



ABN 22 080 933 455

**ANNUAL REPORT FOR YEAR ENDING 5/12/09,
EL10215 (JERVOIS),
NORTHERN TERRITORY, AUSTRALIA.**

By

Kelvin James Hussey
BSc Hons, MAIG

1:100,000 – Jervois Range 6152
1:250,000 – Huckitta SF 53-11

Page 1 of 1

Summary

No on-ground exploration was completed on EL 10215 in the last reporting period. Exploration activities concentrated on demobilisation of the Unca base camp and rehabilitation of the 2008 RC drilling program at Unca Fe-V prospect.

Forward programs to have been proposed for 2010 under a yet to be finalised JV Agreement with ECE. Activities include the completion of DTR studies and assays of samples from the 2008 RC drilling program at the Unca Fe-V prospect and the commencement of Cu-Au exploration in the Jervois region

5 February 2010

Mr Jerry Whitfield
 Director Minerals & Energy Titles
 NT Department of Resources
 GPO Box 3000
DARWIN NT 0801

Dear Jerry,

RE: ANNUAL REPORT – EL 10215 JERVOIS PROJECT: 6/12/08-5/12/09

Arafura Resources Limited (“Arafura”) advises that no on-ground exploration was undertaken on EL 10215 during the reporting period.

Our exploration activities concentrated on demobilisation of Arafura's base-camp and associated infrastructure at the Unca Fe-V prospect, and a significant rehabilitation earthworks program covering all previous Unca drill sites, residues, access tracks, camp and dump. Our activities also included significant repairs and maintenance to the pre-existing station track with the construction of water diversion features as requested by the landholder.

The total expenditure for EL 10215 in 2009 (Year 8) exceeded \$76,100 and followed an expenditure of \$1,022,298 in year 7.

The expenditure statement for the eighth year of the term of EL 10215 is summarized below:

EL 10215 Expenditure Statement, Year 8	
Office studies, wages and reporting	\$3,319
Rehabilitation	\$65,838
Administration (15%)	\$9,876
SUB-TOTAL	\$75,714
Tenement Administration Costs	\$386
TOTAL	\$76,100

In addition to the above activities and expenditure, NuPower Resources completed earthworks and rehabilitation of the Lucy Creek U prospect drilling activities on EL10215 on our behalf. This activity was in progress at the end of the last period but was not completed until mid-December 2009. Our expenses for this work (approximately \$9,500) are **not included** in the above expenditure statement.

As the proposed minimum Expenditure Covenant of \$100,000 was not met we hereby request that the Expenditure Covenant for Year 8 be reduced to \$76,100. Our payment of \$50, being the applicable fee, will be paid to you separately.

During our meeting in Darwin on 17 April 2009, Arafura explained that its focus remains on building a long-term rare earths (REE) production and marketing business centred on our Nolans Project and corresponding strategic land position in the Aileron-Reynolds Range project area and, more generally, in central Australia. Consequently over the past year or two, Arafura has been attempting to either divest its non-core exploration projects, or seek suitable partners to help develop them through joint ventures. **The \$8 million Arafura-Jiangsu East China Exploration (“ECE”) Jervois JV letter of intent, executed on 17 April 2009, is an example of the latter strategy.**

Page 3 of 3

The Arafura-ECE Jervois JV, covering ELs 10215, 26231, 26318 and 26812, will eventually see ECE further evaluate the Fe-V prospectivity of ELs 10215, 26231 and 26318, and commence Cu-Au exploration on EL 26812 and on the western segment of EL 10215.

Future expenditure on this tenement (including Year 9) will, under the terms of the Jervois JV, become the responsibility of ECE. However as the final terms of the JV are yet to be finalised, it is difficult to predict exploration activities and expenditure by Arafura or its JV partner. Arafura expects that ECE will commence exploration on EL 10215 (and the Jervois project area more generally) during 2010, and anticipates that ECE's expenditure on EL 10215 will exceed our proposed minimum covenant.

Our proposed exploration expenditure for Year 9 on EL 10215 is as follows:

EL 10215 Proposed activities and expenditure, Year 9	
Complete DTR studies and assays of the 2008 RC drill program.	
Commence additional resource definition drilling at the Unca prospect as required.	
Commence reconnaissance geological, geochemical and geophysical exploration over the remainder of the tenement area, focussing on Cu-Au mineralisation.	
TOTAL	\$150,000

Arafura therefore proposes that the minimum Expenditure Covenant for EL 10215 for the ninth year be set at \$150,000.

Yours sincerely,

Kelvin Hussey
PRINCIPAL GEOLOGIST
ARAFURA RESOURCES LIMITED

cc: *Arafura Resources Perth*
Arafura Resources Darwin