



AN EMERGING RARE EARTHS PRODUCER
FOR USERS WORLDWIDE

12 September 2013

Dear Shareholder,

It is with great pleasure that I write to you as the new Managing Director of Arafura Resources Limited. Having been with the Company since 2006, as Chief Financial Officer and Company Secretary, my commitment to seeing Arafura become one of the world's leading rare earth producers is unwavering. I now take on this position with the focus and determination to drive our flagship Nolans Bore Rare Earths Project through to commercialisation, and to realise the full value of this world-class asset.

Thank you to our outgoing CEO and MD, Chris Tonkin

I would firstly like to thank my predecessor, Mr Chris Tonkin, for the outstanding contribution he made as the Company's CEO and MD. During his tenure, Chris mapped out a clear and realistic path to commercialisation, leaving me with a very strong platform to now lead the Company through the next phase of growth and development. His leadership and strategic guidance is appreciated, and I am pleased that he has agreed to remain with the Company as a Non-Executive Director.

I would also like to take this opportunity to welcome Peter Sherrington, our new CFO and Company Secretary, and Brian Fowler, our General Manager for the Northern Territory and Sustainability, to Arafura's executive management team, both of whom have been involved with Arafura for a number of years.

The significant opportunity in the global rare earths market

Part of the appeal that drew me to Arafura in the first place, is the outstanding long-term growth profile associated with rare earths. Rare earths are in strong demand worldwide and this is expected to accelerate into the future. Ongoing advancements in technology and growth in the clean energy sector are largely responsible for this sustained demand in rare earths. Some of these rare earths are key components in magnets and phosphors, which are used widely across many applications and industries.

Ironically, while global demand for rare earths is strong and continues to grow, supply is limited as there are few rare earth producers operating outside of China. Furthermore, it is not expected that many new producers will join the supply chain in the next few years, as the majority of projects around the world are at very early stages. This imbalance between

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supply and demand is expected to create a global shortfall in many of the rare earths and, as a consequence, drive prices up.

The drawcard for Arafura is that we are on track to be one of the very few companies to bring a significant global-scale rare earths project into production this decade. We expect our Nolans Project in the Northern Territory to deliver annual rare earth quantities sufficient to meet 10% of the world's demand. Moreover, several of our rare earths (in particular neodymium, europium, dysprosium, terbium and yttrium) are considered 'Critical Rare Earths' because global supplies are forecast to remain in critical undersupply.

Quite simply, the size, composition, stage of development and long (22-year) mine life of the Nolans Project places us in an ideal position to become a significant supplier of rare earths and capitalise on the global shortage. With Molycorp and Lynas now producing, our goal is to be the next in line with operations commencing in 2016.

Optimising the Nolans Project – working towards a lean and cost-efficient operation

In these uncertain economic times, we have been working hard to reduce both our operational and corporate running costs. On the corporate level, cost reduction measures, totalling some A\$350,000 per annum, have included restructuring and review of remuneration packages. This in turn has led to targeted redundancies, refinement of several roles and the implementation of a *Short and Long Term Incentive Scheme* for all permanent staff. The latter scheme is intended to incentivise employees to play an even more dedicated role in the Company and drive it towards success. The Short Term Scheme is linked to shareholder wealth creation and towards achieving key Nolans Project milestones.

Furthermore, several months ago, we initiated a program aimed at achieving substantial savings in project capital and operating costs. The relocation of intermediate chemical processing from Whyalla to the Nolans Bore mine site is one such initiative. In addition, we are now advancing a global site assessment study for the location of the downstream refinery – where separation of the rare earths into Rare Earth Oxide (REO) products will take place. Cost competitiveness is a key factor in deciding on the plant's final location.

As we progress the Nolans Project towards development, we will continue to identify opportunities for further financial savings.

A landmark achievement – signing an MOU agreement

As communicated to the ASX earlier this week, we have now signed a Memorandum of Understanding (MOU) with Shanghai Stock Exchange-listed Shenghe Resources Holding Co. Limited, a recognised leader in REO production and technology development. This is a significant milestone for Arafura, and has the potential to deliver very substantial material

short- and long-term benefits. Importantly, it is expected to allow us to optimise our technical processes, reduce the timeline for project commercialisation and reduce our capital and operating costs along the way.

The MOU is non-binding to allow both parties sufficient time to draft a more detailed Framework Agreement as the basis of a long-term strategic partnership.

Funding

Our current cash balance of about A\$30 million places us in a strong position compared to our peers. At our current subdued share price, we are mindful of diluting our shareholders and we do believe we have sufficient funds to complete our feasibility study.

We must recognise however, that global markets are at unprecedented lows and financing for major projects is difficult to come by. With this in mind, we are pleased to partner with leading industry participants such as Shenghe and ThyssenKrupp to advance the Nolans Project to commercialisation stage. Moving forward, our technical team will be focused on the delivery of the feasibility study, and our finance and commercial teams will be working towards formalising arrangements that position Arafura to execute project financing.

Thank you

Finally, I would like to thank all shareholders for their ongoing support and loyalty to Arafura Resources. The journey towards becoming a major global supplier of rare earths is exciting, and as your new Managing Director, I look forward to sharing it with you. My priority is to create value for shareholders and rest assured, every decision and action we take moving forward will have our shareholders at the front of our minds.

Yours sincerely,



Gavin Lockyer
Managing Director