



AN EMERGING RARE EARTHS PRODUCER
FOR USERS WORLDWIDE

Arafura Resources
Chairman's Address - Ian Kowalick
AGM 2015
19 October 2015

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

My name is Ian Kowalick and I am the chairman of the company. I would like to introduce you to the Arafura Resources board and management:

- Chris Tonkin who is a Non-Executive Director;
- Terry Grose who is a Non-Executive Director;
- Cungen Ding who is a Non-Executive Director, Mr Ding is accompanied by his translator Susan Duan;
- Gavin Lockyer who is Managing Director; and
- Peter Sherrington who is our Company Secretary.

We also have representatives attending the meeting from the Company's lawyers Johnson Winter & Slattery and the Company's auditors BDO.

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

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

It is important that we reflect on the achievements of our Company and the steps we have taken to position ourselves for long-term success in a very challenging international and domestic economic environment.

In the past year, Arafura has maintained its focus on identifying capital and operating cost efficiencies for the Nolans Rare Earths Project whilst further advancing assessment and regulatory approvals to ready the Project for a final project funding decision. Arafura has also made significant savings in its overheads.

I am pleased to say the management team, led by Gavin Lockyer, continued to achieve further economic enhancements at Nolans, with capital and operating expenditure reduced by 16 percent and 7 per cent respectively from those presented in last year's *Nolans Development Report*. Furthermore the team has commenced the important environmental approvals process, targeting an approval date of mid next year, and has escalated the community engagement program in Central Australia.

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I will leave it to Gavin to provide more detail on the operations of the Company and the Nolans Project a little later in his presentation.

The past 12 months has been a volatile period for the whole resources sector due to rapid changes in demand and declining prices. The rare earths industry has also experienced the early stages of a supply side “structural shift” as a consequence of policy changes that occurred in the dominant rare earths producing country, China. In part these policy changes are a consequence of the World Trade Organisation’s ruling on rare earths exports.

China announced and implemented a number of significant policy changes including abolishing rare earths taxes and quotas, and implemented a new rare earths licensing structure. China has also commenced the process of consolidating its many RE producers into six hubs, with each centre controlled by a state owned enterprise. These changes are designed to curb the illegal rare earths activity and to rationalise the numerous RE producers that emerged as a consequence of unsustainably high rare earths price rises in 2011.

In the six months since the last of these policy changes were announced the volatility and uncertainty of the rare earths sector has started to dissipate.

Whilst, the value of some individual rare earths elements have been creeping upwards, this does not mean a significant increase in rare earths prices is around the corner, - it merely indicates early market signals gives cause for optimism.

That leads to a very important point. As the effect from China’s policy changes start to flow through, rare earths companies need to highlight the value of the individual rare earths that they can, or expect to, produce and intensify efforts into extracting the most value for these rather than talk about the value of a basket of rare earths

It is expected that the higher rare earths prices will be sustainable for two of the individual rare earths Arafura is focused on at Nolans – Neodymium, - Nd, and Praseodymium, - Pr. These elements are just under 65% of the value of the rare earths market and are projected to have robust growth of 10 per cent annually over the next decade because a large part of Nd-Pr’s use is as a critical raw material input for permanent magnets. These magnets are primarily used in the automotive, renewable energy and consumer electronics industries.

The cornerstone of the Nolans Project is its large, low-risk, rare earths inventory, which in recent weeks has grown by some 20 per cent. Content-wise Nd-Pr accounts for 26.5% of the rare earths inventory. These are some of Arafura’s strengths in the rare earths space as they set the Company apart from its peers and position it to be a potential world-leading Nd-Pr supplier.

The Nolans Project is located in the Northern Territory, a competitive destination for mining investment, and the Northern Territory Government continues its efforts to make sure it stays that way. Along with security of supply, these factors have become increasingly important, particularly as structural changes take place in China and market participants look to lock in rare earths sources outside of that country.

Whilst the near-term outlook for resource companies remains very volatile, and project financing is currently problematic in the short run, Arafura continues to strengthen the economic and technical foundations that will ensure its long-term success. The ongoing de-risking work for the Nolans Project has already achieved significant reductions in operating and capital expenditures, and validation of the flow sheet for the processing plant by our Chinese rare earth expert partners.

Arafura is well positioned to capitalise on the medium to long-term fundamentals of demand for Nd-Pr, and the strategic Chinese partnership with major shareholder East China Mineral Exploration and Development Bureau, in place since 2009, ensures access to the relevant experts in rare earths processing and market knowledge.

I am fortunate to share the responsibilities of the Board, Management and the broader Arafura team with such focused and passionate individuals and I thank them for their support, dedication and collegiate approach.

Finally I would like to thank our shareholders for your patience and understanding, as we steer through challenging times for the world economy and the resource sector and pursue our objective of becoming a secure supplier of Nd-Pr.