

# Arafura Resources Chairman's Address AGM 2017-11-16 November



Good Morning ladies and gentlemen and welcome to the Meeting of Shareholders of Arafura Resources Ltd.

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, a Non-Executive Director;
- Terry Grose, a Non-Executive Director;
- Zhang Quanshang, a Non-Executive Director;
- Gavin Lockyer the Managing Director; and
- Peter Sherrington, 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 last year's AGM your company's Board and Management has made significant progress by continuing to refine, improve and demonstrate the strong fundamentals of the Nolans NdPr Project.

Firstly, a word about terminology. Historically, in investor communication we have referred to Nolans as a 'Rare Earths' Project. Whilst this is accurate, the company has decided to more narrowly describe it as the Nolans 'NdPr' project. This is an important distinction. We have done this to focus investors' attention on the true merits of the project. In the past, the broad term: 'Rare Earths' confused investors due to the large number of elements, i.e. seventeen, that make up the suite of Rare Earths Elements, and the varying market values, end markets and supply and demand fundamentals that accrue to each element.

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Two of these elements Neodymium and Praseodymium or NdPr, are, overwhelmingly, the key revenue drivers for the Nolans Project and the elements that, in your Board's view, have the best outlook. Hereafter I will refer to the Nolans NdPr Project.

With that said I will turn now to my broader comments on the year in review.

Firstly, with regards to the Nolans NdPr project itself the FY16/17 year saw great progress on many fronts that will enhance the bankability of the project.

On the Environmental approvals, the team continued to advance this process. Following the lodgement of the EIS in 2016 that document has gone through a public comment period to which we have responded with the submission to Northern Territory Environment Protection Authority ("NTEPA") and the Australian Government's Department of the Environment and Energy of an Environmental. This Impact Statement Supplementary Report ("EIS Supplement") has been lodged for final assessment. Lodgement of the EIS Supplement represents the final step in the Northern Territory process for gaining environmental regulatory approval for the Nolans Project.

The Company is confident that the additional information provided in the EIS Supplement will enable the regulatory authorities to move through the final assessment and recommendation phase of project approval. We expect NTEPA assessment and recommendation for approval to the Federal regulator to be completed in the first quarter of calendar year 2018. This approval is a critical step prior to the award of a Mining Lease and financing Nolans' development

With regards to the Nolans orebody itself we announced in June the completion of a detailed program of geological and geochemical analysis to be utilised for the next phase of mine planning activities for the Definitive Feasibility Study (DFS).

As expected, the work did not result in any material change to the previously reported Mineral Resources for the project but, more importantly, it did reveal the consistent nature of the distribution of NdPr across the deposit and the abundance of material best suited to Arafura's flowsheet. This data will now feed into our mine planning schedules to optimise the economic recovery of NdPr and Phosphate and refine our operating costs estimates in the DFS. Again, another key step in getting Nolans to the bankable stage.

Finally, the company continued to progress its 7 stage Pilot Program designed to test aspects of the proposed Nolans flowsheet and to collect technical insights to help minimise commissioning risks once Nolans is brought into full scale production. This program commenced in December 2016 and will be completed in 2018. It is expected to confirm bench scale test work and, to date, it has met management expectations. The completion of the program will be another vital box ticked on the way to a Final Investment Decision (FID) in 2018.

This technical work and approvals progress is, finally, beginning to be reflected in the Arafura share price. During the 2017 Financial Year your company's share price rallied an acceptable 16% to its highest closing level for 3 years. This was the best *annual* return and first *positive* return for shareholders since FY11 – the peak of the last bull market in NdPr prices prior to decline of the last 6 years.

The volume traded, another broad indicator of investor interest, also showed great improvement, growing by 280% and providing investors much greater liquidity for their investment.

All of this adds up to a lower cost of equity capital for Arafura – a helpful development in the context of looking ahead to the financing of the Nolan’s NdPr Project.

Pleasingly, since the end of the financial year, the share price has continued its ascent, rising to a high of 15c in October – its highest level since March 2013 and outperforming the bulk of its peer group.

Also on the ascent are NdPr prices. At last year’s AGM I noted of the NdPr market that it was the Board’s view that: “...the worst may indeed be behind us...” and that “...the negative influence.” of illegal mining in China “...may start to abate...”. It is pleasing to reflect on that tentative forecast in light of what has happened to NdPr prices in recent times. The 2016 AGM appears to have marked the bottom in NdPr prices at around US\$37/kg. Since that time prices have rocketed to a high of almost US\$80/kg. Independent price monitors have the price most recently at around US\$58/kg, a large improvement, since this time last year.

As my earlier discussion of the company’s share price performance highlighted, the uplift in NdPr prices has certainly helped galvanise the interest of investors and it is in this context that the company has made raising the profile of the company amongst investors a key strategic objective.

With NdPr prices still in decline in recent years there was little to be gained from marketing aggressively to the investment community as any good news on the project side was inevitably drowned out by the consistently negative news with regards to REE prices. Happily, things have changed and, consistent with our corporate view that the worst was over in the space, your Managing Director, Gavin Lockyer and other members of his team and travelled extensively road-showing the company to institutional investors as well as presenting at conferences in Australia, North America and Asia.

This marketing effort, improved understanding of the fundamentals of the NdPr space and the ongoing progress of the Nolans NdPr project towards FID has whet investor appetite for the Arafura story. This allowed the company to raise \$3.6m via an institutional placement in March 2017 and a further \$3m via a well-received SPP, the company’s first equity raising in almost five years.

Being able to access the capital markets is a critical development for the company. Since that time we have made further efforts to engage with investors and raised further capital – at a price double that of the prior raising I might add - to help fund the completion of the Pilot Program.

Looking forward, what can you expect to see during the coming 12 months. Work will continue on multiple fronts. As I mentioned before, we expect to get Environmental approvals early in 2018. We are working on a water licence and will engage with the local indigenous community to secure their agreement to develop the project. These 3 items will then allow the company to progress to a Mining Lease.

As for the NdPr pricing environment, we will not make another forecast as we did last year except to say that the efforts made by the Chinese Government to restrain illegal mining are not expected to be reversed and the news on the demand side from the electric and hybrid vehicle segment continues to positively surprise. This should provide a supportive backdrop for Arafura.

We expect to complete the 7 stage Pilot Program which should give us key information to complete the DFS and we continue to target a Final Investment Decision (FID) at the end of 2018.

We will also continue to educate the equity market as well as engage with debt investors as their support will be equally important to developing Nolans. In this regard, the project’s extremely low

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operating costs will be a key element to attracting banking support for the project. It will be a busy year indeed for Gavin and his team.

On behalf of the Board I would like to thank the Managing Director, Gavin Lockyer and his team for their hard work to get Nolans closer to production. The increasing valuation of the company, the growing institutional investor interest and a strong NdPr pricing environment are coinciding with encouraging technical results from the Pilot Program. Gavin and his team will be focused on bringing this altogether in 2018 to hit that FID target date and secure the project funding.

I also take this opportunity to thank all of our employees for their hard work this year and for the support of our shareholders. In our view, the best is yet to come!