

Chairman's Address

Ian Kowalick

Introduction

Good morning ladies and gentlemen and welcome to the Arafura Annual General Meeting. It is my pleasure to be here today. I would like to extend a warm welcome to all of our shareholders, some of whom have travelled considerable distances to be here today.

I would like to begin with some acknowledgements:

- Firstly, I acknowledge the shareholders for the support given to the rights issue and to ECE (represented here by *Mr Shao, Mr Tian & Mr Wu*) for the recent placement – your support in difficult times has been very important.
- Secondly I would like to acknowledge Mr Mick Muir the originator of Arafura who had the vision to see the importance of rare earths.

Today, I am pleased to report to you on the performance and progress of your company over the past 12 months. I will start by giving you an overview of the significant progress we have made over the year; where we are now and where we are headed.

A year of significant progress and achievement

We, as a company have made significant progress over the past year and achieved a number of milestones at our flagship, Nolans Rare Earths Project - despite unprecedented difficult conditions in global financial markets.

During the year, our key focus has been to progress towards completion of the Nolans Project feasibility study. In August, 2012 we released our Project Update, a comprehensive overview of the Nolans Project, which details the requirements to bring the Project into production. The Project Update highlights the extensive work completed or currently being undertaken as part of the study and this work has significantly de-risked the process route. Our advanced position is one key point of difference over other rare earth development projects and we have a clear way forward to the development of the Nolans Project.

The medium term outlook for the global rare earths industry remains robust and our strategy of adding value within Australia's stable geopolitical environment positions the Company well in this global market.

A major achievement of the year was the signing of initial strategic off-take agreements with two international companies. A Letter of Intent was signed with ThyssenKrupp Metallurgical Products for an exclusive, long-term commercial agreement for sale of Rare Earth Oxides (REOs) into Germany. ThyssenKrupp will also work with Arafura to pursue potential funding options for the

Nolans Project. A strategic Memorandum of Understanding was also executed with a Korean multinational organisation on long-term rare earths business arrangements in Australia and Korea. This key strategic customer will also work together with Arafura on funding arrangements to bring the Nolans Project to production.

These outcomes are a result of ongoing marketing efforts , which includes meetings with target customers to understand in detail their future rare earths product, and quality needs.

During the year, Arafura has successfully produced four separated REO products for customer assessment - Cerium Oxide, Didymium (Nd/Pr) Oxide, HRE Oxide and SEG Oxide. Initial feedback from target customers has been very positive and the Company is now producing a separated Lanthanum Oxide product, which will be the last of the five separated REO products intended for initial commercialisation from the Nolans Project.

As part of the feasibility study, no major issues have been identified from the environmental studies at both Whyalla and Nolans Bore sites. In fact, community relations have been very positive and we continue to invest time and effort into the respective local communities to foster community engagement and acceptance of our plans and strategies. We will continue to uphold all efforts to maintain strong relationships with all stake-holders in the Northern Territory and South Australia.

Following a major resource upgrade at the Nolans Bore deposit during 2012, total resource increased to 47 million tonnes at 2.6 per cent REO for 1,217,000 tonnes of contained rare earths. This further validates our view, that the Nolans Project is a world-class resource of strategic importance to Australia.

The Nolans Project has robust project economics

The economics of the Nolans Project are compelling. A capital payback is expected within four years of commencement of operations and under the Base Case assumptions, the Nolans Project delivers a strong financial return over a 20 year period and the company estimates a net present value ("NPV") of A\$4.3billion and a Internal Rate of Return ("IRR") of 30%. The strong commercial appeal of the Nolans Project has been reinforced by the Independent Expert's Report issued in August 2012, which gives the Nolans Project a preferred value of \$3.2billion - more than thirty times the Company's current market capitalisation.

Our focus is to finalise the feasibility study in 2013 and at the same time we will target project financing to fund the development of the Nolans Project. The Company will assess options with target customers, including ThyssenKrupp and the Korean multinational organisation, together with potential providers of both equity and debt for the Project. In addition, we will actively seek strategic alliances and/or joint venture involvement from interested parties that can add value to the Nolans Project.

Funding

On the 21st November 2012, Arafura completed the share placement of 45,266,500 shares to ECE Nolans Investment Company ("ECE") at an issue price of A\$0.22 per share, totalling A\$9.9 million. This transaction represented 8.75% of Arafura's issued capital and increased ECE Nolan's holding to 24.86% (previously 16.27%). The additional capital injection from our major shareholder demonstrates a strong vote of confidence in the Nolans Project, Arafura's Board and management. The valuable financial and strategic support from ECE will further assist us towards completion of the Feasibility Study next year.

In addition to this, the Company has received an A\$22.5 million tax refund for eligible research and development ("R&D") expenditure on the development of the Nolans Project. Funds from the R&D tax refund together with the share placement to ECE will further assist Arafura towards completion of the Feasibility Study.

Given the low resource risk and the advanced state of Nolans Project, we are confident that we will be able to secure additional funding at acceptable commercial terms, following positive approval, on the investment case, by the Board.

A Positive Outlook

Arafura is on the pathway to becoming one of the world's largest rare earths producers and one of the very few new rare earth supply sources this decade. Whilst China continues to dominate global rare earths supply, alternative supply sources are increasingly important to the future of the global industry – especially as the global demand for rare earths is expected to remain robust.

The global market outlook underpins Arafura's strategy. Arafura is well positioned amongst a very small number of emerging rare earth companies with a resource mix well matched to the demand. The predicted rare earths supply shortfall in the next decade, particularly in neodymium (Nd), should coincide with Arafura's production and commercialisation pathway, whilst growing demand for the technologies that embody rare earths will drive the Company's sales.

I would like to thank both the current Board of Directors and former directors who served the Company in the financial year, the management team and staff for their dedication and efforts during the year. On behalf of the entire Company, I would also like to again thank you – our shareholders – for your continued support and confidence in Arafura. I look forward to reporting to you with further positive progress on the Nolans Project and your Company overall in the year ahead.