

2016

NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY MEMORANDUM TO SHAREHOLDERS

A PROXY FORM IS ATTACHED

Date of Meeting: 18 November 2016

Time of Meeting: 10 a.m WST

Place of Meeting: ANZAC House

Gallipoli Room

28 St Georges Terrace

Perth, Western Australia



A R A F U R A
R E S O U R C E S L I M I T E D

ABN 22 080 933 455

Please read the Notice and Explanatory Memorandum carefully.

If you are unable to attend the meeting, please complete and return the enclosed proxy form in accordance with the specified instructions.

ARAFURA RESOURCES LIMITED

NOTICE OF MEETING 2016

AGENDA

Ordinary Business

An Explanatory Memorandum containing information in relation to each of the following resolutions accompanies the Notice of Annual General Meeting.

Annual Report

To receive and consider the consolidated financial statements of the Company and its controlled entities for the year ended 30 June 2016 and the reports of the Directors and auditors for the financial year ended 30 June 2016.

Resolution 1 – Remuneration Report

The Company's board is submitting its Remuneration Report to shareholders for consideration and adoption by way of a non-binding resolution.

To consider, and if thought fit, to pass the following non-binding resolution as an ordinary resolution:

"That the Remuneration Report for the year ended 30 June 2016 be adopted."

Resolution 2 – Re-election of Terry Grose as Director

This item of business has been brought to the attention of shareholders for consideration to fill a vacancy arising as a result of Mr Terry Grose retiring by rotation in accordance with rule 7.1(d) of the Company's constitution. It is therefore proposed.

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That Terry Grose, being a Director of the Company who retires by rotation under rule 7.1(d) of the Company's constitution, and being an eligible person, is re-elected as a Director of the Company with effect from the close of this meeting."

Resolution 3 – Election of Zhang Quansheng as Director

This item of business has been brought to the attention of shareholders for consideration to fill a vacancy arising as a result of Mr Cungen Ding retiring by rotation in accordance with rule 7.1(d) of the Company's constitution. Mr Ding has indicated he is not standing for re-election.

As a consequence of Mr Ding's retirement Mr Zhang Quansheng, has been nominated by the Directors for election in accordance with rule 7.1(k)(2) of the Company constitution.

It is therefore proposed to consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That under rule 7.1(i) of the Company's constitution, Zhang Quansheng, being an eligible person, is elected as a Director of the Company with effect from the close of this meeting."

Resolution 4 – Approval of Arafura Resources Limited Employee Option Plan

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That, for the purpose of Exception 9 in Listing Rule 7.2, and for all other purposes, approval is given for the Company to adopt, and to issue securities pursuant to, the Arafura Resources Limited Employee Share Option Plan, a summary of which is set out in the Explanatory Memorandum accompanying the Notice of Meeting."

Resolution 5 – Approval of 10% Placement Capacity

To consider, and if thought fit, to pass the following resolution as a special resolution:

"That, for the purpose of Listing Rule 7.1A and for all other purposes, approval is given for the issue of Equity Securities totalling up to 10% of the issued capital of the Company at the time of issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Memorandum."

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Other Business

To deal with any other business which may be brought forward in accordance with the Company's constitution or the Corporations Act.

Explanatory Memorandum

Shareholders are referred to the Explanatory Memorandum accompanying and forming part of this Notice of Meeting.

Capitalised terms which are not defined in this Notice of Meeting and Explanatory Memorandum are defined in **Annexure A** to the Explanatory Memorandum.

Resolutions are not inter-dependent

The resolutions are not inter-dependent. This means that a resolution may be passed notwithstanding that one or more of the other resolutions are not passed.

Snapshot date

It has been determined that in accordance with regulation 7.11.37 of the Corporations Regulations 2001 (Cth), for the purposes of the Annual General Meeting, Shares will be taken to be held by the persons who are the registered holders at **4.00 pm WST on 16 November 2016**. Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Voting exclusions

The Company will disregard:

1. any votes cast on Resolution 1 in any capacity by, or on behalf of, either of the following persons:

- (a) a member of the Key Management Personnel for the company, details of whose remuneration are included in the remuneration report; or
- (b) a Closely Related Party of such a member.

However a person described above (the "voter") may cast a vote on Resolution 1 as a Proxy if the vote is not cast on behalf of a person described in paragraph (a) or (b) above and either:

- (a) the voter is appointed as a Proxy by writing that specifies the way the Proxy is to vote on the resolution; or
- (b) the voter is the chair of the meeting and the appointment of the chair as Proxy:

- (1) does not specify the way the Proxy is to vote on the resolution; and
- (2) expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the company.

2. any votes cast on Resolution 2 by Mr Terry Grose and any of his Associates;

3. any votes cast on Resolution 3 by Mr Zhang Quansheng and any of his Associates;

4. any votes cast on Resolution 4 by a Director (except a Director who is ineligible to participate in the Company's Option Plan) and any of their associates. However, the Company need not disregard a vote on Resolution 4 if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

5. any votes cast on Resolution 5 by any person who may participate in the issue of Equity Securities under this Resolution and a person who might obtain a benefit, except a benefit solely in the capacity as a holder of ordinary securities, if the Resolution is passed, and any associates of those persons. However, the Company will not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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Voting exclusions in relation to proxy voting by Key Management Personnel or Closely Related Parties where they hold an undirected proxy

Furthermore, under Section 250BD(1) of the Corporations Act, a person appointed as proxy must not vote, on the basis of that appointment, on a resolution connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, being Resolution 1 and 4 if:

- (a) the person is either a member of the Key Management Personnel for the Company, or a Closely Related Party of the member of the Key Management Personnel for the Company; and
- (b) the appointment does not specify the way the proxy is to vote on the resolution.

Under Section 250BD(2) of the Corporations Act the Company need not disregard a vote because of Section 250BD(1) of the Corporations Act if:

- (a) the person is the chair of the meeting acting as proxy; and
- (b) the appointment expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company.

Chairman and Chairman's voting intentions for undirected proxies

It is proposed that the Chairman of the Meeting be the Chairman of the Board of Directors, Mr. Ian Kowalick. It is the Chairman's intention to vote undirected proxies which he holds as proxy in favour of all resolutions where possible.

How to vote

You may vote by attending the meeting in person, by proxy or by authorised representative. A corporate shareholder may also appoint a corporate representative.

Voting in person

To vote in person, attend the meeting on the date and at the place set out above. The meeting will commence at **10.00am WST on 18 November 2016**.

Voting by proxy

A shareholder entitled to attend and vote has a right to appoint a proxy to attend and vote instead of the shareholder. A proxy need not be a shareholder and can be either an individual or a body corporate. If a shareholder appoints a body corporate as a proxy, that body corporate will need to ensure that it:

- appoints an individual as its corporate representative to exercise its powers at the meeting, in accordance with section 250D of the Corporations Act; and
- provides satisfactory evidence of the appointment of its corporate representative.

If such evidence is not received, then the body corporate (through its representative) will not be permitted to act as a proxy.

A shareholder that is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the shareholder's votes.

Voting online

Shareholders may vote online at www.linkmarketservices.com.au; To vote online, select "Investor Login" and enter Arafura Resources Limited or ASX code 'ARU' in the 'Issuer Name' field, your Securityholder Reference Number ('SRN') or Holder Identification Number ('HIN') (which is shown on the front of your Proxy Form), postcode and security code which is shown on the screen and click 'Login'. Select the "Voting" tab and then follow the prompts. You will be taken to have signed and returned your Proxy Form if you vote online in accordance with the instructions given on the website. If you choose to vote online, you must vote by the Proxy Deadline.

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Lodgement of proxy forms

To be effective, completed proxy forms must be returned by:

- mail to Arafura Resources Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235 Australia
- facsimile +61 2 9287 0309;
- By hand to: Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 so that they are received no later than 10.00am WST on 16 November 2016.

Proxy forms or proxy voting instruction received after this time will be invalid.

Where the proxy form is executed under power of attorney, the power of attorney must be lodged in like manner as the proxy.

Voting by corporate representative

To appoint a corporate representative, contact the Company's share registry and obtain an Appointment of Corporate Representative form.

Questions and comments by shareholders at the meeting

In accordance with the Corporations Act, a reasonable opportunity will be given to shareholders to ask questions about or make comments on the management of the Company at the meeting.

Similarly, a reasonable opportunity will be given to shareholders to ask the Company's external auditor, BDO Audit (WA) Pty Ltd, questions relevant to:

- the conduct of the audit;
- the preparation and content of the auditor's report;
- the accounting policies adopted by the Company in relation to the preparation of its financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

Shareholders may also submit written questions to BDO Audit (WA) Pty Ltd if the questions are relevant to the content of the BDO audit report or the conduct of its audit of the Company's financial report for the period ended 30 June 2016. Relevant written questions for BDO Audit (WA) Pty Ltd must be received by mail at the PO Box of the Company (PO Box 5773, St Georges Terrace, Perth, WA 6831) or via email at arafura@arultd.com, no later than the fifth business day before the date of the Meeting.

A list of the relevant written questions together with responses will be made available to shareholders attending the meeting. They will also be placed on the Company's website.

The following details should be included with written questions:

- the **Shareholder's Name**; and
- either the Shareholder's **Security Reference Number (SRN)** or **Holder Identification Number (HIN)**.

By order of the Board



Dated this 14th day of October 2016.

Peter Sherrington

Company Secretary

ARAFURA RESOURCES LIMITED

EXPLANATORY MEMORANDUM

INTRODUCTION

This Explanatory Memorandum has been prepared to assist shareholders to understand the business to be put to shareholders at the forthcoming Annual General Meeting.

This Explanatory Memorandum should be read in conjunction with the accompanying Notice of Meeting. Please refer to **Annexure A** for definitions of capitalised terms in this Notice of Meeting and Explanatory Memorandum.

Business

The Annual Report 2016 (including the financial statements, Directors' report and Auditor's report for the financial year ended 30 June 2016) is available for review by members at www.arultd.com and will be tabled at the Meeting. There is no formal resolution to accept the financial statements and reports, but provision will be made to members to question the Directors and the Auditor should they wish to do so.

Financial report

The Corporations Act requires the following reports in respect of the year ended 30 June 2016 to be laid before the Annual General Meeting:

- (a) the reports of the Directors and auditors; and
- (b) the annual financial report, including the Company's financial statements.

Neither the Corporations Act nor the Company's constitution requires a vote of shareholders on the reports or statements.

The financial report for consideration at the meeting will be the full financial report. Each shareholder is sent the full financial report as part of the Annual Report.

Members will have a reasonable opportunity at the meeting to ask questions and make comments on these Reports and on the business and operations of the Company. Members will also be given a reasonable opportunity to ask the auditor questions about the Auditor's Report and the conduct of the audit of the Financial Report.

1 Resolution 1 – Remuneration report

The Remuneration Report of the Company for the financial year ending 30 June 2016 is set out in the Directors' Report on pages 26 to 41 of the Company's Annual Report 2016 which was released to the market on 21 September 2016.

The Remuneration Report sets out the Company's remuneration arrangements for the Executive and Non-Executive Directors and Executive employees of the Company.

Members attending the AGM will be given a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.

The Corporations Act requires that a resolution be put to the vote that the Remuneration Report be adopted. The Corporations Act expressly provides that the vote is advisory only and the resolution itself does not bind the Directors of the Company. However, whilst the resolution itself does not bind the Directors of the Company, if at least 25% of the votes cast on Resolution 1 are against the resolution in two consecutive years, starting at this 2016 AGM, shareholders will be required to vote at the second of those AGM's on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's Directors (other than the Managing Director / Chief Executive Officer) must stand for re-election. The Company encourages all shareholders to cast their votes on Resolution 1 (Adoption of Remuneration Report).

The Chairman intends to exercise all undirected proxies in favour of Resolution 1. If the Chairman of the meeting is appointed as your proxy and you have not directed the Chairman how to vote on Resolution 1 by marking "X" in the box in the Proxy Form, then the terms of the Proxy Form state that you provide an express authorisation for the Chairman of the meeting to vote the proxy in accordance with the Chairman's intention.

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2 Resolution 2 - Re-election of Terry Grose as Director

Terry Grose retires by rotation in accordance with rule 7.1(d) of the Company's constitution and the provisions of the Corporations Act and, being eligible, offers himself for re-election.

The experience, qualifications and other information about Mr. Grose appears below:

Mr Grose was first appointed as Non-Executive Director on 21 January 2013. He is currently Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.

Mr Grose has a strong commercial background gained over 30 years as a senior business executive, consultant and Director, in Australia and internationally.

Mr Grose spent a number of years in merchant banking before joining Wesfarmers Limited in 1985 as its first Business Development Manager. During the ensuing decade he held various senior management positions in Wesfarmers' corporate office, its fertiliser & chemicals division and its coal mining division. For several years he was General Manager of International Business Development.

In 1996 Mr Grose moved to Hong Kong as CFO and Executive Director of an innovative computer software company with operations in Hong Kong and Japan. Three years later he played a key role in negotiating the sale of the business and then established his own business, Grose International, a commercial and financial consultancy with clients throughout Asia.

Since returning to Australia in 2008 he has worked as a consultant specialising in strategic planning and financial management and as a Director of a number of companies.

Mr Grose is a Fellow of the Australian Institute of Company Directors and is currently a Director of Yirra Yaakin Aboriginal Corporation, Martu People Limited and Central Desert Native Title Services Limited.

The Directors (excluding Mr Grose) recommend that Shareholders vote in favour of Resolution 2.

3 Resolution 3 – Election of Zhang Quansheng as Director

Zhang Quansheng currently holds the position of General Manager of Hong Kong East China Non-Ferrous Mineral Resources Co. Ltd (HKECE), being a subsidiary of the ultimate holding company of Arafura's largest shareholder East China Exploration and Development Bureau. Due to the vacancy, under rule 7.1(i) of the Company's constitution, Mr Quansheng has been nominated by the Directors for election.

The experience, qualifications and other information about Mr. Quansheng appears below:

Mr Quansheng is based in Nanjing in the Peoples Republic of China and as mentioned above is the General Manager of HKECE. Mr Quansheng has over 30 years of mineral prospecting and exploration experience, and expertise in mineral resource surveys and geophysics.

Mr Quansheng holds a Doctoral degree in Engineering and a Masters degree in Geophysical Prospecting.

The Directors recommend that the Company's shareholders vote in favour of Resolution 3.

4 Resolution 4 – Approval of Arafura Resources Limited Employee Option Plan

The Company's Option Plan was approved by shareholders for the purposes of Exception 9(b) of Listing Rule 7.2 on 22 November 2013. Under Listing Rule 7.2 an approval for Exception 9(b) expires every 3 years, therefore the previous approval will expire on 22 November 2016.

Accordingly, the Company seeks shareholder approval for the issue of options under the Plan under Exception 9(b) of Listing Rule 7.2 again, in order to allow the Company to continue to issue Options under the Plan without limiting the ability of the Company to issue securities under Listing Rule 7.1.

Listing Rule 7.1 provides that a company must not, without prior approval of shareholders, issue securities if the securities will in themselves or when aggregated with the securities issued by a company during the previous 12 months, exceed 15% of the number of securities on issue at the commencement of that 12 month period, unless such an issue of securities falls within one of the exceptions set out in Listing Rule 7.2.

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4 Resolution 4 – Approval of Arafura Resources Limited Employee Option Plan (Continued)

Exception 9(b) of Listing Rule 7.2 provides that equity securities may be issued under an employee incentive scheme that has been approved by shareholders for that purpose within the last three years.

The purpose of the Plan is to give employees of the Company, other than an employee who is also a Director, an opportunity, in the form of options, to subscribe for Shares in the Company. The Directors consider the Plan enables the Company to retain and attract skilled and experienced employees and provide them with the motivation to make the Company more successful.

The Company has issued 8,190,000 Options under the Plan since 22 November 2013, being the date the issue of options under the Plan was last approved by shareholders:

A summary of the term of the Plan is set out in **Annexure B**.

5 Resolution 5 – Approval of 10% Placement Capacity

ASX Listing Rule 7.1A provides that an Eligible Entity may seek Shareholder approval at its Annual General Meeting to allow it to issue quoted Equity Securities up to 10% of its issued capital (10% Placement Capacity). The 10% Placement Capacity is in addition to the Company's 15% annual placement capacity granted under Listing Rule 7.1.

An Eligible Entity is one that, as at the date of the relevant annual general meeting:

- (a) is not included in the S&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

The Company is an Eligible Entity as it is not included in the S&P/ASX 300 Index and has a market capitalisation of \$31,771,486 based on the number of Shares on issue at 30 September 2016 (441,270,644) and the last trading price of Shares on ASX on that date (\$0.072). The Company is expected to be an Eligible Entity at the time of the Meeting.

The resolution seeks Shareholder approval to enable the Company to issue Equity Securities under the 10% Placement Capacity throughout the 12 months after the Annual General Meeting.

If Shareholders approve Resolution 5, the number of Equity Securities which the Eligible Entity may issue under the 10% Placement Capacity will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 (as set out below).

The effect of Resolution 5 will be to allow the Company to issue Equity Securities up to 10% of the Company's fully paid ordinary securities on issue under the 10% Placement Capacity during the period up to 12 months after the Meeting, without subsequent Shareholder approval and without using the Company's 15% annual placement capacity granted under Listing Rule 7.1.

Resolution 5 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative) must be in favour of Resolution 5 for it to be passed.

The Company is seeking approval to issue securities under the 10% Placement Capacity as it provides additional flexibility and capacity to the fund raising alternatives that would otherwise normally be available to the Company.

ASX Listing Rule 7.1A

ASX Listing Rule 7.1A enables an Eligible Entity to seek shareholder approval at its annual general meeting to issue Equity Securities in addition to those under the Eligible Entity's 15% annual placement capacity.

At the date of this Notice, the Company has on issue 441,270,644 Shares and has a capacity to issue:

- i) 66,190,597 Equity Securities under Listing Rule 7.1; and
- ii) 44,127,064 Equity Securities under Listing Rule 7.1A.

Any Equity Securities issued must be in the same class as an existing class of quoted Equity Securities. The Company currently has 1 class of quoted Equity Securities on issue, being the Shares (ASX Code: ARU) and 2 classes of unquoted Options on issue.

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The exact number of quoted Equity Securities that the Company may issue under an approval under Listing Rule 7.1A will be calculated according to the following formula:

$$(A \times D) - E$$

Where:

'A' is the number of Shares on issue 12 months before the date of issue or agreement to issue:

- (i) plus the number of Shares issued in the previous 12 months under an exception in Listing Rule 7.2;
- (ii) plus the number of partly paid shares that became fully paid in the previous 12 months;
- (iii) plus the number of Shares issued in the previous 12 months with approval of holders of Shares under Listing Rules 7.1 and 7.4. This does not include an issue of fully paid ordinary shares under the entity's 15% placement capacity without shareholder approval; and
- (iv) less the number of Shares cancelled in the previous 12 months.

'D' is 10%.

'E' is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of Ordinary Securities under Listing Rule 7.1 or 7.4.

Regulatory Requirements

Pursuant to and in accordance with Listing Rule 7.3A, the information below is provided in relation to Resolution 5:

(a) Minimum Price

Equity Securities issued under the 10% Placement Facility must be in the same class as an existing class of quoted Equity Securities of the Company. As at the date of this Notice, the Company has on issue one class of Equity Securities quoted on ASX, being the Shares.

The issue price of equity Securities issued under the 10% Placement Facility must not be lower than 75% of the volume-weighted average market price for securities in the same class calculated over the 15 trading days on which trades in that class were concluded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 ASX trading days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

(b) Date of Issue

The Equity Securities may be issued under the 10% Placement Capacity commencing on the date of the Meeting and expiring on the first to occur of the following:

- (i) 12 months after the date of this Meeting; and
- (ii) the date of approval by Shareholders of any transaction under ASX Listing Rules 11.1.2 (a significant change to the nature or scale of the Company's activities) or 11.2 (disposal of the Company's main undertaking) (after which date, an approval under Listing Rule 7.1A ceases to be valid);

(c) Risk of Voting Dilution

As at the date of this Notice, the Company has 441,270,644 Shares on issue and variable "A" for the purposes of Listing rule 7.1, 7.1A and the examples set out in the table below is 441,270,644 Shares.

Any issue of Equity Securities under the 10% Placement Capacity will dilute the interests of Shareholders who do not receive any Shares under the issue.

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There is a risk that:

- (i) The market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and
- (ii) The Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date or the Equity Securities are issued as part of consideration for the acquisition of a new asset, which may have an effect on the amount of funds raised by the issue of the Equity Securities.

If Resolution 5 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below.

The table below shows the dilution of existing Shareholders calculated in accordance with the formula outlined in ASX Listing Rule 7.1A(2) incorporating the assumptions listed below the table.

The table also shows the voting dilution impact where the number of Shares on issue (Variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 10% Placement Capacity.

Number of Shares on Issue (Variable A) in ASX Listing Rule 7.1A(2)	Dilution			
	Issue Price (Per Share)	50% Decrease in Issue Price (\$0.036)	Issue Price (\$0.072)	50% Increase in Issue Price (\$0.108)
441,270,644 (Current Variable A)	Shares Issued - 10% Voting Dilution	44,127,064 Shares	44,127,064 Shares	44,127,064 Shares
	Funds Raised	\$1,588,574	\$3,177,149	\$4,765,723
661,905,966 (50% Increase in Variable A)	Shares Issued - 10% Voting Dilution	66,190,597 Shares	66,190,597 Shares	66,190,597 Shares
	Funds Raised	\$2,382,861	\$4,765,723	\$7,148,584
882,541,288 (100% Increase in Variable A)	Shares Issued - 10% Voting Dilution	88,254,128 Shares	88,254,128 Shares	88,254,128 Shares
	Funds Raised	\$3,177,149	\$6,354,297	\$9,531,446

The number of Shares on issue (Variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rate rights issue or scrip issued under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

The table above uses the following assumptions:

1. The number of Shares on issue, being current Variable A, comprises 441,270,644 Shares on issue as at 30 September 2016 with no other Shares being issued under any approval in this Notice or any previous Shareholder approval.
2. The issue price set out above is the last trading price of the Shares on ASX on 30 September 2016.
3. The Company issues the maximum possible number of Equity Securities under the 10% Placement Capacity.
4. The Company has not issued any Equity Securities in the 12 months prior to the Meeting that were not issued under an exception in ASX Listing Rule 7.2 or with approval under ASX Listing Rule 7.1.
5. The issue of Equity Securities under the 10% Placement Capacity consists only of Shares.

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6. No Options are exercised into Shares before the date of issue of any Shares pursuant to ASX Listing Rule 7.1A.
7. The calculations above do not show the dilution that any one particular Shareholder will be subject to by reason of placement under the 10% Placement Capacity. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.
8. This table does not set out any dilution pursuant to approvals under ASX Listing Rule 7.1.
9. The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.

Shareholders should note that there is a risk that:

- (i) the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and
- (ii) the shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

Purpose of Issue under 10% Placement Capacity

The Company may issue Equity Securities under the 10% Placement Capacity for the following purposes:

- (a) non-cash consideration for the acquisition of the new assets and investments. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3; or
- (b) cash consideration. In such circumstances, the Company intends to use the funds raised towards the completion of pilot plant testing and analysis, to further progress Definitive Feasibility Studies and Environmental Studies on the Nolans Project, and general working capital.

The Company will provide further information at the time of issue of any Equity Securities under the 10% Placement Facility in compliance with its disclosure obligations under Listing Rules 7.1A.4 and 3.10.5A.

Allocation under the 10% Placement Capacity

The recipients of the Equity Securities to be issued under the 10% Placement Capacity have not yet been determined. However, the recipients of Equity Securities could consist of current Shareholders or new investors (or both), none of whom will be related parties of the Company.

The Company will determine the recipients at the time of the issue under the 10% Placement Capacity, having regard to the following factors:

- (a) the purpose of the issue;
- (b) alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue or other offer where existing Shareholders may participate;
- (c) the effect of the issue of the Equity Securities on the control of the Company;
- (d) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;
- (e) prevailing market conditions; and
- (f) advice from corporate, financial and broking advisers (if applicable).

Previous Approval under ASX Listing Rule 7.1A

No previous approval for an additional 10% Placement Capacity has been sought. This is the first time the Company is seeking such approval.

Voting Exclusion

A voting exclusion statement is included in this Notice. As at the date of this Notice, the Company has not invited any existing Shareholder to participate in an issue of Equity Securities under ASX Listing Rule 7.1A. Therefore, no existing Shareholders will be excluded from voting on Resolution 5.

ARAFURA RESOURCES LIMITED

ANNEXURE A – DEFINITIONS

ANNEXURE A – DEFINITIONS

The meanings of capitalised terms used in this Notice of Meeting and Explanatory Memorandum are set out below:

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to the term “associate” in Chapter 19 of the Listing Rules.

ASX means the ASX Limited or the Australian Securities Exchange operated by ASX Limited, as the context requires.

Board means the board of Directors.

Closely Related Parties (“CRP”) of a KMP means; spouse or child of the KMP, a child of the KMP’s spouse, a dependent of the KMP or KMP’s spouse, anyone else who is a member of the KMP’s family and may be expected to influence the KMP or be influenced by the KMP, in the KMP’s dealing with the Company, a company the KMP controls or a person prescribed by the Corporations Regulations.

Company or **Arafura** means Arafura Resources Limited ABN 22 080 933 455.

Corporations Act means the Corporations Act 2001 (Cth).

Director means a Director of the Company.

ECE means Eastern China Geological & Mining Bureau for Non-Ferrous Metals.

Eligible Entity has the meaning given in the Explanatory Memorandum for Resolution 5.

Equity Security has the meaning given in the Listing Rules.

Explanatory Memorandum means the explanatory memorandum to the Notice.

Key Management Personnel (“KMP”) has the meaning given under the Accounting Standards, namely ‘key management personnel’ are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly and includes any Director (whether executive or otherwise) of the Company.

Listing Rules means the Listing Rules of ASX.

Meeting means the Company’s annual general meeting to be held on 18 November 2016 at 10 a.m. WST.

Notice or Notice of Annual General Meeting means this Notice of Annual General Meeting.

Proxy Form means the proxy form attached to the Notice.

Remuneration Report means the report commencing on page 26 of the Company’s 2016 Annual Report which was released to the market on 21 September 2016.

Resolution means a resolution contained in the Notice.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a shareholder of the Company.

WST means Western Australian Standard Time.

ANNEXURE B – OPTION PLAN SUMMARY

SUMMARY OF RULES OF THE OPTION PLAN

Participants in the Plan

The Board may, at its absolute discretion, invite persons (“Participants”) who are full-time or part-time employees (including Executive Directors) and Non-Executive Directors of the Company or any subsidiary to apply for a specified number of options.

Upon receipt of such an invite, a Participant may apply for all or part of the number of options specified in the invitation.

Unless the Board determines otherwise, no payment is required for a grant of options.

Grant of Options

Upon receiving a signed application for options, the Board may in its sole discretion and only where the Participant remains an employee or Non-Executive Director of the Company, grant the options to the Participant on the terms set out in the Plan and upon such additional conditions as the Board determines.

Options can only be transferred with the Board’s consent or by force of law.

The Board must ensure that every issue of options complies with any applicable legislation and the Listing Rules, and that all approvals as are required are obtained prior to the issue.

Exercise of options

The options may be exercised in the form or manner determined by the Board, and except as provided otherwise in the Plan rules, are only capable of being exercised where the exercise conditions (if any) have been met.

Circumstances where options are capable of being exercised notwithstanding the fact that exercise conditions may not have been met include the death of the option holder, if the option holder ceases to be an employee or non-executive director of the Company, or where there is a takeover, compromise or arrangement affecting the Company.

If, in the opinion of the Board, an option holder acts fraudulently or dishonestly or in breach of their obligations to the Company, then the Board may deem any unexercised options of the option holder to have lapsed.

An unexercised option will lapse upon the first to occur of:

- any expiry date specified by the Board;
- the option lapsing on the purported transfer of the option other than in accordance with the Plan rules;
- the option lapsing in accordance with the rules relating to the death of the option holder, their cessation as an employee or non-executive director of the Company or for fraudulent or dishonest actions;
- the option lapsing in accordance with the Plan rules relating to a takeover, scheme or winding up affecting the Company ;
- the failure to meet the option’s exercise condition in the prescribed period; or
- the 10 year anniversary of the date the option was granted.

Issue of shares

The Company will issue or procure the transfer of the number of shares in respect of which an option has been exercised within 15 days after that exercise. All Shares allotted on exercise of options will rank equally with other ordinary shares of the Company. There are no transfer restrictions on Shares allotted under the Plan, unless the sale by the holder of the Shares issued on exercise of the options would require a disclosure document.

Quotation of options on ASX will not be sought. However, the Company will apply to the ASX for official quotation of Shares issued on the exercise of options.

ANNEXURE B – OPTION PLAN SUMMARY

Adjustment for reorganisation

In the event of a reorganisation including consolidation, subdivision, reduction of return of the capital of the company, the number of options to which each option holder is entitled or the exercise price of the options or both as appropriate, will be adjusted in the manner provided for in the Listing Rules.

Takeover, scheme of arrangement and winding up

If pursuant to a takeover bid:

- an offeror and its associates who previously had voting power of less than 50% in the Company obtain voting power of more than 50%; or
- an offeror and its associates who previously had voting power of more than 50% increase their voting power,

the Board must notify each option holder of the success of the takeover bid, and the notice must inform the option holder that their options must be exercised within 30 days of the date of the notice otherwise they will lapse.

Likewise, the Board may, in its absolute discretion, permit the exercise of the options upon certain occurrences including a compromise, scheme of arrangement, selective capital reduction or winding up involving the Company.

APPENDIX C – PROXY FORM INSTRUCTIONS

INSTRUCTIONS FOR APPOINTMENT OF PROXY

1. A shareholder entitled to attend and vote is entitled to appoint no more than two proxies to attend and vote at this Annual General Meeting as the shareholder's proxy. A proxy need not be a shareholder of the Company.
2. Where more than one proxy is appointed, each proxy may be appointed to represent a specific proportion of the shareholder's voting rights. If such appointment is not made then each proxy may exercise half of the shareholder's voting rights. Fractions shall be disregarded.
3. The proxy form must be signed personally by the shareholder or his attorney, duly authorised in writing. If a proxy is given by a corporation, the proxy must be executed under either the common seal of the corporation or under the hand of an officer of the Company or its duly authorised attorney. In the case of joint shareholders, this proxy must be signed by at least one of the joint shareholders, personally or by a duly authorised attorney.
4. If a proxy is executed by an attorney of a shareholder, then the original of the relevant power of attorney or a certified copy of the relevant power of attorney, if it has not already been noted by the Company, must accompany the proxy form.
5. To be effective, forms to appoint proxies must be received by the Company no later than 48 hours before the time appointed for the holding of this Meeting, that is by 10 a.m WST on 16 November 2016 by post, facsimile or hand delivery to the respective addresses stipulated in the proxy form.
6. If a person present at a general meeting represents personally or by proxy, attorney or representative more than one member, on a show of hands the person is entitled to one vote only even though he or she represents more than one member.
7. A joint holder may vote at a meeting either personally or by proxy, attorney or representative as if that person was the sole holder. If more than one joint holder tenders a vote in respect of the relevant shares, the vote of the holder named first in the register who tenders a vote, whether in person or by proxy, attorney or representative, must be accepted to the exclusion of the votes of the other joint holders.
8. Unless the proxy form provides differently, the proxy has the same rights to speak, demand a poll, join in demanding a poll or act generally at the meeting as the member would have had if the member was present.
9. Unless otherwise provided in the proxy form, an appointment will be taken to confer authority:
 - (a) even though the instrument may refer to specific resolutions and may direct the proxy, attorney or representative how to vote on those resolutions, to do any of the following acts:
 1. to vote on any amendment moved to the proposed resolutions and on any motion that the proposed resolutions not be put or any similar motion;
 2. to vote on any procedural motion, including any motion to elect the chairperson, to vacate the chair or to adjourn the meeting; and
 3. to act generally at the meeting; and
 - (b) even though the instrument may refer to a specific meeting to be held at a specified time or venue where the meeting is rescheduled or adjourned to another time or changed to another venue, to attend and vote at the re-scheduled or adjourned meeting or at the new venue.


LODGE YOUR VOTE

 **ONLINE**
www.linkmarketservices.com.au

 **BY MAIL**
Arafura Resources Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

 **BY FAX**
+61 2 9287 0309

 **BY HAND**
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

 **ALL ENQUIRIES TO**
Telephone: +61 1300 554 474

PROXY FORM

I/We being a member(s) of Arafura Resources Limited and entitled to attend and vote hereby appoint:

APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **10:00am (WST) on Friday, 18 November 2016 at ANZAC House, Gallipoli Room, 28 St Georges Terrace, Perth Western Australia (the Meeting)** and at any postponement or adjournment of the Meeting.

Important for Resolutions 1 and 4: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolutions 1 and 4, even though the Resolutions are connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).


The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an

Resolutions

Resolutions	For	Against	Abstain*	For	Against	Abstain*
1 Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5 Approval of 10% Placement Capacity	<input type="checkbox"/>	<input type="checkbox"/>
2 Re-election of Terry Grose as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
3 Election of Zhang Quansheng as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
4 Approval of Arafura Resources Limited Employee Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

 * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).



HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolutions are connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (WST) on Wednesday, 16 November 2016**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



BY MAIL

Arafura Resources Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**



ARAFURA
RESOURCES LIMITED

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

LEVEL 3, 263 ADELAIDE TERRACE
PERTH WESTERN AUSTRALIA
AUSTRALIA 6000

www.arultd.com