



ACN 080 933 455

25 September 2007

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 – MT PORTER
EXPLORATION RETENTION LICENCE 116**

There has been no exploration activities carried out over ERL 116 during the past year. The amount of expenditure accrued (\$6,000) was due to administration costs.

Arafura is currently undertaking confidential commercial discussions with GBS Gold International in relation to the sale of Arafura's land holdings on ERL 116. These discussions also include the sale of land holdings over EL 22269, EL 23237 and ML 23839 which includes the Mt Porter Gold Resource, as well as the gold rights on AN389, EL10137 and EL 22270.

Arafura considers its holdings in the Pine Creek region to represent non-core assets, and is therefore taking active steps to negotiate a sale of these assets to GBS, currently the only operator in the region that is capable of developing them effectively. We believe this strategy is in the best interests of Arafura's shareholders, and in the best interests of the Northern Territory.

ERL116 is due to expire on 11 September 2008. Arafura would expect a renewal application will be lodged for a further five (5) years by the due date of 11 June 2008 in order for GBS to pursue their interests further.

In light of our strategy as outlined above, we are proposing no on-ground activity (and therefore no expenditure, excepting administration costs) during the next year of exploration on ERL 116. We are confident that the sale of Arafura's Pine Creek assets will be finalised during this period. If the Department of Primary Industry, Fisheries and Mines believe that this proposed action in any way jeopardises the status of this Exploration Retention Licence as it relates to our commercial negotiations, please advise us at your earliest convenience.

Yours faithfully

Leanne Morley
Tenements Officer

Dept. of Primary Industry
Fisheries and Mines

25 SEP 2007

Received: Titles Division
Minerals & Energy Group

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