6 April 2009

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

Attn: Mr Jerry Whitfield

Dear Jerry

RE: Annual Report for Exploration Licence 26231 – Unca Creek

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

Despite this, Arafura did undertake limited on-ground reconnaissance of EL 26231 in March 2008. Our first exploration activities in EL 26231 were focussed on exploring for Fe-V mineralisation in outcropping Proterozoic rock units analogous to those in the adjacent EL 10215 and concentrated on an area that coincided with a broad magnetic anomaly recognised in the NTGS dataset in the northern and central parts of EL 26231. On-ground reconnaissance revealed/confirmed extensive areas of transported and wind-blown cover and a lack of Proterozoic surface outcrops in the target area. As a result, no rock-chip samples were able to be collected for assay.

The absence of outcropping magnetite units were anticipated but this needed to be confirmed by ground reconnaissance. As per the proposed exploration program, it was decided that a detailed low-level airborne magnetic survey with specifications similar to that completed by Arafura over the adjacent EL 10215, should be acquired over EL 26231 to better define these magnetic anomalies and to enable target generation and exploration drilling to proceed. Unfortunately Arafura decided to postpone the acquisition of this detailed low-level airborne magnetic survey until a number of similar magnetic features were drill-tested and fully evaluated in the adjacent EL 10215.

Despite our lack of significant on-ground expenditure in EL 26231 in the previous year, Arafura believes that the following will demonstrate our commitment to continued exploration activities in the Jervois region including EL 26231.

- Arafura spent more than 1 million dollars on the adjacent EL 10215 in 2008 RC drill testing the Unca Fe-Ti-V prospect. Arafura expects to complete DTR and geochemical test work on these RC drill samples in 2009.

- Magnetite intervals were encountered during RC drilling of a lower-priority magnetic anomaly in EL 10215. While the required DTR and geochemical test work has not yet been done. Similar magnetite units are thought to exist in the broad magnetic feature identified in the NTGS data in EL 26231. Our proposed detailed geophysical survey will confirm this interpretation and should enable exploration targets to be generated.

- Arafura has identified a number of prospective Fe-Ti-V resources in the Unca area and our
exploration activities are focussed on assessing and further increasing the resource potential in this region.

- In addition we are currently in discussions with a potential JV partner.

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

<table>
<thead>
<tr>
<th>EL 26231, Expenditure Statement, Year 1</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconnaissance exploration (includes minor office studies and partial airfare, camping and fuel expenses)</td>
<td>2,500</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,500</td>
</tr>
</tbody>
</table>

As the minimum Expenditure Covenant of $25,000 was not met we hereby request that the Expenditure Covenant for Year 1 be reduced to $2,500. Our payment of $50, being the applicable fee, will be paid to you separately.

Our proposed exploration expenditure for Year 2 for EL 26231 is as follows.

<table>
<thead>
<tr>
<th>EL 26231, Proposed Expenditure, Year 2</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-level airborne geophysical survey, interpretation and target generation</td>
<td>25,000</td>
</tr>
<tr>
<td>TOTAL (excluding Administration costs)</td>
<td>25,000</td>
</tr>
</tbody>
</table>

We therefore propose that the minimum Expenditure Covenant for the second year be set at $25,000.

Yours Faithfully

ARAFURA RESOURCES LTD

Kelvin Hussey
PRINCIPAL GEOLOGIST

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