

CHAIRMAN'S ADDRESS

Arafura Resources Limited

Annual General Meeting

22 November 2013

Good morning ladies and Gentlemen. On behalf of the Board of Directors, I would like to welcome you all to the 2013 Arafura Resources Annual General Meeting. A special mention also to those shareholders who have travelled a long way to be here for this occasion.

I would like to start by introducing you to our new CEO, Gavin Lockyer, who accepted the leadership role in July this year, after Mr Chris Tonkin resigned due to personal circumstances. Gavin is a familiar face to many of you, as he has been our Chief Financial Officer and Company Secretary for the past seven years. With a strong background in finance and the resources sector, and an excellent understanding of the rare earths industry, Gavin is very well suited to the head operational role and lead the Company forward.

Gavin played an integral role in developing the strong relationship with our major shareholder – East China Mineral Exploration and Development Bureau (ECE) and I am confident in his ability to lead the Company through the next phase of development and growth. Please join me in welcoming Gavin to his first Arafura AGM as the CEO.

Today, I am pleased to report to you on the progress made by the Company over the past year.

The 2013 Financial Year has been a period of intense activity for Arafura, with significant progress being made towards development and commercialisation of our flagship Nolans Project in the Northern Territory.

Primary focus on streamlining the project and company

The primary focus for 2013 has been to improve the economics of the Nolans Project, by reducing operational expenditure and reducing the capital cost of the project. The persistence of tough global economic conditions, the pressure on international equity markets and a softening of commodity prices have been the major impetus behind Arafura's actions. These economic conditions are taking a toll on the resources sector, but especially small resource companies like Arafura. The challenge is to remain focused on the project economics and the work required to secure project funding.

I am pleased to report considerable progress in improving the economics and therefore the fundability of our project. The initiatives have generated significant cost savings and process efficiencies for the Company and the Nolans Project. With material savings achieved to date, a solid cash position of A\$29 million in the bank (as at 30 September 2013), and no debt, we enter the 2014 year in a strong financial position.

Operational measures to improve the economic appeal of our Project include:

- Relocating the intermediate chemical processing from Whyalla in South Australia to the Nolans Bore project site in the Northern Territory. By doing this, we will save approximately A\$160 million.
- Another reconfiguration is the relocation of the downstream rare earths separation plant to an offshore location, alongside an established chemical precinct. While the exact location is yet to be determined, we know that we can save around A\$250 million on the Base Case capital requirement.

- We have commenced a Project Optimisation Program with Chinese rare earths experts to identify upstream process enhancements and design efficiencies that can further reduce our operating costs. This is progressing well and we expect to have clarity about the extent of these savings upon completion of the program in mid-2014.

We have also been concentrating our efforts on reducing our corporate running costs. Key measures we have implemented to date include:

- Restructuring and review of remuneration packages;
- Targeted redundancies;
- Refinement of some roles within the Company; and
- Introducing an employee incentive scheme, which we have linked to share price growth and achievement of key project milestones.

Combined, these actions have already delivered us annual savings of approximately A\$350,000.

Importantly, our efforts will not stop there. Cost efficiency across the project and the company will remain a high priority. We are targeting savings of between A\$500 million and A\$1 billion, and believe this is achievable without compromising the quality of our project, or its annual production targets.

Strong focus also on developing partnerships – ECE and MOU with Shenghe Resources

Another major focus this past year has been developing and strengthening relationships with key players in the rare earths industry. Our existing strategic partnership with cornerstone shareholder East China Mineral Exploration and Development Bureau (ECE) has played a very important role in our development to date. It has afforded us access to market-leading technology and process optimisation techniques that are enabling us to materially streamline our technical processes, reduce our project costs and de-risk project economics. The partnership with ECE has enabled the recent signing of a Memorandum of Understanding (MOU) agreement with Shenghe Resources Holding Co. – a Shanghai Stock Exchange-listed company that is a recognised leader in REO production and technology development in China.

The partnership with Shenghe Resources is mutually beneficial, but for Arafura, it is highly valuable in terms of project optimisation and Feasibility review, cost reductions, project financing moving forward and supply chain exposure. Given that project funding will continue to be challenging for many resources companies until global equity markets improve, this MOU with Shenghe, coupled with our strategic partnership with ECE, places us in a strong position compared to our peers.

At this stage, the MOU is non-binding, but both parties are in the process of working towards a more detailed Framework Agreement as the basis of a long-term strategic partnership. We will inform you when this process is completed.

As we move towards project development and commercialisation, developing supply chain relationships with potential off-takers becomes more and more important. For this reason, we place high value on our existing partnership with ThyssenKrupp in Germany and our ongoing engagement with them remains a priority. Arafura is increasingly being viewed around the world as a strong candidate to be the next major rare earths producer after Lynas and Molycorp, and with a strong composition of 'critical rare earths' in the Nolans Bore deposit, we are generating encouraging interest from other potential off-taker customers. We will keep you informed of any developments in this regard.

Rare earths market and outlook

We are all aware that the GFC in 2008/2009 has led to a prolonged, unprecedented period of widespread economic instability. The impact of this on the Australian resources sector and the wider economy has to some extent, been masked by significant mining industry growth, especially for the commodities experiencing Chinese demand. The GFC however, has now had a delayed impact on the Australian economy and this has resulted in the recent softening of commodity prices – of which rare earths have been no exception.

However, the medium and long-term outlook for rare earths remains promising because the main drivers of demand - the clean energy revolution and technology sectors, continue to grow and demand for their products remain strong. Rare earth oxides are the key components required in the manufacture of magnets and phosphors and the forecast is that demand for rare earths will increase by 6-7% per annum until 2022.

Whilst global demand for rare earths is strong, global supplies are constrained for two reasons:

Firstly, China, where most rare earths producers are located, is imposing heavy restrictions on exports and secondly, very few rare earth companies outside China have done sufficient development work to join the supply chain in the next few years. The imbalance between supply and demand should create a global shortfall, and drive rare earth prices back up in the medium to long-term.

Arafura is well positioned to capitalise on this positive market outlook for rare earths because of the hard work we have done in defining the resource and developing our processing technology.

Our flagship Nolans Project is world-scale, advanced stage and contains a favourable product mix, which includes Neodymium, Europium, Terbium, Dysprosium, Yttrium – the five ‘Critical Rare Earths’ that have the highest deprival value to end users. In particular, the Nolans deposit has a strong representation of Neodymium, which is essential in the manufacturing of magnets. Once in production, we expect two-thirds of our revenue to come from Neodymium.

The outlook for rare earths remains positive and the Company is in a good position to become a major global supplier in a few years. With Molycorp and Lynas now in production, our goal is to be the next in line to commence commercialisation. At this stage, commencement of operations remains on track for 2016.

Thank you

Before I hand over to Gavin to talk through the year from an operational perspective, I would like to thank the current Directors for their efforts and dedication to our company throughout the Financial Year 2013. I would like to especially acknowledge and thank Chris Tonkin for his contribution and commitment to the Company during a period of economic uncertainty and challenging global market conditions. His direction and leadership through an important phase of the Nolans project has provided us with a clear path to project execution and commercialisation. We are pleased that Chris will remain on the Board as a Non-Executive Director.

We have a very cohesive team, driven towards the same goal, and this makes for a successful team.

I would also like to thank all of our shareholders for their continued support and confidence in Arafura. I look forward to sharing the journey with you all in the coming year.

