



**AN EMERGING
RARE EARTHS
PRODUCER
FOR USERS
WORLDWIDE**

CHAIRMAN'S ADDRESS 2014 ANNUAL GENERAL MEETING

Good morning ladies and gentlemen. On behalf of the Board of Directors, it is my pleasure to welcome all shareholders and visitors to the 2014 Arafura Resources Annual General Meeting.

At the table with me are Managing Director Gavin Lockyer, our non-executive directors Chris Tonkin and Terry Grose, and our chief financial officer and company secretary Peter Sherrington.

Since the 2013 AGM, the Arafura team has achieved several important milestones at the Nolans Rare Earths Project in the Northern Territory. I am able to provide you with a snapshot on these and will pass it over to Gavin to go into further detail in his MD presentation.

RARE EARTHS OVERVIEW

I would like to provide a context in which these milestones have been met to illustrate Arafura's current position in the rare earths market and in the medium-term.

The past twelve months have been a challenging time for the international economy and capital markets which has impacted on the broader resources sector, and market factors outside of Arafura's control have resulted in investor uncertainty about the rare earths market.

Most importantly for the rare earths sector in calendar 2014, has been the World Trade Organisation's ruling against China over rare earth export quotas. Conjecture over how this will impact China's dominance of the rare earths market and the potential effects on future rare earths supply by non-Chinese producers should in time increase investor interest in the Nolans Project. On the supply side, the Chinese Government's enforcement of tougher environmental regulation of mining operations and the crackdown on the illegal export of rare earths should enhance market interest in the Nolans Project and other rare earth projects as alternative suppliers.

The negative investor and customer perception of rare earths have been exacerbated by ongoing difficulties encountered by the emerging non-Chinese suppliers whose refining processes have failed to deliver the efficiency or quality expected.

However, the consensus among experts and analysts is that the fundamental drivers of demand for rare earths in the medium-term remain positive and supportive of robust growth. Year-on-year growth for rare earths demand remains at 6-7% at least until the end of the decade.

Of particular importance for Arafura is the permanent magnet market, where the critical inputs are the rare earths neodymium and praseodymium. Rare earth magnets have a

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wide variety of applications including the automotive industry, consumer electronics, hybrid technology, and the wind energy and healthcare sectors.

The Nolans Project has amongst the highest proportion of neodymium and praseodymium of any rare earth project in the world, providing Arafura with significant exposure to the fast growing magnet market. This market segment is forecast to grow at a conservative 10% per annum. Some experts have projected the permanent magnet market to be worth US\$20 billion by 2020, when Nolans will be in full production.

NOLANS OVERVIEW

The rare earth production technology issues encountered by non-Chinese companies have received much attention from both investors and capital markets of late. These same issues are an important driver of Arafura's strategy to avoid similar risks with the Nolans Project.

Arafura is well funded to continue with initiatives that have helped to significantly de-risk Nolans. As discussed at last year's AGM, these initiatives have not only reduced the risk but importantly produced results that deliver substantial reductions in Project capital and operating costs. Since then, the team has worked to drive these costs down further, with total savings now at A\$504 million in CAPEX and \$4.88/kg of REO in OPEX.

There remains scope for further cost reductions through our strategic alliances with Chinese partners – East China Mineral Exploration and Development Bureau, Shenghe Resources and its subsidiary Sheng Kang Ning (Shanghai) Mining Investment Co, or SKN.

The Arafura team has expended much time and money to understand the processing of rare earths, which is a complicated process. The need for so much time and money has tested the patience of investors and management because it has proven to be more complex than expected by both Arafura and other emerging producers. The Nolans Development Report, released on September 2nd, is a comprehensive document that not only outlines the complexity of the procedures to extract value from rare earths, but also reinforces our view that Nolans remains a robust project with an estimated Net Present Value of A\$2 billion and an Internal Rate of Return of 21.4%.

The Nolans Development Report also serves as an important marketing tool for Arafura as it continues to advance discussions with potential financiers and off take partners. The Report will also form the backbone of the Definitive Feasibility Study, which is due for completion by the end of 2015.

In recent weeks, Arafura lodged an application with the Northern Territory regulator aimed at securing the Project's life-of-mine water supply from a major groundwater system close to the Nolans Site. The mining and production of rare earths requires significant amounts of water, and these groundwater resources will mitigate a major operational and stakeholder risk for the Project as it reduces the requirement to access water from the originally designated Ti Tree Water Control District. It also supports our earlier decision to consolidate the bulk of our processing at the Nolans Site.



In addition, work continues in identifying a suitable offshore location for the Rare Earth Separation Plant. Our goal is to secure a site in 2015, with its location to be within a major chemical precinct from where we can source the reagents needed for processing and further enhance the Project economics.

I would like to highlight that while the team has focused on further optimising Project economics and improving efficiencies, the management team has worked hard at reducing corporate costs. 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 next week. This will ensure that we get maximum value out of the capital that you the shareholders have contributed.

THANK YOU

Before we commence the Formal Business of the day, I would like to acknowledge on behalf of the Board our recently retired director Shasha Lu's significant contribution to the Board and to the strategic direction of the Company over the past 5½ years. We thank her for her efforts and wish her every success in the pursuit of her new business interests. I also wish to acknowledge the hard work of the dedicated and talented Arafura team.

Finally I would like to thank our shareholders, particularly for your patience, as we navigate through some challenging times and pursue our strategy of entering the global rare earths supply chain as soon as possible.

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