

ASX Announcement

Chairman's Address for Annual General Meeting

22 November 2018



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 board and management:

- Chris Tonkin, Non- Executive Director;
- Quangsheng Zhang, Non-Executive Director
- Mark Southey; Non-Executive Director
- Gavin Lockyer who is Managing Director; and
- Peter Sherrington who is our Company Secretary.

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

The FY17/18 Financial Year has seen significant progress at the Nolans NdPr project and we are rapidly approaching a Final Investment Decision (FID). Good progress has been made on many fronts and I would like to briefly update shareholders on the status of the project and what shareholders can expect looking ahead.

On the technical front, as shareholders will be aware, your Board thought it prudent to undertake the multi-stage Flowsheet Pilot Program focusing on materials handling, as an important risk mitigation step for the Nolans project. Rare earth projects require complex processing plants and the ramping up of complex plants can be fraught with problems. Our Pilot Program will help prevent these issues from occurring and is 'above and beyond' the work typically undertaken by a junior company developing a mining and mineral processing project.

Phases 1 to 4 of the Pilot Program are complete and have yielded important operational and engineering data for the Definitive Feasibility Study (DFS). Phases 5 and 6 are underway and we expect the final Phase 7 program to be completed in early 2019. We believe the data and experience from the Pilot Program will pay substantial dividends when it comes to commissioning and start-up, and production ramp-up, from Nolans.

In January 2018, after a comprehensive assessment process by the Northern Territory Environment Protection Authority (EPA), the Nolans project was recommended for environmental approval. Similarly, in May, the project received Federal Government approval. This is the culmination of a detailed body of work that commenced at the Nolans site in 2006. Most importantly, it represents the final step in the project's environmental assessment. It is a key milestone towards achieving the



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Nolans' FID. Recently the Company announced plans to build the project's Rare Earth Separation Plant at the Nolans site. The Company's engagement to date with Northern Territory regulators, including the EPA, has not identified any significant issues with varying the project's environmental approval conditions.

Equally important progress has been achieved on the commercial front. After many months of ground work over the past year and visits to China, Japan and India, the Company met a most important milestone by announcing the project's first NdPr offtake agreement – with JingCi Material Science Co., a Tier 1 sintered magnet manufacturer and leading global supplier. The MoU envisages the supply from Nolans of 900 tonnes per annum of NdPr oxide and provides a framework for negotiating a final offtake contract. The Board expects additional supply agreements to be consummated in the coming year – these contracts are an important precedent in the Company's funding strategy and management is particularly focused on the commerciality of the project.

We remain firmly optimistic about the outlook for the NdPr market. Prices have stabilised around the US\$46 per kilogram but we expect an upward trend in demand and prices as the effects of supply reforms, industry consolidation and higher environmental standards in China, as well as the impact of the US John S McCain National Defense Authorization Act, are absorbed by the market.

Shareholders will be familiar with the key role that electric vehicles (EVs) will play in demand for NdPr magnets. The International Energy Agency's forecast, based on assessments of country targets, original equipment manufacturer announcements and scenarios on EV deployment, is that the number of EVs will range between 9 million and 20 million by 2020 and between 40 million and 70 million by 2025.

This translates into a bullish outlook for the demand for magnet metals. Internal combustion vehicles are estimated to use between 0.2-0.7 kilograms of NdPr per vehicle, while EVs can use between 1-2 kilograms. The global investment bank UBS predicts the NdPr market will almost double between now and 2025, from around 30,000 to 55,000 tonnes per annum.

Arafura believes magnet manufacturers should be concerned about NdPr supply to meet this demand. It takes at least ten years to advance a rare earth project from discovery to full scale commercial production so we have good information on emerging supply. Our view is that Nolans and expansion by Lynas are the only meaningful potential sources of incremental growth in NdPr supply. It is also our assessment that China's domestic NdPr consumption will increase by over 30% in the next five years as it pursues clean energy objectives and global leadership in EV manufacturing. Increased NdPr consumption combined with constrained supply could result in China moving from being the world's major supply source of NdPr to be a net importer by the early 2020s. This would be an important development.

The coming 12 months will be the most important in the history of the Company. We expect the Flowsheet Pilot Program to conclude by the first quarter of 2019. As I alluded to earlier, the Board is also expecting to secure additional offtake agreements to underpin debt funding.

On its current schedule the Company anticipates granting of the Mineral Lease (ML) by the Northern Territory Government in the first half of CY19. However, this will only come once Arafura completes the negotiation of the Native Title Agreement with the local indigenous traditional owners. We expect this to occur in the first half of CY19. Final project construction and operating approvals will be obtained when the Northern Territory Department of Primary Industry and Resources issues a mining

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authorisation, which follows their assessment and approval of a Mining Management Plan which the Company anticipates delivering to the Department at the end of this year.

Once the DFS is in hand and the Board makes an FID, we expect to have significant interest from investors at both the corporate and project level, supported by instrumental roles played by Export Credit Agencies (ECAs), off-takers, capital equipment providers and commercial banks in raising debt finance for the project. The Company has already begun engaging with a number of these parties.

On behalf of the Board I would like to thank our Managing Director, Gavin Lockyer, and the team for working very hard to attain the ambitious goals the Company has set itself. The management team has systematically executed the Pilot Program and completed the regulatory requirements for the award of an ML. The DFS is imminent and we look forward to a bullish environment for NdPr prices in 2019 and the securing of finance for Nolans.

Finally, I would like to thank both our employees for their hard work this year and shareholders for their support. The coming year will be a defining one for Arafura!

Yours sincerely

Ian Kowalick
Non-Executive Chairman
Arafura Resources Limited