

Arafura Resources
Chairman's Address - Ian Kowalick
AGM 2016
18 November 2016

Good morning ladies and gentlemen and welcome to the Meeting of Shareholders of Arafura Resources Limited.

My name is Ian Kowalick and I am the chairman of the company.

I would like to introduce you to the Arafura Resources board and management:

- Chris Tonkin who is a Non-Executive Director;
- Terry Grose who is a Non-Executive Director;
- Cungen Ding who is a Non-Executive Director,
- Zhang Quansheng who is nominated for election as a Non-Executive Director, Messers Ding and Quansheng are accompanied by their translator Susan Duan;
- Gavin Lockyer who is Managing Director; and
- Peter Sherrington who is our Company Secretary.

We also have representatives attending the meeting from the Company's lawyers Johnson Winter & Slattery, the Company's auditors BDO and the Company's share registry Link Market Services.

There being a quorum present I declare the meeting of shareholders open.

Before we move to the formal part of the meeting, I would like to take the opportunity to address all shareholders present here today.

Since the company's 2015 AGM your company's Board and Management have worked tirelessly to advance the Arafura's Nolans Rare Earth Project. I would like to take this opportunity to address all the shareholders present and give my thoughts on what has been achieved in the 2016 Financial Year as well as an insight into how the Board sees the outlook for the company and its industry.

2016 has been a year of progress on many fronts. As far as broad stock market conditions are concerned there does appear to be a sense emerging that the resources

sector generally may have seen some sort of bottom. When one looks at broad basket of commodity prices and their listed producers a start of a recovery is evident. After declining 60% between 2011 and early 2016, the ASX300 Materials Index has rallied 50% since the lows of February 2016.

Similarly, for the companies in the Rare Earths Elements (REE) sector - at least in terms of market sentiment, the indications of a recovery seem to be emerging. It is noteworthy that while the industry is yet to see a dramatic uptick in the prices of rare earths, the share price of Chinese Northern – far and away the biggest company in the rare earth sector globally - has also performed positively since February 2016. This date marked the lowest point Chinese Northern shares had traded since the collapse in the Rare Earth prices began 5 years ago.

Whilst I am reluctant to call the bottom of any market, the share prices of Arafura Resources and our fellow REE aspirants have endured a dramatic and prolonged downturn in REE prices but, since early 2016, have begun to show some impressive resilience to these market conditions.

This is an encouraging sign as we look to a future with strong demand fundamentals which underpin our optimism for the company's Nolans Rare Earth Project and augers well for the company's financing plans.

While the Board does not spend an excessive amount of time focussing on the company's share price it is nevertheless an important consideration when it comes to the future financing of the project. Also critical to engaging successfully with project financiers and strategic investors is the outlook for REE prices. I will let Gavin talk in more detail about market specifics and restrict my comments here to a broader perspective. As shareholders know all too well, REE prices have bit hit hard since the frenzied days of 2010 / 2011, falling 90%. This fall has hurt all producers and project developers. In recognition of this China's government has taken steps to regulate shipments of rare earth elements in an effort to maintain price and transparency in the market and to minimise illegal mining.

As the biggest player in the REE industry the future direction of REE prices are of key importance to China. Smuggling and unlawful mining of REEs have dragged global REE prices to close to 6 year lows, causing producers inside and outside of China to run at a loss. Industry observers estimate that as much as 90% of the Chinese REE industry is losing money. As part of the 2011-2015 5 year plan China has already closed down 14 illegal rare earth mines and seized 36,000 tonnes of illegal REE material. According to the most recent intelligence, over the past 5 years the number of REE smelting and separating companies which has fallen from 99 to 59. The Board's view is that it is this supply of illegal and smuggled material that is a key restraint on REE prices and in the coming year, there is the possibility that this negative influence may start to abate.

In October, China's Ministry of Industry and Information Technology (MIIT) announced its 2016-2020 5 year plan development plan for the rare earths industry. In that document China reiterated its focus on controlling production with a production goal of 140,000 tonnes of REE material in 2020— versus output 105,000 tonnes in 2015. It also re-committed to cracking down on smuggling. Illegal mining remains one of the main threats to REE prices going forward. The Chinese Government is introducing a raw material tracing system and is granting wider powers to raid and prosecute illegal miners, separators and distributors. Mining from 'unofficial sources' will account for 25-30% of global rare earth supply this year and is mainly carried out in the south of China where a large number of companies extract small quantities of heavy REEs.

So what does all this mean??

Forecaster IHS Global Insight forecast in October 2016 for prices to rise slowly over the next 24 months. While current demand remains stable, production cutbacks and industry consolidation limit further downside price risk. Stronger demand, accompanied with industry restocking, could quickly tighten markets and send prices higher. To quote the China Chemical Reporter analysis of the report, "Rare earth prices are near bottom. Depending on the metal, prices will be either flat or increase modestly through 2017". After 6 years of falling prices this is an encouraging assessment. The worst may indeed be behind us...

The movement of REE prices and to a lesser extent the company's share price are clearly outside the Board and management's control. What is within our power to influence is the continued movement forward of the Nolans Rare Earth Project. I will turn to that now.

During the year the team continued to tick the boxes required to bring the project closer to financing and ultimately construction.

As part of the management team's efforts to alleviate the financing burden of the project and to improve its capital efficiency its scope continued to be refined throughout the year. Since this process began in 2012 we have optimised many aspects of Nolans. With a focus on improving its economics we have reduced the planned output from 20,000 tonnes TREO per annum down to 14,000 tonnes per annum, a reduction of 30%. What this has meant is that we have been able to reduce the capital expense from a peak of US\$2billion down to a more manageable US\$680million, a decline of almost 70%.

By changing various aspects of the project's flow sheet we have also been able to further reduce the operating costs of the project down to US\$6.23/kg of TREO after by-product credits. Our analysis is that Nolans will have the lowest outright operating cost per kg of TREO produced of any of our Australian peers, as well as the best operating margin per kg TREO produced at current prices. This is a tremendous accomplishment and its importance cannot be overstated. The impact of these changes on the profitability and Return on Capital of the project in an environment of what we anticipate will be rising prices will be dramatic.

Environmental approvals, always a critical path item in projects such as this moved ever closer with the completion of the Environmental Impact Statement public review process in August. The company looks forward to responding to the public's input but it is important to note that nothing unexpected was brought to light during the process – no 'showstoppers' were encountered - and the company anticipates addressing the matters raised in its Supplement to the draft EIS by the end of 2016.

Most recently, the company announced the project had achieved Major Project Facilitation (MPF) status from the Australian Federal Government. Our discussions with the Government had demonstrated the advanced nature of the project as well as its strategic significance. Only 17 other developments projects around Australia have been conferred such status. Being designated a Major Project is designed to ensure that Nolans will enjoy a tailored facilitation service to support a timely and efficient approvals process once decision to mine is made. We look forward to testing this service as soon as possible.

So where exactly are we now in the evolution of this project? – Far closer to the end than the beginning is the answer! Having concluded the final iteration of project scope and cost review the company is proceeding to scope and tender engineering design of the revised configuration for final feasibility. Based on our current timeline, and subject to market conditions, we are targeting a final investment decision in 2018 which would then put us on track to be producing in 2020. Again, based on our analysis this would make us the first new entrant into the REE producer ranks since Lynas and a key participant in the strong growth forecast for Neodymium and Praseodymium.

On behalf of the Board I would like to thank the Managing Director Gavin Lockyer and his entire team for their ongoing efforts to commercialise the Nolans Project. With the work done to date, Nolans is firmly in the lower end of the cost curve and is closer to being brought into production than ever before – all at a time when global appetite for more environmentally vehicles and consumer electronics begins to drive REE demand to unprecedented levels.

I also take this opportunity to thank and acknowledge on behalf of the Board our retiring Director Cungen Ding's contribution to the strategic direction of the company over the past one and half years. We thank him for his efforts and wish him every success in his future business endeavours.

Lastly and most importantly, on behalf of the Board I wish to thank our employees for their ongoing dedication and our many shareholders who have entrusted us with the stewardship of this unique asset.