



ARAFURA RESOURCES LTD

ACN 080 933 455

7 March 2007

The Director of Titles
NT Department of Primary Industry, Fisheries and Mines
GPO Box 3000
DARWIN 0801

Attn: Mr Jerry Whitfield

Dear Jerry,

RE: Exploration Licence 23571 – Reynolds Range Third Annual Report

This report has been revised as recommended by the Exploration Evaluation Geologist. The original report was submitted by email 6 March, 2007.

We advise that on-ground exploration was conducted on the licence area during the past year.

Despite this a total of about \$16,382 was spent on EL 23571 during the past year. These incurred expenses can be attributed to our Consulting Geologist's expenses, and an Independent Geologist's Report and helicopter reconnaissance associated with our uranium demerger, plus our administration costs.

This licence area forms an integral part of our holdings in the Reynolds Range/Aileron area and is considered prospective for Nolan's Bore type deposits. In addition, the licence area also forms an important part of the Aileron Basins project area, a group of tenements held by Arafura Resources which are all considered prospective for uranium. EL 23571 is therefore part of Arafura's uranium demerger and it was not considered appropriate to continue with exploration on this tenement while the demerger was in progress. The uranium rights to EL 23571 will be transferred to NuPower Resources in March 2007.

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Apart from the lengthy demerger process and its associated expenses (more than \$1 million), Arafura's exploration activities focused on further developing our other interests elsewhere within the Northern Territory, with our exploration expenses for the last year totalling more than \$2.0 million. More than \$1.6 million alone was spent on the adjacent SEL 23671 in the last year. In addition, at least a further \$2.0 million has been spent by joint venture partners on our other titles.

The expenditure statement for the third year of the term of the licence is given below.

EL 23571, Expenditure Statement, Year 3	\$
Consultants and contractors	12368
Consumables and freight	877
Helicopter support (approx)	1000
Sub-Total	14245
ADMINISTRATION COSTS (15%)	2137
TOTAL	16382

Our direct expenses (\$16,382) did not meet the proposed Expenditure Covenant (\$30,000). However, as outlined above, our total expenses on EL 23571 included a significant proportion of our expenses associated with the demerger of our uranium interests (a total of more than \$1 million). As such, the total of our direct and indirect expenses on EL 23571 exceeded the proposed Expenditure Covenant.

In addition, Arafura Resources was not in a position to undertake on-ground exploration activities during our lengthy demerger period as this would have significantly influenced the value EL 23571 as determined by our Independent Geologist. Additional on-ground activity would have resulted in additional unwarranted expenses to Arafura Resources, requiring EL 23571 to be re-valued by an Independent Geologist and delaying the demerger process.

As the Expenditure Covenant of \$30,000 was not met we hereby request that the Expenditure Covenant for Year 3 be reduced to \$16,382. Our payment of \$50, being the applicable fee, has been paid to you separately.

Our proposed exploration expenditure for Year 4 of EL 23571 is as follows.

EL 23571, Proposed Expenditure, Year 4	\$
Geological services, including consultants and contractors	5000
Helicopter reconnaissance and airborne geophysical surveying	25000
TOTAL	30000

We therefore propose the Expenditure Covenant for the fourth year be set at \$30,000, noting that the area retained is only 50% of that held last year.

Yours Faithfully

ARAFURA RESOURCES NL

Kelvin Hussey

PRINCIPAL GEOLOGIST

Cc: Arafura Resources Ltd, Darwin.
Arafura Resources Ltd, Perth.
NuPower Resources Ltd, Darwin.
NuPower Resources Ltd, Perth.