27 August 2009

Mr Jerry Whitfield  
Director Minerals & Energy Titles  
Department of Regional Development, Primary Industry, Fisheries and Resources  
GPO Box 3000  
DARWIN NT 0801

Dear Jerry,

RE: ANNUAL REPORT AC74, 22/7/08 - 21/7/09.

Arafura Resources Limited ("Arafura") advises that no on-ground exploration was undertaken on Authorisation C 74 ("Kurinelli") during the last reporting period.

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 associated strategic land position in the Reynolds Range 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 is a recent example of the latter strategy. Unfortunately our attempts to develop suitable JV partnerships to continue gold exploration of our tenements in the Davenport region have thus far been unsuccessful. As a result, our more speculative gold exploration tenements in the Davenport Ranges were surrendered (ELs 9710 and 9745).

Although Kurinelli is a greenfields area with no major recognised gold deposits, Arafura still considers the presence of minor amounts of gold mineralisation within AC 74 worthy of continued exploration. Desktop studies and geological interpretation undertaken by Arafura during the reporting period indicate the presence of a number of favourable untested target zones within AC 74 (see attached Figure). This information has been offered to a number of potential JV partners (including Zhong Rong Group, Rubicon Resources, Indago Resources and Navigator Resources) but all have declined the opportunity to participate.

AC 74 was subsequently reduced by 50% as per statutory requirements. All target zones were retained as it is our strong desire to explore these zones through a JV partner.

The expenditure statement for the fifth year of the term of AC 74 is summarized below:

<table>
<thead>
<tr>
<th>AC 74</th>
<th>Expenditure Statement, Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages, data compilation and desktop studies Administration</td>
<td>$2,800 $200</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$3,000</strong></td>
</tr>
</tbody>
</table>
As the minimum Expenditure Covenant of $100,000 was not met we hereby request that the Expenditure Covenant for Year 5 be reduced to $3,000. Our payment of $50, being the applicable fee, will be paid to you separately.

Our proposed exploration expenditure on AC 74 for Year 6 is as follows.

<table>
<thead>
<tr>
<th>AC 74 Proposed activities and expenditure, Year 6</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Drilling</td>
<td>$100,000</td>
</tr>
<tr>
<td>Geochemistry</td>
<td>$25,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$125,000</td>
</tr>
</tbody>
</table>

We therefore propose that the minimum Expenditure Covenant for AC 74 for the sixth year be set at $125,000.

You will note that to date, Arafura’s total expenditure on this tenement is close to $900,000 and our desire to achieve the proposed minimum exploration expenditure during Year 6 depends on our securing a suitable JV partner. Arafura will advise the Department of progress in this regard as and when appropriate.

Yours sincerely,

Kelvin Hussey
PRINCIPAL GEOLOGIST
ARAFURA RESOURCES LIMITED

cc: Arafura Resources Perth
    Arafura Resources Darwin