3 February 2004

The Director of Titles  
NT Department of Business Industry & Resource Development  
Centrepoint Tower  
The Mall  
DARWIN 0800

Dept. Business, Industry  
& Resource Development

- 4 FEB 2004

Attn: Mr Jerry Whitfield

Received: Titles Division  
Minerals & Energy Group

Dear Jerry

Re: Annual Report Year Ended 24 February, 2004 (Year 2)  
Exploration Licence 22269 – “Mt Saunders” (Frances Creek Area)

We indicated in our letter of 17 January, 2004, requesting a deferment of reduction, no on-ground exploration was conducted on EL 22269 during the past year.

The lack of field activities was a result of delays in Arafura’s attempt to finalise an Initial Public Offering of shares (IPO) to raise exploration funds.

We are very pleased to report that the Company successfully completed this task in early November and is now listed on the ASX. The IPO was fully subscribed to the extent of $3.5 million and this will be applied to exploration of the Company’s tenements which are all in the Northern Territory.

Subsequent to listing on the ASX, the Company immediately approved a $45,000 program of detailed stream sediment sampling on its tenements to the north and east of its Golden Honcho reef system, which is located to the immediate east of the old Frances Creek iron ore mines. This program extended into EL 22269 and was due to be conducted in early December, but the start of heavy seasonal rain at that time necessitated postponement of the program until the middle of 2004 when ground conditions will be improved.

We can also advise that Arafura has entered an agreement with Territory Iron Pty Ltd whereby Territory Iron will explore EL 22269 (and other title at Frances Creek) for iron ore in 2004. Territory Iron completed a detailed gravity survey in the area late in 2003 and interpretation of results has commenced. This work will be reported in the next annual report.
Administrative expenses of the Company in the 2002-2003 financial year totalled approximately $412,000 which amount excludes tenement rent. All of this is attributable to efforts to raise exploration funds to service the Company’s exploration titles in the NT. We estimate that some $9,500 of this amount can be allocated to EL 22269. In addition funds (minimum $1679) were applied to planning the stream sediment program in October-November, 2003. Total attributable expenditure is sufficient to meet the Exploration Covenant for Year 2 ($9,000).

For the third year of the licence we propose the program outlined in the following table and propose that the Expenditure Covenant be set at $15,000.

**PROPOSED WORK AND EXPENDITURE, YEAR 3, EL 22269**

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROCESSING &amp; INTERPRETATION</td>
<td></td>
</tr>
<tr>
<td>GRAVIT SURVEY</td>
<td>1500</td>
</tr>
<tr>
<td>STREAM SEDIMENT SAMPLING</td>
<td>6000</td>
</tr>
<tr>
<td>ASSAYING</td>
<td>1700</td>
</tr>
<tr>
<td>GEOLOGICAL SERVICES</td>
<td>3000</td>
</tr>
<tr>
<td>VEHICLE, TRAVEL, ACCOMMODATION</td>
<td>1000</td>
</tr>
<tr>
<td>NATIVE TITLE COSTS</td>
<td>500</td>
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<tr>
<td>ADMINISTRATION</td>
<td>1300</td>
</tr>
</tbody>
</table>

**TOTAL**                                      | **15,000**

Our cheque for $396 being in respect of rent for year 3 of the licence is attached.

Yours Faithfully
ARAUFAR RESOURCES NL

[Signature]
John Goulevitch
EXPLORATION MANAGER