



ABN 22 080 933 455

28 May 2008

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

Attn: Mr Jerry Whitfield

Dear Jerry

**RE: Annual Report for Exploration Licence 23571 – Reynolds Range**

We advise that no on-ground exploration was conducted on the licence area during the past year.

A total expenditure of about \$8,723 was incurred on EL 23571 during the past year. These expenses can be attributed to the purchase and processing of satellite ASTER data, office-based studies and administration costs. An electronic copy of the ASTER data and report is included.

Despite our lack of on-ground expenditure, Arafura strongly believes that the following will demonstrate our commitment to exploring the mineral potential EL 23571, and indeed the broader region.

- **The CLC denied permission for Arafura to undertake reconnaissance mapping and exploration sampling programs over EL 23571 in 2007.** Arafura provided the CLC with a reconnaissance program covering both EL 23571 and the adjacent SEL 23671 in mid 2007. The CLC approved activities on SEL 23671 but advised that they could not grant access to EL 23571 as the Reynolds Range area contains 'a significant number of sites which require clearance'.
- Arafura therefore devised an innovative remotely sensed exploration strategy that we consider has the potential to delineate specific areas of interest and reduce clearance requirements. Arafura commissioned HyVista Corporation to complete an airborne hyperspectral study of the Aileron-Reynolds Range region. This hyperspectral survey was acquired in March-April, 2008 and is currently being processed. Arafura anticipates developing exploration targets from this data and will again approach the CLC with revised areas for clearance.
- Arafura also entered into an agreement with the NTGS to infill their Arunta regional gravity coverage to a density of 2 x 2 km across all of our Aileron-Reynolds Range titles in 2008.

In addition, Arafura also engaged UTS Geophysics to acquire a detailed low-level geophysical survey over parts of adjacent ELs 23671 and 24741. This survey was originally scheduled for September 2007, however UTS advised that the required aircraft was unavoidably delayed on an Australian Government survey and would not be available until November-December 2007. Due to the required survey specifications and atmospheric conditions, UTS rescheduled Arafura's Aileron-Reynolds Range survey to May 2008. This survey has still not commenced but is expected to soon. Arafura is considering the opportunity to extend the geophysical coverage onto parts of EL 23571 if the recently acquired hyperspectral survey provides useful exploration targets.

EL 23571 forms an integral part of Arafura's holdings in the Aileron-Reynolds Range area and is considered highly prospective for apatite-hosted REE deposits. In addition, the licence area also forms an important part of the Aileron Basins project area, a group of tenements which are considered

prospective for uranium. The uranium rights to EL 23571 were transferred to NuPower Resources in March 2007.

We look forward to exploring and evaluating the mineral potential of EL 23571 and expect that this innovative remotely sensed exploration strategy, although costly, may expedite time-consuming CLC clearances within EL 23571. Despite Arafura's desire to explore the Aileron-Reynolds Range area for additional rare earth deposits, we are still unsure as to whether access clearances can be readily obtained in this culturally important area.

Arafura's exploration activities are also directed towards further developing our interests elsewhere within the Northern Territory, with more than \$4.26M alone spent on the adjacent SEL 23671 in the last year.

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

<b>EL 23571, Expenditure Statement, Year 4</b>	<b>\$</b>
Consultants and wages	2,481
Consumables	104
ASTER data and processing	5,000
<b>Sub-Total</b>	<b>7,585</b>
<b>ADMINISTRATION COSTS (15%)</b>	<b>1,138</b>
<b>TOTAL</b>	<b>\$8,723</b>

As the minimum Expenditure Covenant of \$30,000 was not met we hereby request that the Expenditure Covenant for Year 4 be reduced to \$8,723. Our payment of \$50, being the applicable fee, will be paid to you separately.

Our proposed exploration expenditure for Year 5 for EL 23571 is as follows.

<b>EL 23571, Proposed Expenditure, Year 5</b>	<b>\$</b>
Hyperspectral survey, processing and report	35,000
High resolution satellite imagery including DEM	10,000
Geological interpretation	5,000
Gravity infill	3,000
Reconnaissance sampling and analyses	22,000
<b>TOTAL (excluding Administration costs)</b>	<b>\$75,000</b>

We therefore propose that the minimum Expenditure Covenant for the fifth year be set at \$75,000.

Yours Faithfully  
**ARAFURA RESOURCES LTD**

  
**Kelvin Hussey**  
**PRINCIPAL GEOLOGIST**

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