

# ASX ANNOUNCEMENT

## QUARTERLY ACTIVITIES REPORT AND APPENDIX 5B

30 June 2020



### HIGHLIGHTS

- **Pre-FEED activities largely complete and execution readiness activities continue**
- **Clough Worley joint venture has been selected as the preferred contractor for the hydrometallurgical plant design and construction for Nolans Project**
- **Project Update commenced, including updating of project capital and operating costs as well as financial outcomes**
- **Native Title Agreement executed**
- **Nolans development Mineral Leases granted by the Northern Territory Government**
- **NdPr price up over 10% from Q2 CY2020 low on escalating geostrategic tensions**
- **European and Asian COVID-19 stimulus packages focus on critical raw material supply chains for electric vehicle manufacturing and other renewable energy applications**
- **Market engagement confirms Export Credit Agencies will be seeking to assist well-structured projects and NdPr supply aligned with critical raw material supply chains**
- **Nolans advanced project status and strong environmental management provides continued traction for offtake and project funding engagement**
- **\$7 million placement completed with strong support from domestic and international institutional investors**
- **Strong cash position of \$22.8 million**

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NdPr

## **NOLANS NDPR PROJECT**

### **Execution Readiness**

Progress on the pre-front end engineering and design (**pre-FEED**) activities are largely complete with Hatch Pty Ltd. These pre-FEED activities are aimed at finalising the basis of design, design specifications and philosophies along with finalising Arafura's overall project requirements in preparation for the early contractor involvement (**ECI**) phase of project delivery.

As part of the pre-FEED work, Hatch also completed a bottleneck study to review the impact on the facilities of the increase in concentrate production and processing identified during the work on the Ore Reserve update (*refer to ASX announcement 16 March 2020*). The increase in concentrate production and processing is required to optimise the production schedule and project financial outcomes. The bottleneck review completed by Hatch identified no specific areas of the plant where the increase in throughput would result in significant cost increases. A full review of the cost implications will be undertaken as part of the Project Update as discussed below.

Final delivery and review of the pre-FEED documentation, including updated process flow diagrams incorporating all the information and knowledge gained from the now completed flowsheet piloting program, is anticipated to be complete in July 2020.

The integrated project management team (**IPMT**), which includes KBR and Wave International personnel (*refer to ASX Announcement 23 January 2020*), has mobilised into Arafura's Perth office. The IPMT has been working across several fronts in preparation for the ECI phase, including:

- Finalising the project execution plan and project contracting plan which incorporates the development of a package listing for contracting packages. This package listing, and preliminary scopes of services, are planned to be launched on ICN Gateway later in 2020 to facilitate an expression of interest process for the various packages (predominately related to non-process infrastructure).
- Developing basis of design documentation for the process plant, non-process infrastructure and village.
- Generating scope of work documentation for the key contract packages in preparation for tendering once the ECI phase is approved.
- Preparing over-arching battery limit definition documents to fully define the physical and engineering battery limits between the various contract packages.
- Developing draft contracts for contracting packages.
- Finalising the insurance strategy for project delivery in conjunction with the Company's insurance brokers.
- Developing a Territory Benefits Plan, which satisfies the requirements of an Australian Industry Participation Plan. This plan embodies many of the commitments made in the project's Indigenous Engagement Strategy and clearly illustrates the opportunities that they represent to Central Australia, the Northern Territory and Australia.
- Developing a Local and Indigenous Procurement plan to outline the ways in which the project will seek to engage with local and indigenous businesses to provide services to it.

- Updating the risk assessment matrix and reviewing the project risk assessment from the definitive feasibility study (**DFS**) to feed into the project risk management plan.
- Updating planning and scheduling of project early works with attention to construction water supply, construction village availability and bulk earthworks with an aim to optimise the program to allow acceleration of the bulk earthworks as early as possible.
- Reviewing and updating of the plot plan for the process plant to better accommodate the contracting strategy and minimise interface issues during construction between works contractors.

In addition to the planning activities outlined above, the IPMT has also commenced the implementation of the project management system, InEight. Roll-out has commenced with the document management module, with other modules to be rolled out over the course of the ECI phase to facilitate the activities.

With the global investment environment compromised by the COVID-19 pandemic, the Company's indicative project implementation schedule is currently under review and will be updated once there is more certainty in market conditions to determine the timing of key milestones.

### **Early Engineering Works**

During the quarter, following the completion of the tendering process, the Company selected a joint venture between Clough and Worley (**CWJV**) as the preferred contractor for the project's hydrometallurgical plant. The CWJV brings together the design and delivery expertise of two tier-one, internationally recognised project design and delivery companies with expertise in complex processing plant design and construction. Clough has a recognised track record of large scale project delivery in the resources, energy, and infrastructure sectors with recent projects including the South Flank Ore Handling Plant for BHP and the Koodaideri Northern Rail Formation for Rio Tinto Iron Ore. Clough will lead the project management, procurement and construction aspects of the project. Worley has extensive experience in complex hydrometallurgical plant design and will lead the engineering effort on the project.

The scope of work for the hydrometallurgical plant incorporates the core of the Nolans processing facilities including phosphate extraction, phosphoric acid production, rare earth extraction, rare earth purification and rare earth separation. In addition, the hydrometallurgical plant also incorporates the shared process plant services, utilities and reagents handling.

The first aspect of work for the CWJV, which commenced during the quarter, involves completion of an early engineering works (EEW) scope of work which incorporates the following:

- Gap analysis on information prepared during the DFS for commencement of the ECI phase.
- Validation of the DFS capital cost estimate.
- Engineering optimisation and identification of opportunities for cost reduction and risks.

Along with the work being carried out by the CWJV, GR Engineering Services and Outotec have been engaged to complete similar EEW scopes of work for the beneficiation and sulphuric acid plants, respectively.

## **Project Update**

Following the update to the Ore Reserves estimate (refer to ASX announcement 16 March 2020) the Company has commenced a program of work to update the cost estimates and financial outcomes developed during the DFS. The work program includes the following aspects:

- Updating the capital cost estimate, incorporating:
  - Input on man-hour rates, liquidation rates and indirect costs from the EEW program.
  - Inclusion of minor changes to the process flowsheet identified during the completion of the flowsheet piloting program.
  - Increase in concentrate production and processing capacity as identified during the Ore Reserves update work.
  - Escalation of costs as required to Q2 CY2020 from Q4 CY2018 in the DFS.
  - Incorporation of identified engineering optimisations across the process plant and non-process infrastructure.
- Updating of the operating cost estimate, incorporating:
  - Updated labour costs.
  - Updated reagent costs, including a forward estimate for sulphur.
  - Updated energy costs to reflect input costs as well as changes to consumption due to project design changes.
  - Escalated costs for transport and logistics, consumables and maintenance spares as appropriate.
  - Reviewed and escalated, where appropriate, general and administration costs.
- Updating of the project financial outcomes, incorporating:
  - Updated rare earth and phosphoric acid product pricing based on current pricing forecasts from an independent market research group.
  - Updated financial modelling including cost of capital analysis, ramp-up analysis and other minor aspects.

The Company anticipates delivering the Project Update towards the end Q3 CY2020 or early in Q4 FY2020.

## **Technology Programs**

The rare earth product precipitation program was completed at ANSTO during the quarter. This included:

- Precipitation of rare earth products using pilot plant material (Figure 1).
- Continuous product precipitation testing with the collection of design data for FEED.

Shipments of rare earth products to potential customers have commenced for product qualification purposes.

**Figure 1 - Final Arafura rare earth product samples (L to R: SEG-HRE, NdPr and Cerium)**



Most of the planned corrosion test contacts as part of the corrosion test program have been completed, and the associated coupon analysis is currently underway. Testing has been undertaken on a variety of materials of construction across the breadth of the process flowsheet to provide critical design information for FEED.

### **Native Title & Mining Tenure**

The Native Title Agreement (**NTA**) for the Nolans Project was executed between Arafura Rare Earths Pty Ltd (**ARE** – a wholly owned subsidiary of Arafura Resources), the Central Land Council (**CLC**) and key body corporate representatives of the Project’s native title holders on 25 June 2020 (Figure 2). The Company anticipates it will be registered on the National Native Title register as an Indigenous Land Use Agreement. The accompanying Section 31 Agreement, which relates to the grant of mining rights over land which is subject to native title, was executed and lodged with the Northern Territory Department of Primary Industry and Resources (**DPIR**) on 7 July 2020. This agreement enables the grant of Arafura’s key Mineral Lease (**ML 26659**) over the Nolans Bore mineral resource as well as the three ancillary MLs (30702-04) which host much of the supporting infrastructure for the project.

On 21 July, the Northern Territory Minister for Primary Industry and Resources Paul Kirby granted all four MLs to ARE for an initial term of 25 years. Multiple renewal periods for these MLs are possible and agreed under the NTA.

**Figure 2 - Native title holders (L to R: Archie Glenn, Tony Scrutton, James Glenn) and Arafura (L to R: Peter Sherrington, Gavin Lockyer) sign the Native Title Agreement in Central Australia and Perth, respectively.**



## **Operational Licencing**

Work on the detailed Mining Management Plan (**MMP**) for the construction and initial operational period of the project continued during the quarter and is expected to be finalised in the next quarter for lodgement with DPIR.

Assessment of the Company's application for a groundwater abstraction licence by the Northern Territory Department of Environment and Natural Resources (**DENR**) continues but is likely to be a protracted process. As previously reported, the Project does not require a licence under current Northern Territory legislation; however Arafura will continue to seek a licence to provide additional security over the groundwater resource and to meet commitments made during the project's Environmental Impact Statement (**EIS**) community engagement process.

## **Sustainability Review**

As part of the Company's focus on sustainability, a review and gap analysis of its sustainability policies, plans, and procedures has been initiated with sustainability specialists from KBR. The aims of the review and gap analysis are to:

- Review current policies, plans and procedures against international principles and standards such as Equator principles, International Finance Corporation's (**IFC**) performance standards on environmental and social sustainability, and United Nations sustainable development goals (**UNSDG**).
- Identify any immediate policy gaps against these principles and standards to inform the update to Arafura's sustainability policy.
- Clearly document the Company's sustainability framework, alignment with UNSDG, opportunities for improvement, and roles and responsibilities to deliver more sustainable business outcomes, based on environmental, social and governance (**ESG**) considerations.
- Develop work programs across one, two, five and ten-year horizons to align the Company's activities with what is considered good industry practice, where required, and move towards leading industry practice.

## **DOMESTIC STAKEHOLDER ENGAGEMENT**

At the request of the Northern Territory Government, the Company recently lodged a submission to the recently appointed Territory Economic Reconstruction Commission (**TERC**). The TERC is tasked with providing recommendations to the Chief Minister and Northern Territory Government on the potential opportunities that can assist the Territory's economic recovery from COVID-19. The TERC is seeking opportunities and projects that will significantly improve the Territory's economy, strategic position and competitive advantage. Arafura's submission was lodged in late June and addresses the TERC's key considerations, being:

- the potential barriers the Project is currently facing, including what is needed to make or bring forward an investment decision
- how the Project is expected to assist with delivering job creation through all project phases, particularly during construction and operation
- the Project's Aboriginal employment strategy and the Aboriginal employment outcomes planned for the Project

- the economic costs and benefits of the Project, including multiplier impacts and opportunities to build the local business ecosystem to support the Project.

The TERC is jointly chaired by the Darwin-born former Chairman and CEO of The Dow Chemical Company, Andrew Liveris, alongside ex-Northern Territory Chief Minister, Paul Henderson. Mr Liveris is also a special adviser to the Prime Minister's National COVID-19 Coordination Commission. Specialist advice to the TERC is being provided by the Northern Territory Government-appointed Team Territory, which counts amongst its members ex-Northern Territory Chief Minister, Clare Martin, and CLC CEO Jo Martin-Jard.

A subordinate Central Australian Economic Reconstruction Commission has also been formed, and Arafura has also provided information to this committee.

## **NDPR OXIDE AND OTHER PRODUCTS**

### **Markets**

China's manufacturing sector and domestic consumption rebounded strongly after the industry restarted in February and has expanded during the last quarter upon recovery in production and consumption. China's automotive manufacturing industry is operating at near capacity and auto sales in the domestic market returned to year on year growth by April. In May, sales increased 15%. The government has incentivised the purchase of new energy vehicles (**NEVs**), with subsidies set to offer a broader set of measures in the coming months to continue sales growth. The rare earth industry and downstream NdFeB magnet manufacturing sector experienced strong demand during the quarter and most facilities were operating at near full capacity during the period to meet demand from domestic and overseas markets.

Whilst China has resumed strong economic activity, the European automotive industry is recovering from COVID-19 lockdown with automotive factories slowly ramping up and vehicle markets on the turn as we get into the second half of the year. European and German stimulus packages offered by central governments will be directed to transitioning the auto sector to e-mobility and generating opportunities throughout the supply chain and initiating strategic sourcing of NdPr used in traction motor drives by leading European OEM's.

End users are motivated to secure a diversified NdPr sourcing strategy in the wake of the pandemic disrupted supply chains and exposure to an overreliance on China for NdPr magnets. China's future actions and attempts to impose restrictions across the supply chain is motivating customers to develop independent ex-China NdPr supply options.

Japan announced a series of measures to address and mitigate potential supply risks and geopolitical instability. The government set aside US\$2.2 billion in its coronavirus economic recovery package to encourage initiatives to bring production back to Japan or diversify into Southeast Asia to reduce dependency on China. For national security reasons, Japan also announced it will stockpile rare earth metals critical to its NEV growth strategy, with the national government assuming direct responsibility.

### **Offtake**

The Company is currently unable to meet end users and financiers in person and continues to engage and communicate via telephone and video conferencing with groups in Japan, Europe, South Korea and China. Despite travel restrictions, the Company has advanced discussions further with offtake and supply chain partners in these targeted regions for supply of NdPr.

China's dominance as the main supplier of NdPr has placed European end users vulnerable to secured sources of supply to meet sustainable sourcing criteria for their e-mobility plans. Several offtake partners are in discussions with Arafura on how to meet supply and value chain sustainability of NdPr in their electric motors. Sustainable and traceable NdPr supply of the value chain is emerging as a priority for OEMs and discussions continue with various automotive component makers and OEMs towards formalizing agreements. The Company's marketing efforts are aimed at placing a substantial proportion of the Project's planned production of NdPr oxide into binding offtake agreements to support project financing.

Japanese offtake partners are motivated to enter commercial arrangements to secure stable supplies with an additional non-Chinese supplier and extricate itself from dependence on China to reduce supply risk.

Final preparations of high purity NdPr oxide and SEG-HRE carbonate products at ANSTO were completed during the quarter and samples of the finished products are now available for assessment and feedback by potential customers in Arafura's target jurisdictions. Pre-qualification testing of NdPr oxide by key customers in the regional markets of Japan, South Korea, Europe and China removes barriers to product validation and establishes Arafura's authenticity as a future sustainable supplier.

The Company continues negotiating commercial terms with a rare earth metal processor for toll conversion of Nolans NdPr oxide to metal and this supply chain partner is becoming increasingly important in response to requests by European end users for delivery of NdPr metal via a non-Chinese supply chain.

## **NdPr Market**

The price of NdPr oxide on an ex-works China basis rebounded over the last quarter after reaching a low of US\$37/kg before finishing at US\$41/kg at the end of the quarter (Figure 3). After an extended shutdown during February, the rare earths industry and downstream manufacturing recovered strongly during the last quarter and has maintained operational output under difficult rare earths trading conditions. In June, China Northern Group formally increased the price of NdPr oxide to US\$44/kg and subsequently NdPr price increased during the month of June and remains in an upward trend during the beginning of Q3 CY2020, exacerbated by rising tensions between China and many of its major trading partners over a range of geopolitical issues.

Downstream manufacturing activity in China remained strong during the quarter compared to ROW operations and the automotive industry remains the biggest demand driver for magnets within China operating nearly at 90% capacity. On the other hand, overseas demand for rare earths and magnets has declined in the latter part of the quarter after strong buying from overseas customers from a backlog of orders. Magnet demand in the middle of the quarter recovered and exports to Germany were at 2019 levels.

China's exports of rare earths rebounded from lower business activity last quarter with strong exports totalling 5,551 tonnes in March. Since the initial recovery phase, May has shown a reversal in shipments and rare earth exports of 2,865 tonnes were reported in May by Asian Metal. Chinese rare earth exports are expected to remain under pressure as key consuming industries in Europe, Japan and South Korea are impacted by COVID-19.

Operating rates of Chinese rare earth producers are averaging above 75% including the southern heavy rare earth operators in Fujian and Guangdong. Limited availability of ion absorption ores and resource restrictions place a heavy reliance on the importation of rare earths from Myanmar.

China sources NdPr from jurisdictions like Malaysia, Africa, Myanmar, Australia and the USA. These have been unaffected by the disruptions and the Chinese government removed the 25% import tariff on U.S. imports during the quarter encouraging the increase in concentrates to feed the Chinese value chain.

The outlook for NdPr prices in Q3 CY2020 will be impacted by Chinese government policy and the continued trade tension between the USA and China including other advanced jurisdictions.

In the coming months, the long-term outlook for NdFeB magnet consumption is positive with Chinese policy geared to support NEVs. Changes to NEV subsidies in 2020 to support the market will improve the expected demand for magnets that use NdPr oxide.

Rare earth policy on mining and separation quotas in the first half of 2020 was issued totalling 66,000 tonnes and 63,500 tonnes respectively. Rare earth quotas for the second half of 2020 have not increased and Ministry of Industry and Information Technology (**MIIT**) has provided no guidance on lifting official rare earth mining output quota for the second half of 2020.

**Figure 3 - NdPr Oxide Price | EXW China inclusive, converted to US\$**

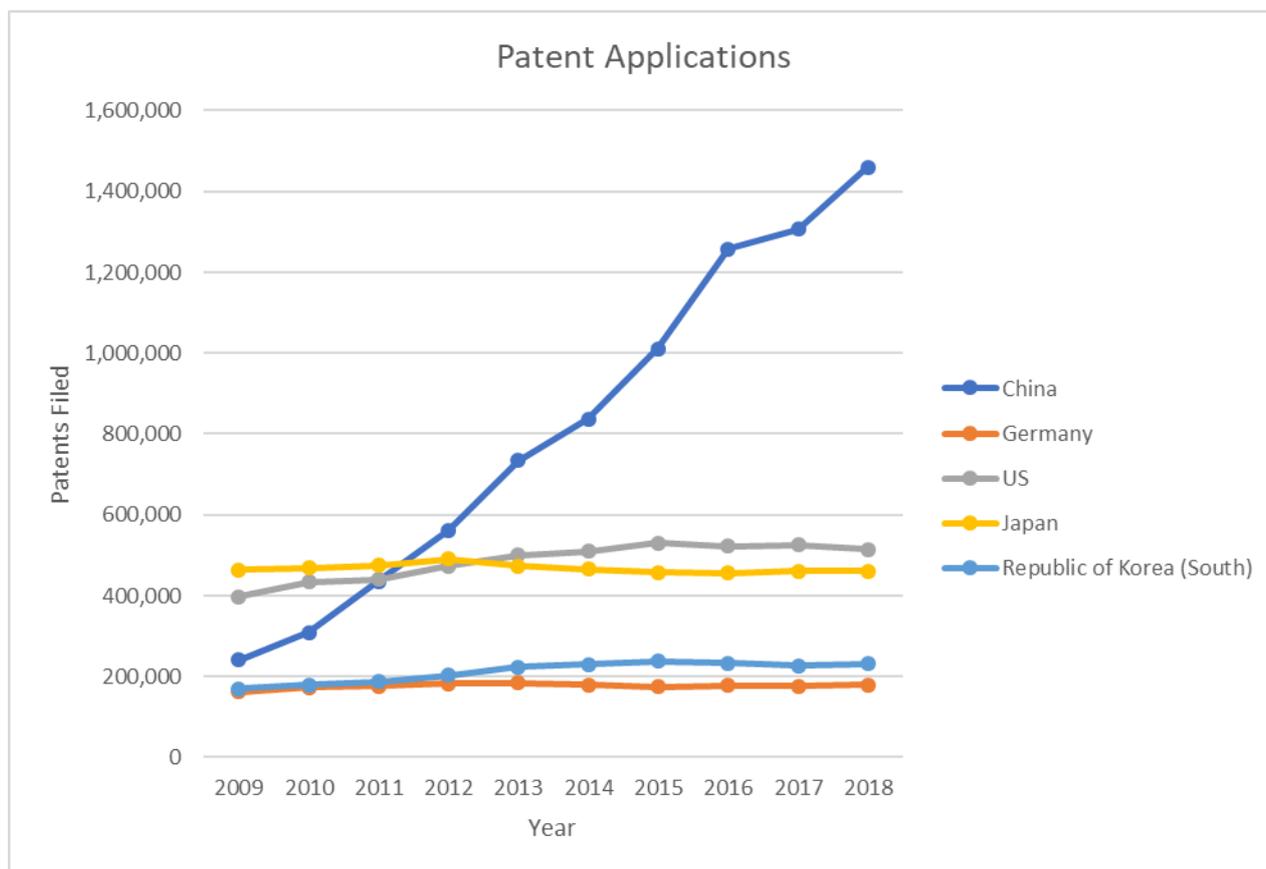


## CHINA – NEW ECONOMY

For China, programs and initiatives that provide it with an edge over developed economies are critical to transforming and rebalancing its economy to compete with the global economic leaders including the USA, Japan, Europe and South Korea. Central to this process is the *Made in China 2025 strategy* which includes transforming itself to the world’s dominant producer of EVs by both quantity and quality. This strategy has created increased scrutiny of its business practices and Central Government policy, so sensibly there has been decreased formal reference to the strategy by China’s key political figures. These issues aside, the *Made in China 2025 strategy* has dual benefits of value adding and leveraging its existing value chains (including NdPr) as well as resulting in better environmental outcomes.

These “new economy” programs favour downstream investment, innovation and leveraging of natural resources to enable China to compete more effectively with the global economic leaders. Centralised policy making has enabled the Government to more effectively position the Chinese economy to align with its initiatives. One clear example is China’s ability to ramp up and direct research and development (**R&D**) efforts, so these are aligned with centralised goals. Figure 4 shows the investment and effort by China in its R&D focus through the uptick in patent applications filed and provides a comparison with the key developed economies with which it will compete for manufacturing share of EVs.

**Figure 4 - Patent Applications by Country – World Bank, World Intellectual Property Organization**



Just as China has leveraged its intellectual property resources to help achieve its new economy objectives it has also looked to gain from its dominant position in the rare earths value chain to achieve the same objectives. The U.S.-China trade war and more recently the COVID-19 epidemic has placed greater emphasis on supply chains for critical materials, including cobalt, lithium and rare earths. For rare earths there are more specific concerns around supply chains for magnet feed materials including NdPr, dysprosium and terbium. In some instances, critical material supply chains are characterised by monopolies, protectionist policies and dominant market positions held by state owned enterprises. Participants in these markets often work to manage prices and supply chains to create significant barriers for new entrants and a market that disincentivises new investment. For single source supply chains, the COVID-19 epidemic has provided a window to the future for potential disruption through market failure and dysfunctional supply chains.

To overcome the future supply disruption risks, other economies will need to find ways to encourage new supply of raw materials and investment in integrated supply chains, including processors and downstream

manufacturers. Arafura expects these initiatives will be central to the offtake and project funding requirements for the Nolans Project.

## **PROJECT FUNDING**

Arafura continued to progress its engagement with key banks, advisor groups and Export Credit Agencies (**ECA**) through video and teleconferencing. Although not as effective as face to face meetings, video and teleconferencing has provided greater flexibility in arranging meetings with groups across multiple time zones of Europe, Japan, South Korea and the U.S. Recent geopolitical events including the China–US trade war and COVID-19 has seen economies reassess their supply chain risk for critical raw materials. Arafura believes the government mandated ECAs through direct loans and guarantees will be central to COVID-19 stimulus measures which have a significant focus on critical material supply chains.

A paper prepared by the European Commission in May identified that in transitioning to climate-neutrality the current reliance on fossil fuels will be replaced with a reliance on other non-energy raw materials and identified increasing global competition for supply becoming more intense. The Commission identified the need for a new “Action Plan on Critical Raw Materials” to improve supply chains for e-mobility, batteries, renewable energies, pharmaceuticals, aerospace, defence and digital applications. To achieve this the Commission identified “Europe must focus on enhancing its strategic autonomy, economic security and potential for job creation. The Commission is proposing a new **Strategic Investment Facility** to support cross-border investments to help strengthen and build European strategic value chains.”

In May, the Japan Oil, Gas and Metals National Corporation (**JOGMEC**) released a Deloitte report commissioned to examine critical mineral supply risks for Japan and the U.S. This paper is available on the JOGMEC website and the executive summary has been translated to English. JOGMEC identifies 60% of rare earths consumed in Japan are imported from China, with neodymium and dysprosium used in the manufacture of magnets for automotive and robotics manufacturing. These rare earths are identified as being “vital in maintaining Japan’s manufacturing competitiveness”. The report examines U.S. rare earth demand and potential risks in U.S. supply chains. The JOGMEC paper also examines multi-lateral supply chain solutions for NdPr (and heavy rare earth) metal sourced from U.S. and Australian rare earth oxides for the manufacture of magnets in Japan for supply to the U.S. for EV and aircraft manufacture.

Feedback from the Company’s project funding engagement affirms the view that Nolans, as an Australian domiciled NdPr project, is a strategic geopolitical asset. Arafura is working to leverage this significant attribute and its market sounding has identified close alignment with the ECA mandates of enabling EV manufacturing and renewable energy. There is consensus that EV manufacturing and renewable energy will be a significant focus of the COVID-19 stimulus in Europe, Japan and South Korea. In these same jurisdictions there is also an increased desire to diversify supply chain dependence for critical raw materials.

With strong links identified between Nolans NdPr offtake and project funding strategies, Arafura continues to progress its project funding discussions, targeting ECA tied and untied loan facilities in conjunction with Export Finance Australia (**EFA**) and the Northern Australia Infrastructure Facility (**NAIF**). Arafura’s debt led strategy aims to leverage the “halo effect” of the ECA backed debt structure to attract project equity on an improved valuation basis.

Arafura noted there has been significant and emerging interest in critical material supply chains for EV manufacturing in Europe. As Arafura personnel have been unable to travel and in order to maintain traction with offtake discussion, ECA and bank engagement, Arafura appointed a German-based advisory firm with specific experience in business strategy, economics, media and policy. The advisor has now been briefed on

the Company's offtake and funding strategy and during the quarter commenced work on behalf of Arafura. This consultant will work in conjunction with the Company's direct and ongoing engagement and with other existing consultants in Europe and Japan.

## **CORPORATE**

### **Cash Position**

Arafura had \$22.8 million in cash reserves at 30 June 2020 following the completion of a \$7 million share placement. This strong financial position has enabled the Company to continue to advance the Nolans Project notwithstanding the business interruptions arising from the COVID-19 pandemic; however, the Company remains prudent in its engagement with consultants and contractors to ensure it remains flexible to any changes in market conditions.

For the quarter ended 30 June 2020, average monthly cash expenditure was \$1.4 million compared with \$944,000 for the 31 March 2020 quarter. The monthly average for the quarter increased because of the continuation of workstreams despite COVID-19 and includes capital raising costs.

### **Capital Raising complete**

In June, the Company completed a \$7 million share placement with strong support from domestic and offshore institutional investors. The placement was completed at an issue price of \$0.062 per share and 112,903,226 fully paid ordinary shares were issued. Funds raised from the placement are being used to undertake early engineering works for pre-FEED, execution readiness activities and for general working capital purposes.

### **Corporate Governance review**

The Company has completed a review of its Corporate Governance Manual in line with the new ASX Corporate Governance Principles and Recommendations 4th edition. The Company will be expected to measure its governance practices against the recommendations in the 4th edition from 1 July 2020 for the financial year ended 30 June 2021. The key charters and policies are available on the Company's website at [www.arultd.com](http://www.arultd.com).

### **Office relocations**

In May, the Company changed its registered office and principle place of business to Level 6, 432 Murray Street Perth WA 6000.

The Company has also recently signed a lease for new office premises in Darwin at Unit 34, 119 Reichardt Road in Winnellie.

### **COVID-19**

In early January 2020, the World Health Organisation (**WHO**) was notified of the COVID-19 virus and a pandemic was declared by mid-March 2020 after it was confirmed human-to-human transmission can occur. The Company has diligently monitored the status of COVID-19 and the State/Territory and Australian Government's advice around social distancing and travel restrictions. Staff and contractors were kept informed of any updates to procedures to align with current recommendations. Following a risk assessment, Arafura's Perth-based staff and contractors worked from home between 23 March and 11 May, while Darwin-based staff continued to operate from the Darwin office throughout this period.

The Company has endeavoured to mitigate impact on productivity during this time, with customer offtake and funding engagement during the quarter continuing via voice and video conferencing technology. The Company continues to progress project development but manages its workstreams to allow it to adapt to any change in market conditions.

### **Nolans Project Exploration Results, Mineral Resources and Ore Reserves**

The information in this report that relates to Exploration Results was released in an announcement dated 9 March 2020 (Drilling Confirms Deep Extensions to Mineralization) and was completed in accordance with the guidelines of the JORC Code (2012). The information in this report that relates to Mineral Resources was released in an ASX announcement dated 7 June 2017 (Detailed Resource Assessment Completed) and was completed in accordance with the guidelines of the JORC Code (2012). The information in this report that relates to Ore Reserves was released in an ASX announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project) and was completed in accordance with the guidelines of the JORC Code (2012).

Arafura confirms that it is not aware of any new information or data that materially affects the information included in these original market announcements and that all material assumptions and technical parameters underpinning the estimates in the original market announcements continue to apply and have not materially changed. Arafura confirms that the form and context in which the Competent Person's findings are represented have not been materially modified from the original market announcements.

#### **Mineral Resources**

Resources	Tonnes (m)	Rare Earths Treo %	Phosphate P2O5 %	NdPr Enrichment %
<b>Measured</b>	4.9	3.2	13	26.1
<b>Indicated</b>	30	2.7	12	26.4
<b>Inferred</b>	21	2.3	10	26.5
<b>TOTAL</b>	<b>56</b>	<b>2.6</b>	<b>11</b>	<b>26.4</b>

*As announced on 7 June 2017. 1.0% TREO cut-off grade. Numbers may not compute exactly due to rounding. "NdPr enrichment" is the proportion of TREO comprising Nd2O3 and Pr6O11.*

#### **Ore Reserves**

Resources	Tonnes (m)	Rare Earths Treo %	Phosphate P2O5 %	NdPr Enrichment %
<b>Proved</b>	5.0	3.0	13	26.2
<b>Probable</b>	24.6	2.8	13	26.5
<b>TOTAL</b>	<b>29.5</b>	<b>2.9</b>	<b>13</b>	<b>26.4</b>

*As announced on 16 March 2020. Numbers may not compute exactly due to rounding. "NdPr enrichment" is the proportion of TREO comprising Nd2O3 and Pr6O11.*

### **Production Targets and Forecast Financial Information**

The information in this report that relates to production targets and forecast financial information is derived from an ASX announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project). Arafura

confirms that all material assumptions underpinning the production target and forecast financial information derived from production targets set out in the announcement released on 16 March 2020 (including the cost and pricing assumptions referred to in the Company's 16 March 2020 announcement that were used in the DFS and which are set out in the Company's ASX Announcement dated 7 February 2019 (Nolans Project Definitive Feasibility Study)), continue to apply and have not materially changed.

### **Forward Looking Statements**

This report includes forward-looking statements. These statements relate to the Company's expectations, beliefs, intentions or strategies regarding the future. These statements can be identified by the use of words like "will", "progress", "anticipate", "intend", "expect", "may", "seek", "towards", "enable" and similar words or expressions containing same.

The forward-looking statements reflect the Company's views and assumptions with respect to future events as of the date of this announcement and are subject to a variety of unpredictable risks, uncertainties, and other unknowns. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, many of which are beyond our ability to control or predict. Given these uncertainties, no one should place undue reliance on any forward-looking statements attributable to the Company, or any of its affiliates or persons acting on its behalf. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Neither the Company nor any other person, gives any representation, warranty, assurance, nor will guarantee that the occurrence of the events expressed or implied in any forward-looking statement will actually occur. To the maximum extent permitted by law, the Company and each of its advisors, affiliates, related bodies corporate, directors, officers, partners, employees and agents disclaim any responsibility for the accuracy or completeness of any forward-looking statements whether as a result of new information, future events or results or otherwise.

**APPENDIX 5B**
**Mining exploration entity and oil and gas exploration entity quarterly report**

<b>Name of entity</b>	
Arafura Resources Ltd	
<b>ABN</b>	<b>Quarter ended ("current quarter")</b>
22 080 933 455	30 June 2020

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	-	-
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(473)	(1,630)
	(e) administration and corporate costs	(334)	(1,771)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	47	324
1.5	Interest and other costs of finance paid	(9)	(11)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	66	303
1.8	Other (provide details if material)	-	-
<b>1.9</b>	<b>Net cash from / (used in) operating activities</b>	<b>(703)</b>	<b>(2,785)</b>

<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements and bonds	(32)	(65)
	(c) property, plant and equipment	(11)	(43)
	(d) exploration and evaluation	(3,051)	(9,180)
	(e) investments	-	-
	(f) other non-current assets	(117)	(117)
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	96	96
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (R&D refund – capitalised portion)	-	1,278
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(3,115)</b>	<b>(8,031)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	7,000	30,246
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(460)	(2,011)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (repayment of lease liabilities)	(46)	(46)
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>6,494</b>	<b>28,189</b>

**QUARTERLY ACTIVITIES REPORT AND APPENDIX 5B**

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	20,095	5,398
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(703)	(2,785)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3,115)	(8,031)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,494	28,189
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>22,771</b>	<b>22,771</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b>	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
	at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1	Bank balances	1,845	279
5.2	Call deposits	20,926	19,816
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>22,771</b>	<b>20,095</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(190)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

**QUARTERLY ACTIVITIES REPORT AND APPENDIX 5B**

<b>7.</b>	<b>Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	<b>Total financing facilities</b>	-	-
7.5	<b>Unused financing facilities available at quarter end</b>		-
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
Not applicable.			

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	(703)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(3,051)
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(3,754)
8.4	Cash and cash equivalents at quarter end (item 4.6)	22,771
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	22,771
8.7	<b>Estimated quarters of funding available (item 8.6 divided by item 8.3)</b>	6
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>		
8.8	If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
	8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: Not applicable.	
	8.8.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: Not applicable.	
	8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: Not applicable.	
<i>Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.</i>		

## COMPLIANCE STATEMENT

- (1) This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- (2) This statement gives a true and fair view of the matters disclosed.

Date: 29/07/2020

Authorised by: .....  .....

(Catherine Huynh- Company Secretary)

## Notes

- (1) This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
- (2) If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
- (3) Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
- (4) If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
- (5) If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

**APPENDIX A – MINING TENEMENTS HELD AS AT 30 JUNE 2020**

Tenement reference	Project	Holder	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659*	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	100%	Application Lodged
ML 30702*				100%	100%	Application Lodged
ML 30703*				100%	100%	Application Lodged
ML 30704*				100%	100%	Application Lodged
ML 32411				-	100%	Application Lodged
ML 32412				-	100%	Application Lodged
ML 32413				-	100%	Application Lodged
ML 32414				-	100%	Application Lodged
ML 32415				-	100%	Application Lodged
ML 32416	-	100%	Application Lodged			
EL 28473 EL 28498 EL 29509 EL 31224 EL 31284 EL 31957	Aileron–Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100%	
EL 29701	Bonya JV, NT	Arafura Resources Ltd	Exploration Licence	60%	60%	Thor Mining Plc 40%, Arafura Resources Limited 60%
EL 32167	Jervois Vanadium, NT	Arafura Resources Ltd	Exploration Licence	60%	60%	Thor Mining Plc 40%, Arafura Resources Limited 60%

\* These Mineral Leases have subsequently been granted by the Northern Territory Government on 21 July 2020. Refer to ASX Announcement dated 22 July 2020 (Nolans Mineral Leases granted by Northern Territory Government).