northern zone. The drilling identified additional mineralisation which has a strike length of 1,500m and up to 18m in width; results were advised to the market in ASX releases dated 9 October and 23 November 2006. Mineralisation still remains open to the northeast and southwest of the main project area and it remains open at depth in most areas.

Rare Earth test work at ANSTO continued with positive results. Additional caustic cracking test work has identified that rare earth recovery may be improved further with the rejection of clay minerals from the feed. This test work is ongoing and is likely to provide additional benefits to the overall metallurgical process and project economics.

The current test work aims to optimise the recovery of rare earth and the separation of iron and thorium.

Phosphoric acid recovery test work undertaken by Bateman Litwin is continuing in Israel using solvent extraction processes. Preliminary results of the works are encouraging and are indicating good selectivity and recovery of phosphoric acid. Test work indicates that the quality of phosphoric acid recovered is of superior fertiliser grade.

The processes for the recovery of uranium and calcium chloride have now been identified. The test work for the recovery of both uranium and calcium chloride will not commence until the tests for rare earths and phosphoric acid are satisfied. Results from the current programmes are not expected until the second quarter of 2007.

c) NuPower Resources

*(i) Lagoon Creek JV with Laramide Resources Ltd (TSX: LAM)
(100% ARU, Laramide earning up to 60%)*

The company announced on 20 October, that Laramide had commenced RC drilling on Arafura's title. By the end of December Laramide had completed 2,818m of drilling results of which were reported late February / early March 2007.

(ii) Lucy Creek (100% ARU), Northern Territory

Initial drill testing of the prospect was carried out in November 2006 when a total of 1,712 metres of RC drilling was completed in 60 holes widely spaced across the anomalous area. 1,400 samples reporting elevated scintillometer counts have been submitted for analyses by ALS-Chemex in Alice Springs.

Results are not expected before mid March due to the high demand in laboratory services and thus long lead times being experienced at commercial laboratories across the country.

(iii) Goanna (100% ARU)

Initial drill testing of the prospect was carried out in October when a total of 271 metres of RC drilling was completed in 40 shallow holes over an area of 1,100x350 metres. Anomalous uranium levels were returned by 34 samples and were reported by the company in its December 2006 quarterly report.

d) Gold

(i) Mt Porter (100% ARU less royalty interests)

Four holes (321 metres) from a planned 11 hole RC drilling programme designed to test extensions of the known resource were completed in early November before difficult ground conditions forced suspension of the area programme. Results from the completed holes were reported in Arafura's December 2006 quarterly report.

Some new zones of mineralisation were identified and options to further explore this discovery will be considered during 2007 whilst further drilling within the SE region is scheduled for the second quarter of 2007.

e) Vanadium

(i) Jervois (Unca) Fe-Ti-V, (100% ARU)

During the 6 months to December 2006, the company conducted an RC drilling programme of 937 metres in 15 vertical holes drilled on 10-12 separate targets. Most holes intersected broad zones with magnetite concentration over 10% and some holes intersected near-massive magnetite over intervals of 5-44 metres wide.

Results of 285 samples to determine the content of recoverable magnetite and the iron, vanadium and titanium contents of the magnetite are expected in March 2007.

f) Nickel

*(i) Hammer Hill JV with Mithril Resources Ltd
(100% ARU, Mithril earning up to 70%)*

During the last 6 months, as exploration manager for the project, Mithril Resources Ltd completed initial ground EM (electromagnetic) surveys over previously defined geochemical anomalies around the Hammer Hill nickel prospect and have advised Arafura they now plan to undertake a more extensive airborne EM survey over Arafura's titles. A positive result from this will then lead to drilling later in 2007.

g) Iron Ore

Frances Creek Iron – Territory Iron Ltd (ARU royalty interest)

Royalty payments to Arafura will resume after the initial 600,000 tonnes are shipped to account for the pre-payments made by Territory Iron in 2006. Dependent on the start up date, production rates and the lump to fines ratio of ore, Arafura should receive royalty payments of between \$1m to \$1.5 m per annum from the Frances Creek operation from 2008.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 13.

POST BALANCE DATE

In January 2007, a combined demerger prospectus and a notice of meeting were posted to all shareholders. This prospectus offered shareholders 1 NuPower Resources Ltd share for every 3 Arafura shares held. Options are treated in the same ratio. A general meeting seeking shareholder approval was held on 16 February 2007 and all resolutions were passed. The company anticipates a listing date for NuPower Resources in the week of 13 March 2007.

Application has been made to ASIC for the change in company name to Arafura Resources Limited. The notice was gazetted in January 2007 and took effect on 28 February 2007.

Following a significant spike in the share price of Segue Resources Ltd, the company divested half (250,000 shares) of its investment in February 2007. The average price received was \$1.11 net of transaction costs and cash banked was \$278,000.

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



IG Muir
Director

Perth
9 March 2007

CONSOLIDATED INCOME STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	Half-year	
		2006	2005
		\$	\$
Revenue from continuing operations		-	719,224
Other revenue		132,192	52,146
Accounting & other professional fees		(52,005)	(41,084)
Audit expenses		(1,321)	(326)
Borrowing cost expenses		(4,703)	(556)
Consultants fees		(186,582)	(41,426)
Computer and software expenses		(12,173)	(6,506)
Depreciation expenses		(17,059)	(8,248)
Demerger expenses		(47,293)	-
Employee benefits expenses		(619,401)	(388,313)
Insurance expenses		(24,661)	(26,157)
Legal expenses		(42,453)	(6,520)
Motor vehicle expenses		(8,158)	(7,382)
Promotional expenses		(94,042)	(109,218)
Recruitment fees		(20,731)	-
Rent expenses		(65,651)	(16,385)
Stock exchange fees		(55,376)	(34,887)
Travel and accommodation expenses		(73,809)	(31,818)
Bank charges		(5,627)	-
Other expenses		(55,549)	(22,178)
Feasibility study		(426,599)	(43,713)
Exploration expenditure written off		-	(227)
Loss before income tax		(1,681,001)	(13,574)
Income tax expense		-	-
Loss for the half-year		(1,681,001)	(13,574)
Loss attributable to members of Arafura Resources NL		(1,681,001)	(13,574)
		Cents	Cents
Earnings per share:			
Basic earnings per share		(0.0211)	(0.0002)
Diluted earnings per share		(0.0160)	(0.0002)

The above income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	31 December 2006 \$	30 June 2006 \$
	Notes	
Current assets		
Cash and cash equivalents	16,248,356	6,277,859
Trade and other receivables	174,223	104,820
Total current assets	16,422,579	6,382,679
Non-current assets		
Available-for-sale financial assets	275,000	375,000
Property, plant and equipment	189,075	187,582
Exploration and evaluation costs carried forward	5,204,322	3,781,198
Total non-current assets	5,668,396	4,343,780
Total assets	22,090,976	10,726,459
Current liabilities		
Interest bearing liability	36,456	36,456
Trade and other payables	975,304	633,967
Provisions	42,976	28,376
Total current liabilities	1,054,736	698,799
Non-current liabilities		
Interest bearing liability	46,360	60,265
Total non-current liabilities	46,360	60,265
Total liabilities	1,101,096	759,064
Net assets	20,989,879	9,967,395
Equity		
Contributed equity	25,181,023	12,381,827
Reserves	399,208	494,918
Accumulated losses	(4,590,351)	(2,909,350)
Total equity	20,989,879	9,967,395

The above balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	Share Capital Ordinary \$	Equity Reserve \$	Revaluation Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2006		12,381,827	369,918	125,000	(2,909,350)	9,967,395
Shares issued /options exercised (net of issue costs)		12,799,196	-	-	-	12,799,196
Available-for-sale financial assets		-	-	(100,000)	-	(100,000)
Employee share options		-	4,290	-	-	4,290
Loss attributable to members of parent entity		-	-	-	(1,681,001)	(1,681,001)
Equity at the end of the half year		25,181,023	374,208	25,000	(4,590,351)	20,989,880
2005						
Equity at the beginning of the half-year		5,065,795	-	-	(1,260,531)	3,805,264
Shares issued /options exercised (net of issue costs)		1,727,100	-	-	-	1,727,100
Changes in the fair value of available-for-sale financial assets		-	-	75,000	-	75,000
Employee share options		-	85,381	-	-	85,381
Loss attributable to members of the parent entity		-	-	-	(13,574)	(13,574)
Equity at the end of the half-year		6,792,895	85,381	75,000	(1,274,105)	5,679,171

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECMEBER 2006

	Half-year	
	2006	2005
Notes	\$	\$
Cash flows from operating activities		
Receipts from customers	-	-
Interest received	132,192	54,146
Royalties received	-	375,000
Feasibility study	(390,949)	-
Payments to suppliers and employees inclusive of GST	(1,295,670)	(643,411)
Net cash outflow from operating activities	(1,554,427)	(214,265)
Cash flows from investing activities		
Payment for non-current assets	(36,046)	(9,595)
Proceeds from sale of plant and equipment	-	100,000
Payments in relation to demerger	(47,293)	-
Exploration expenditure	(1,619,241)	(1,322,109)
Net cash outflow from investing activities	(1,702,580)	(1,231,704)
Cash flows from financing activities		
Proceeds from issue of shares	13,995,969	1,818,000
Transaction costs from issue of shares	(768,462)	(90,900)
Net cash inflow from financing activities	13,227,507	1,727,100
Net increase (decrease) in cash held	9,970,500	281,131
Cash and cash equivalents at the beginning of the half-year	6,277,856	2,203,890
Cash and cash equivalents at the end of the half-year	16,248,356	2,485,021

The above cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

Note 1 Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by Arafura Resources NL during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Note 2 Segment information

Arafura Resources NL and its controlled entities were incorporated (and are domiciled) in Australia and operate in the mineral exploration industry within Australia.

Note 3 Equity securities issued

	2006 Shares	2005 Shares	2006 \$	2005 \$
Issues of ordinary shares during the half-year				
As at 1 July 2006(2005)	75,779,361	50,547,508	12,381,827	5,065,757
Exercise of options issued under the Arafura Employee Option Scheme	550,000	-	283,455	-
Exercise of listed options	8,418,737	7,575,000	1,683,747	1,818,000
Rights issue	33,736,726	-	12,145,221	-
Capital raising costs	-	-	(1,313,227)	(90,900)
Fully paid ordinary shares	118,484,824	58,122,508	25,181,023	6,792,865

Note 4 Contingent liabilities

The company appointed Ernst and Young Transaction Advisory Services to assist in the demerger process. Ernst and Young will receive a success fee of \$175,000 upon NuPower's listing on the Australian Stock Exchange. The demerger is subject to shareholder approval. This amount has not been accrued in the December 2006 half-year financial statement.

Native title claims have been made with respect to areas which include tenements in which the consolidated entity has interests. The consolidated entity is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the consolidated entity or its projects.

Note 5 Events occurring after the balance sheet date

In January 2007, a combined demerger prospectus and a notice of meeting were posted to all shareholders. This prospectus offered shareholders 1 NuPower Resources Ltd share for every 3 Arafura shares held. Options are treated in the same ratio. A general meeting seeking shareholder approval was held on 16 February 2007 and all resolutions were passed. The company anticipates a listing date for NuPower Resources in the week of 13 March 2007. The directors have determined that the demerger process for its NuPower subsidiary does not result in a discontinuing operation through holding assets for sale or abandonment. The principal purpose of the demerger process is to provide Arafura Resources shareholders with rights to assets that are current at 31 December 2006 by distributing shares in-specie.

An application to ASIC for the change in company name to Arafura Resources Limited was gazetted in

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

January 2007 and took effect on 28 February 2007.

The company divested 250,000 shares in Segue Resources Ltd in February 2007. The average price received was \$1.11 net of transaction costs and cash banked was \$278,000.

Note 6 Contingent Asset

The company has been offered an AusIndustry Grant for \$3.3m subject to the terms and conditions of the grant to be received in future reporting periods. The grant covers metallurgical and pilot plant test work at the Nolan's project and relates to the development of a unique rare earth and phosphate recovery process. The directors believe that it is highly probable that the full value of the grant will be received.

DIRECTORS' DECLARATION

In the directors' opinion:

1. The financial statements and notes set out on pages 5 to 9:
 - a. comply with Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date.

2. In the directors' opinion, there are reasonable grounds to believe that the Group 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.



IG Muir
Director

Perth
9 March 2007

Independent auditors' review report to members of Arafura Resources NL

We have reviewed the accompanying half year financial report of Arafura Resources NL, which comprises the consolidated balance sheet at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the half year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Consolidated Half Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the consolidated half year 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 consolidated half year 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 express an opinion on the consolidated half year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Auditor of an Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the consolidated financial report is not fairly presented, in all material respects, in accordance with AASB 134 *Interim Financial Reporting*. As the auditor of Arafura Resources NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.



Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the consolidated half year financial report of Arafura Resources NL does not fairly present, in all material respects the financial position of the group at 31 December 2006, and of its financial performance and its cash flows for the half year ended on that date, in accordance with AASB 134 *Interim Financial Reporting*.

Dated the 9th day of March 2007.

HORWATH AUDIT (WA) PTY LTD

A handwritten signature in black ink that reads "Horwath" on the top line and "Peter Toll" on the bottom line.

PETER TOLL
Director



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9 March 2007

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 review of the financial report of Arafura Resources NL for the period ended 31 December 2006 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

A handwritten signature in black ink that reads "Horwath" on the top line and "Peter Toll" on the bottom line.

PETER TOLL
Director