

ASX ANNOUNCEMENT

QUARTERLY ACTIVITIES REPORT AND APPENDIX 5B

30 September 2021



HIGHLIGHTS

- **Importance of diversification of supply chains highlighted through the Quadrilateral Security Dialogue (Quad) deal between leaders of Australia, the United States, India and Japan to develop a strategy to secure supply chains**
- **Strong alignment with Australian Government Initiatives, heightened by the Morrison Government's establishment of a \$2 billion Critical Minerals Loan facility for Australian critical minerals projects**
- **Export Finance Australia (EFA) and Northern Australia Infrastructure Facility (NAIF) support used to leverage strategic interest with Export Credit Agencies and commercial banks seeking well-structured projects that feed into diversified supply chains for EV manufacturing and renewables.**
- **NdPr pricing increased 26% on the back of global supply chain security risk, environmental legislation constraints and tight domestic supply coupled with strong demand for permanent magnets**
- **Sustainability Report expected to be released to outline its steps for meeting its sustainability goals including achieving net zero carbon emissions by 2050**
- **Strong cash position of \$49.2 million following completion of two-tranche placement and well supported share purchase plan (SPP) to raise A\$45.5 million to commence FEED and for general working capital purposes**
- **Front-End Engineering Design (FEED) commenced following award of engineering design contract for the hydrometallurgical plant to Hatch. On track for targeted final investment decision (FID) in H2 2022**

Arafura Resources Limited | ABN: 22 080 933 455

Level 6, 432 Murray St, Perth WA 6000
PO Box 5773, St Georges Terrace, Perth WA 6831
T: +61 8 6370 2800 | W: www.arultd.com | E: arafura@arultd.com

NdPr

NOLANS NdPr PROJECT

Site Investigations

In September a test pitting and sampling program was undertaken across the extractive mineral exploration licences (**EMELs**) to investigate potential sources of borrow materials such as sub-base, base course material and granular pavement materials. This material has been assessed as suitable for use in construction and the EMELs are located close to the proposed processing plant site and should reduce haulage distances and civil construction costs.

The successful sampling program, and subsequent material test work, was successful in identifying good sources of sub-base and base course materials and work is now being undertaken to finalise the quantities of material available and develop a borrow management plan to outline the source of all civil construction materials across the project required for the initial construction.

Front-End Engineering and Design

Front-end engineering and design (**FEED**) commenced towards the end of August across the multiple fronts on the Project, including:

- Hydrometallurgical plant.
- Sulphuric acid plant.
- Power station.
- Process control system.
- Non-process infrastructure (**NPI**).

The FEED program is aimed at progressing the design of the Project and providing sufficient detail to reduce the risk profile and provide certainty for the tendering of fixed price contracts for the project delivery, which was been identified as a major requirement by potential project finance partners.

Activities across the various areas of the Project are outlined below.

Hydrometallurgical Plant

The shareholder approval for the completion of the capital raising in early August, allowed the company to undertake an extensive tendering process amongst international tier 1 engineering consultancies for the Hydrometallurgical FEED phase. Hatch was awarded the engineering and procurement (EP) services for this work in late August. The tenders were evaluated considering a range of factors, including:

- Price and schedule.
- Experience with similar project and proposed project personnel.
- Proposed execution methodology around local and indigenous involvement and innovation around optimising the design.
- Performance warranties and other commercial terms.
- Project systems including safety, environmental, quality assurance, human resources and industrial relations.

The award is for an initial phase of work "separable portion 1", comprising the FEED engineering, preparation for tendering a fixed price construction contract and updating of the capital cost estimate. Separable portion 2, the completion of the engineering design and tagged equipment procurement, and separable portion 3,

commissioning and ramp up support, will be awarded as the Project proceeds through final investment decision (**FID**).

Significant progress has occurred in September, including:

- Updating of the process engineering design including process flow diagrams, mass and energy balances and commencement of equipment performance specifications.
- Review and updating of the hazard identification study from the definitive feasibility study (**DFS**) in readiness for commencement of risk engineering with the insurers risk engineers.
- Commencement of tendering of long-lead and critical equipment such that certified vendor information can be secured to support the design.
- Commencement of reviewing the 3D design model and layout from the DFS to optimise the layout for final detailed design.

In addition to the work with Hatch, discussions and a tendering process with potential construction contractors commenced with the intention to engage one or more potential construction partner to provide constructability review and input during the FEED phase. The outcome of this review should be a reduction in the construction labour requirements, improved construction safety and reduced construction costs.

Sulphuric Acid Plant

Finalisation of the contracting strategy for the procurement and construction of the sulphuric acid plant was the focus this quarter. Options being considered include the letting of an EPC contract for the facility direct to a sulphuric acid plant vendor or purchase of the plant by Arafura with a fixed price construction contract let to a construction contractor for the installation and completion of the facility.

In addition to this contracting strategy review, options around the possibility of a build, own operate (**BOO**) or similar contract for over-the-fence supply of sulphuric acid are also being investigated. Several chemical suppliers are considering the opportunity for over-the-fence supply of acid with the potential for this to be expanded to include other key reagents in a longer-term partnership arrangement for reagent supply.

Outcomes of the investigations are anticipated to be finalised in Q1 2022.

Power Station

As with the sulphuric acid plant, Arafura has been engaging with potential partners for the supply of a gas fired power station to provide power and steam for the project on a BOO basis. Interest in this contract has been high with a large number of parties keen to participate in the Project.

Key to selection of the power station contractor will be the integration of greenhouse gas reduction technologies and future strategies into the initial design in line with Arafura's commitment to reach net-zero greenhouse gas emissions by 2050.

Control System

In parallel with the hydrometallurgical plant FEED, the integrated project management team (**IPMT**) which includes KBR and Wave International personnel (*refer to ASX Announcement 23 January 2020*), has also been progressing the selection of the process control system and potential implementation partners. The implementation of the system will occur later in the construction sequence, however early specification of the system architecture and other requirements is necessary for tendering of the various construction and supply contracts.

Non-Process Infrastructure

The IPMT has also progressed the NPI design across the following areas:

- Finalised the NPI basis of design outlining the NPI requirement, design philosophy and design basis.
- Commenced design of the site access road and intersection with the Stuart Highway.
- Progressed the accommodation village design with the village contractor, NT Link.
- Commenced a selection process for a village operations contract such that a service provider can be selected early and participate in the finalisation of the village design.

Project Execution

The IPMT has been working across various fronts around preparation for project execution. This work has included progress on the following:

- Development of a project logistics strategy aimed at leveraging a project-wide strategy to optimise materials control, insurance and cost considerations.
- Engagement with potential contractors, service providers and suppliers through ICN Gateway with the upload of early works packages onto the platform to begin calling for expressions of interest with an aim to maximising local and indigenous contracting opportunities. This will be followed up over the coming months with meetings and planning for industry presentations.
- Commencement of the implementation of the InEight project management system.
- Implementation of the Project risk management plan to allocate all risks to a risk owner and develop detailed risk management plans for all high-level risks.

Independent Technical Review

Tenders are currently being sought for a multi-disciplinary consultant to carry out an independent technical review of the Project. The intention is that this review will feed into the financing process and provide the technical due diligence for the lenders. It is anticipated that the review will commence in November.

Technology Development

During the quarter, the bulk of the corrosion test work program was completed on the performance of various materials of construction under the anticipated conditions across metallurgical processes proposed at Nolans. This detailed test work and analysis will provide the basis for selection of the key materials of construction during the design phase. The one outstanding corrosion test work program is the rigorous testing of the conditions in the acid bake, which were previously tested in short-term screening tests, with these tests planned for early in Q4 2021.

In addition, vendor test work is being planned to provide detailed design information for the chloride removal stage in the cerium processing circuit. This test work will allow the vendors to provide performance guarantees for the equipment in this processing step.

Project Schedule

The Company remains on track for production towards the end of 2024 and the overall schedule for the Project has not materially changed since the feasibility study update released in May 2021. All dates presented are contingent on securing funding for the activities as required. With FEED commencing on schedule in August 2021 the following are the next key dates:

- Completion of FEED and tendering in May 2022 followed by FID in August 2022.
- Construction period of 26 months from FID giving first ore processing in October 2024 and first production towards the end of 2024.

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Operational Licencing

The completed, detailed mining management plans (MMP) and its associated environmental management plans (EMPs) has been progressively submitted to the Northern Territory Department of Industry, Tourism and Trade (**DITT**) since August, with all remaining plans will be finalised and submitted by late October 2021. Initial comments from DITT have been positive and we expect additional feedback in coming weeks to enable finalisation of all associated documents. The groundwater extraction license for the projects production borefield water supply was submitted to the Northern Territory Department of Environment Parks and Water Security (**DEPWS**) at the end of the quarter. This is the main groundwater extraction license for the project. Arafura is awaiting comments on the application from DEPWS.

ESG

Arafura completed its initial greenhouse gas (**GHG**) reduction options study which looks at developing a staged approach to reducing our GHGs for the project in line with meeting the goal of net zero carbon emissions by 2050 or sooner. The strategy looks as gradually phasing out the gas fired power generation and replacing it with solar, wind and energy storage, as well as the use of biofuels. This strategy is further detailed in the sustainability report, which is currently being prepared.

Work will soon commence on a more detailed scoping study on the GHG reduction to clearly identify the first steps, including timing, in the reduction plan.

DOMESTIC STAKEHOLDER ENGAGEMENT

Arafura has continued our stakeholder engagement activities during the quarter and was successful in having the David Littleproud, the Minister for Northern Australia and Senator Susan McDonald both visit the Nolans Project. Also accompanying these senior Commonwealth government politicians was the newly appointed NT Commissioner for Major Projects Jason Schoolmeester and the Deputy Commissioner for NT Investment Cliff Weeks. The visit was very successful, and we were able to provide a comprehensive tour of the planned project. Of particular interest to the group was the approach used by Arafura into our groundwater exploration and investigations.

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NdPr



Figure 1 Nolans site visit by Minister for Agriculture and Northern Australia, David Littleproud and Senator Susan McDonald

EXPLORATION

Nolans

Borehole Wireline were engaged to acquire, and process structural and geotechnical data from 3,263m of optical scans in 46 historic RC drill holes from the northeast part of the Nolans Bore deposit. This optical scanning was done to improve and confirm the 3D understanding of the deposit geology to the northeast of the proposed Pit Stage 1 and will also be used to aid future geotechnical and mine planning studies.

The results of the optical scanning, along with an improved understanding of the Project geometallurgical domaining, is currently being used to review and revise the geological block model in the areas proposed for early mining activities. This revision of the block model is aimed at developing a more mine planning friendly block model and allow better short-term production planning once mining commences.

MACROECONOMIC DEVELOPMENTS

Global Markets and Supply Chain Security

The European Raw Materials Alliance (ERMA) released its first action plan to secure access to Rare Earth Elements for European industry, tellingly, rare earths being prioritised as the key topic for the first of the two reports focussing on critical materials to establish a carbon-neutral future for Europe. The key recommendation in the report is the need to encourage strategic partnerships with resource-rich countries, for both raw materials and recycling, as Europe begins to develop their processing capabilities.

With the increasing production of electric vehicles, compared to traditional internal combustion engine vehicles, there is a significant reduction in moving parts leading to fewer components and shrinking production lines. In order to protect domestic jobs, many OEMs are preserving employment by bringing as much production of components inhouse including battery cell production and traction motor components.

Australia and India resumed free trade talks in earnest and released the Australia-India Critical Minerals Partnership Potential report highlighting ways Australian companies and institutions can partner with India to supply critical minerals and attract investments for Australian mining and mineral processing projects. Such initiative will support the critical raw material needs for India's "Make In India" initiative, which includes the

Clean Tech Incentive to attract investment for electric vehicle manufacturing and creating another geographic consumption market for NdPr products.

Japan has elected former Foreign Minister Fumio Kishida as the new leader of the ruling Liberal Democratic Party, who is focused on strengthening coalitions such as the Quad and the US-Japan alliance. With increasing supply concerns Japan has begun to secure their rare earth's industry with a proposed amendment to existing foreign exchange and trade legislation that would have any industry linked to critical rare metals (including rare earths) as being classified as a core industry.

In August, the US Bipartisan Infrastructure Bill was agreed which included US\$15 billion for electric vehicle and infrastructure development and US\$73 billion to update the existing power infrastructure for the expanding renewable energy and increased electric vehicle uptake. In the same month, Biden signed an Executive Order setting a goal that 50% of all new vehicles sold in the US are to be zero-emission by 2030. To further secure the rare earth magnet supply chain, a bipartisan bill was introduced, the "Rare Earth Magnet Manufacturing Production Tax Credit Act" that, if enacted, would create a new tax credit of up to US\$20/kg of rare earth magnets produced in the US with rare earth material from an allied nation, increasing to US\$30/kg if all rare earth material used is produced or recycled domestically.

Further to Australia's collaboration with the United States within the Quad partnership, alliances were cemented with the United States, along with the United Kingdom, through the AUSUK trilateral security partnership through which the three nations would closely collaborate to share and better utilise their respective technologies and capabilities. This alliance is viewed as the most significant security pact between the nations since World War II and will lead to multi-generational, extremely close collaboration in other areas, such as access to Australia's critical resources, especially rare earths and battery minerals.

South Korea passed a bill aiming for carbon neutrality by 2050 and unveiled accelerated targets for carbon reduction supported with \$10.3 billion of investment in 2022 for transport electrification with incentives for zero-emission vehicles and charging infrastructure development across the nation. Government financial support will be available to reduce coal-powered power plants and traditional internal combustion engine vehicles and close cooperation with industry to reduce electric vehicle prices by 2025. South Korea also announced that the country's stockpiles of critical metals and rare earths to be increased from current 56.8 days' worth of consumption to 100 days, with the expansion of existing facilities and development of new ones being necessary.

Subsequent to the end of the quarter, General Electric and General Motors announced a MOU which would include the development of a rare earth materials supply chain for North-American and European-based magnet manufacturing; the shift towards strategic partnerships and collaboration to secure their own supply chains is likely to become a more common occurrence.

The global semiconductor shortage facing automotive OEMs has heightened the awareness on the vulnerability of their supply chains with impacted companies announcing prolonged production cuts and inevitable loss of market share. Many OEM's have prioritised supply chain security towards high value components, such as electric vehicle battery cells, however the availability of the comparatively lower cost and higher utility components have shown to also bear significant impact on finished product delivery. The supply of NdFeB magnets can be seen in the same light, a product with relatively low value in the total cost of the car yet critical in its application, NdFeB magnet users not aligned with the "Made in China 2025" EV strategy are exposed to future supply risks unless measures are taken to strategically secure this critical material.

OFFTAKE AND PROJECT FUNDING

Offtake

Within the current geopolitical climate, and the return from summer holidays in the Northern hemisphere has coincided with a significant increased interest in offtake discussions.

In recent months offtake discussions with European parties have continued to progress, including a few significant groups not originally considered interested, who are now engaged with Arafura with a clear priority to secure their permanent magnet supply chains. This, coupled with additional strategic interest from parties in other jurisdictions, has increased the pipeline of potential offtake partners now advancing discussions with Arafura. More than ten parties are in discussion with Arafura for greater than 260% of the 4,440 tpa NdPr oxide planned production with a view to secure 85% as binding offtake. Arafura has advanced commercial offtake discussions with several key parties required to meet the binding offtake volume and with coordinated strategic interest and upward revision of production plans, it is envisioned Arafura NdPr supply will be shared with fewer strategic offtake parties.

Automotive OEMs are restructuring and realigning plants towards inhouse EV traction motor manufacturing and how to de-risk their NdFeB magnet value chain and upstream supply risk. There is a growing consciousness that there are very few strategically advanced NdPr projects globally that can support a risk-managed solution at significant scale to address security of supply, geo-political risk, ESG, traceability and provenance. Arafura's ESG initiatives, including a single site operation are seen very favourably.

Most encouraging is the number of potential offtake parties engaging Arafura with a collaborative approach to secure their magnet supply chains, with consortium and investment interest in the value chain all being considered.

Triangular discussions are advancing between a European end user and their magnet suppliers to assess how Arafura's NdPr metal can be processed to achieve a fully traceable final magnet product. NdPr metal samples from our tolling partner were supplied to the magnet suppliers for the purposes of pre-qualification of the metal sample and the magnet company has confirmed the quality and suitability for use in the final high end magnet product.



Figure 2 NdPr metal sample from tolling partner

No formal or binding agreements with the parties have been entered into and negotiations are incomplete. The Company, at this stage, has no certainty as to the timing and likelihood of successfully concluding binding agreements being entered into. Details of these arrangements will be announced to ASX if (and when) formal agreements have been executed.

Project Funding

The Australian government continues to look for opportunities to leverage its mineral reserves and secure a place in the value chain for the supply of critical materials. To coincide with the recent Quad Leaders meeting the Morrison government announced the establishment of a \$2 billion Critical Minerals loan facility for Australian critical minerals projects. The Nolans project is closely aligned with the government's new energy economy objectives and has already secured non-binding letters of support from the Australian Government's Export Finance Australia (**EFA**) and Northern Australia Infrastructure Facility (**NAIF**) for a proposed senior debt facility of up to A\$200 million and A\$100 million respectively.

The Nolans debt funding strategy leverages the global focus on critical material supply chains and the need to target low carbon transport and renewable energy to achieve reduced emissions. Export Credit Agencies (**ECA**) and commercial banks are seeking well-structured projects that feed into diversified supply chains for EV manufacturing and renewables. Arafura is leveraging the support of EFA and NAIF and the ongoing geopolitical focus on supply chain risk for critical raw materials to progress its engagement with key banks and ECAs to assist with securing project finance. Completion of the recent capital raising has enabled the commencement of FEED which is viewed favourably by potential finance partners. The completion of FEED program will reduce execution risk by allowing construction tenders to be received concurrently with the FID. To advance the project financing the Company has recently engaged London-based HCF International Advisers Limited.

Arafura and its Europe and Asia based advisors continue to engage with offtake partners. NdPr users in the EV space are continuing to see the benefits of engaging upstream to secure raw materials. Its evident supply chain risks can be mitigated via a partner approach. The momentum with offtake discussion has enabled engagement to expand to include the options for strategic investment as part of the Nolans project funding. The Company has no certainty as to the timing and likelihood of successfully concluding strategic investment. Details of any binding agreements will be announced to the ASX if (and when) formal agreements are executed.

NdPr Market

The spot market price of NdPr oxide increased over the quarter due to tight domestic supply, environmental legislation constraints and strong domestic and overseas demand for permanent magnets. The price of NdPr increased from US\$73 per kg to US\$92 per kg during the quarter, an increase of 26% with prices trending back to the levels experienced in Q1.

NdFeB magnet demand remains strong with Chinese production output remaining high and rapid development and adoption of New Energy Vehicles (NEV) globally. Automakers constrained by long lead times for components and semiconductors are redirecting production to EVs where Germany, Europe's largest auto market has EV registrations at 28% of the market in September. Demand from downstream market will remain buoyant in Q4 and under a tight spot market and higher costs, at the time of this report the October NdPr price had moved to above US\$100 per kg.

Supply in the domestic market remains low with inventory at less than 3000 tonnes of NdPr oxide at the end of September. Rare earth processors maintain high operating rates and Industry is faced with power cuts that could impact production rates. Waste magnet materials and waste recycling industry face environmental inspection and rectification notices to improve standards and illegal processing and trade is significantly reduced with traceability platform initiated by MIIT.

During the Quarter, China's Ministry of Industry and Information Technology (MIIT) set the rare earth mining quota at the same level as H1 with the full year production quota at 162,000 tonnes TREO up 27,000 tonnes from 2020. Distribution of rare earth mining and separation quota between southern and northern districts was altered with lower quota assigned to the southern mining groups operated by Chinalco and China Minmetals. The production divergence is due to strict environmental legislation and supply constraints from Myanmar causing southern separators in Guangdong and regions to remain underutilized and mines in Jiangxi

permanently suspended. Production cuts continue in Sichuan, 2nd largest supply of NdPr due to ongoing environmental inspections.

China continues consolidation and restructure of its rare industry and recently announced plans to create two rare earth mining giants to further rationalize the rare earths assets. The government is aiming to eventually consolidate all its rare earth miners and processors into a Northern and Southern group. Several state-owned enterprises, including Chinalco will restructure their assets as a first step towards a national strategy to modernizing China's industrial capability and secure the value chain for "Made in China 2025".

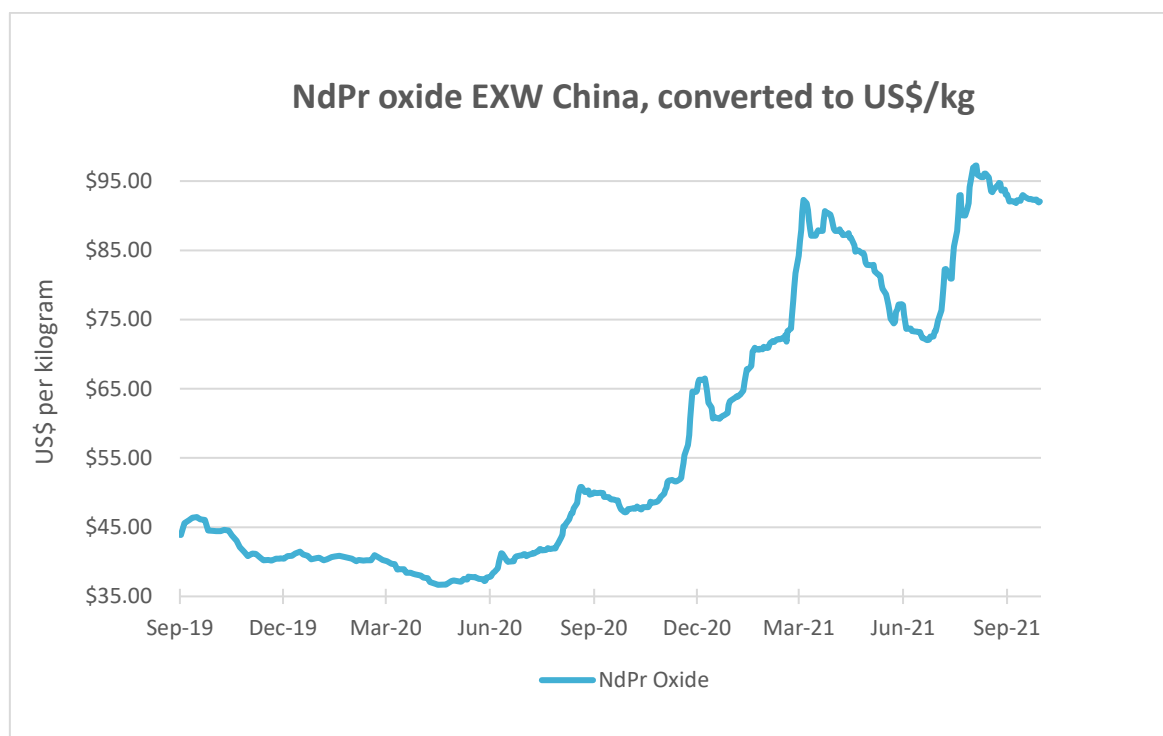


Figure 3- NdPr Oxide Price EXW China inclusive VAT converted to US\$

CORPORATE

Cash Position

Arafura had \$49.2 million in cash reserves at 30 September 2021 following its successful placement and share purchase plan. This strong financial position has enabled the Company to commence FEED to continue to meet its development timeline targeting final investment decision by 2H 2022.

During the quarter, the Company spent ~\$2.1 million on exploration and evaluation activities, ~\$2.2 million on corporate, administration and business development costs and ~\$0.3 million on project development activities which relates to FEED. Further details are available in the attached Appendix 5B.

For the quarter ended 30 September 2021, average monthly cash expenditure was \$1.6 million (excluding capital raising costs), which is higher than the 30 June 2021 quarter as a result of a ramp up to FEED, one off annual payments at the beginning of the 2022 financial year and timing differences.

Payments of \$209,000 reported in Item 6.1 of the attached Appendix 5B, relates to salaries, fees and superannuation paid to Directors.

Capital Raising

On 24 June 2021, the Company launched an A\$40 million two-tranche placement at an offer price of \$0.12 per share to raise funds to commence FEED activities at the Company's Nolans Project and for general working capital purposes. The Company received firm commitments from Australian and overseas institutional and sophisticated investors and Tranche 1 settled on 2 July 2021, resulting in 175,617,114 new fully paid ordinary shares being issued and Tranche 2 settled on 13 August 2021 resulting in 157,716,220 being issued.

Concurrently, the Company launched a Share Purchase Plan (**SPP**) to enable eligible existing shareholders on the Company's share register at 7.00pm (EST) on 23 June 2021 the opportunity to apply for new shares at the same offer price as the Placement without paying brokerage or transaction costs. The SPP opened on 5 July 2021 and following a high level of shareholder interest and participation, the SPP closed early on 13 August 2021 heavily over-subscribed. A total of 45,833,235 shares were issued following a scale-back of the issue to align with the ASX listing rules. The Company received strong shareholder support for the transaction, evidenced by all resolutions being passed at its general meeting on 9 August 2021. This has enabled the Company's placement capacity to be re-stated and for the Board to accept an additional \$500,000 in oversubscriptions from the SPP. Link Market Services has been managing the scale back and hold the funds on trust. Refunds were processed on 20 August via direct credit to those shareholders who have provided their bank details and others received this payment through a refund cheque. It is encouraged for those shareholders who have yet to receive this to contact Link Market Services to update their contact details.

Annual General Meeting

The Company's annual general meeting was held at BDO's offices at 38 Station Street, Subiaco, WA 6008 at 10.00am WST on 21 October 2021. The notice of meeting was despatched on 17 September 2021 and shareholders were encouraged to vote using the Proxy Form or online. For those who are unable to attend, a live webcast which was broadcasted on the day. Shareholders that used this method were not able to vote or ask questions in real time during the meeting and were therefore encouraged to submit their questions to arafura@arultd.com and include their shareholding name, address and HIN/SRN to ensure their questions were addressed at the meeting. All resolutions were passed by way of a poll.

COVID-19

The Company continues to diligently monitor the status of COVID-19 and the State/Territory and Australian Government's advice around social distancing, travel restrictions and contact tracing. Staff and contractors are kept informed of any updates to procedures to align with current recommendations. Despite lockdowns affecting its Darwin office and travel to and from site, staff were able to appropriately work from home or quarantine as necessary with little to no business interruptions.

Project development continues to progress, with offtake and funding engagement with international parties continuing via voice and videoconferencing technology as well as engagement of advisors in other relevant jurisdictions to engage with offtake partners and financiers on the Company's behalf. The Company has recommenced domestic travel to continue government engagement and project related work.

Tenements

In accordance with ASX Listing Rule 5.3, please refer to Appendix 1 for a listing of all tenement holdings.

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.

Production Targets and Forecast Financial Information

The information in this report that relates to production targets and forecast financial information is extracted from the Company's ASX announcement dated 11 May 2021 (Nolans Project Update). The production target is based on 12% Proved Reserves, 62% Probable Reserves and 26% inferred resources as reported in the Company's ASX announcement dated 11 May 2021. There is a low level of geological confidence associated with inferred mineral resources and there is no certainty that further exploration work will result in the determination of indicated mineral resources or that the production target itself will be realised. Arafura confirms that all material assumptions underpinning the production target and forecast financial information derived from the production target set out in the Company's ASX announcement dated 11 May 2021 (including any assumptions referred to in the Company's ASX announcement dated 11 May 2021 that were sourced from the DFS as set out in the Company's ASX announcement dated 7 February 2019 (Nolans Project Definitive Feasibility Study) or from the Updated Mining Study as set out in the Company's ASX announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project)), continue to apply and have not materially changed.

APPENDIX 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Name of entity	
Arafura Resources Ltd	
ABN	Quarter ended ("current quarter")
22 080 933 455	30 September 2021

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	-	-
	(b) development	(298)	(298)
	(c) production	-	-
	(d) staff costs	(673)	(673)
	(e) administration and corporate costs	(1,517)	(1,517)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	29	29
1.5	Interest and other costs of finance paid	(6)	(6)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	Net cash from / (used in) operating activities	(2,465)	(2,465)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements and bonds	-	-
	(c) property, plant and equipment	(34)	(34)
	(d) exploration and evaluation	(2,143)	(2,143)
	(e) investments	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (R&D refund – capitalised portion)	-	-
2.6	Net cash from / (used in) investing activities	(2,177)	(2,177)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	45,266	45,266
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	(2,158)	(2,158)
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 (proceeds pending issue of equity securities and repayment of lease liabilities)	(63)	(63)
3.10	Net cash from / (used in) financing activities	43,045	43,045

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4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	10,788	10,788
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,465)	(2,465)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,177)	(2,177)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	43,045	43,045
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	49,191	49,191

5.	Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
	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	25,963	754
5.2	Call deposits	23,228	10,034
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	49,191	10,788

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(209)
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

Salaries, fees and superannuation of Directors of the Company.

7.	Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-
7.5	Unused financing facilities available at quarter end		-
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.			

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(2,465)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(2,142)
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(4,607)
8.4	Cash and cash equivalents at quarter end (item 4.6)	49,191
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	49,191
8.7	Estimated quarters of funding available (item 8.6 divided by item 8.3)	10.7
<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

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

Date: 27/10/2021

Authorised by: The Board

(Name of body or officer authorising release – see note 4)

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 SEPTEMBER 2021

Tenement reference	Project	Holder	Nature of interest	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	100%	
ML 30702				100%	100%	
ML 30703				100%	100%	
ML 30704				100%	100%	
ML 32411				100%	100%	
ML 32412				100%	100%	
ML 32413				100%	100%	
ML 32414				100%	100%	
ML 32415				100%	100%	
ML 32416				100%	100%	
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	Jervis Vanadium, NT	Arafura Resources Ltd	Exploration Licence	60%	60%	Thor Mining Plc 40%, Arafura Resources Limited 60%
ML32722	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	0%	Application lodged.
EMEL 32672 EMEL 32673 EMEL 32674 EMEL 32675 EMEL 32676	Nolans, NT	Arafura Rare Earths Pty Ltd	Extractive Mineral Exploration License	100%	0%	