5 November 2014

Dear Shareholder

With the Company's Annual General Meeting taking place on 20 November, I am writing to update you on progress made in some key areas of the Nolans Project this year.

Since last year's AGM the focus of our work has been on reducing Project capital and operating costs, largely through a refinement of the processes required to beneficiate and recover the rare earths to a specification demanded by the market. This work has delivered major improvements with estimated capital costs being reduced by 27% to A$1,408 million and anticipated operating costs being reduced by 24% to A$15.67/kg of REO.

While I find these improvements cause for real satisfaction I want to assure shareholders that we are not relaxing our efforts to find more opportunities to improve the returns to be earned by the Project. In this respect I am pleased to be able to report that we believe there is still the potential for further material reductions in both capital and operating costs as Arafura's strategic Chinese partners continue optimisation work.

Another important achievement that has strengthened Project viability is the delineation of an extensive groundwater resource near the Nolans Site, supporting our earlier decision to consolidate the bulk of our processing there.

One important aspect that is still being explored to ensure an optimum outcome is the location of the RE Separation Plant. As we announced in June 2013 the decision was made to examine a number of potential offshore locations after it had become clear that siting it within a major chemical complex, from which we are able to source the chemicals needed for processing, would greatly enhance the Project economics. Work is still proceeding on this issue.

I am pleased to report that while concentrating their attention on optimising the Project parameters, the management team has not neglected a review of the Company's corporate cost structure. As a result, since June 2012, the average overhead costs have been reduced by 40%, with further reductions expected with the relocation of the Perth head office in the coming weeks. This work has been essential to ensure that we get maximum value out of the capital that you, the shareholders, have contributed.

I am sure that you would all be aware that the past year's work has been undertaken in the context of a challenging economy and market factors that put downward pressure on demand and prices. The rare earths sector has been impacted more than most but our position is not unique because the new resource projects boom is over in most sectors of the industry. The uncertain outlook has resulted in a more difficult and changed market for project funding, which now takes longer to put in place. In part this funding issue has been exacerbated by the difficulties encountered by other emerging rare earth producers and this is one reason that Arafura has sought to have its technical processes validated by Chinese experts.

Looking ahead, Arafura is well positioned and funded to capitalise on the extensive work undertaken at Nolans in recent years. For the year ahead offtake and funding negotiations will be a key focus, as well as securing a suitable offshore site for the RE Separation Plant.

For shareholders who would like to acquaint themselves with progress in more detail I would recommend that you read the Nolans Development Report, a comprehensive document released in September and available on the Company's web site. This report provides a realistic assessment of the Project and illustrates in detail the basis for Arafura's optimism over the Project. In addition it will serve as a strategically important marketing tool and as a launch pad for funding negotiations and completion of the Definitive Feasibility Study.

At last year's AGM several shareholders expressed concerns about adopting the Company's remuneration report. As Chair, I can assure you the Board has formulated this year's report following rigorous peer comparisons to ensure outcomes consistent with market levels. Given current market conditions senior management salary variations during the year to 30 June 2014 were limited to adjustments to reflect changes in responsibilities and a pay freeze, which commenced in 2012/13, remains in force.

In closing, I wish to extend my appreciation to all shareholders for your loyalty as we close in on our goal of being the world's next major rare earths production company, and I look forward to welcoming you at our AGM in a fortnight's time.

Yours sincerely,

Ian Kowalick
Chairman