

ASX Announcement

Chairman's Address for Annual General Meeting

17 October 2019



Good morning ladies and gentlemen and welcome to the Meeting of Shareholders of Arafura Resources Ltd.

My name is Mark Southey and I am the Chairman of the Company. I would like to introduce you to the Arafura Board and Senior Management present here today:

- Chris Tonkin, Non-Executive Director;
- Quangsheng Zhang, Non-Executive Director;
- Gavin Lockyer, Managing Director; and
- Peter Sherrington, CFO and Company Secretary

We also have representatives from the Company's lawyers, Johnson Winter & Slattery; the Company's auditors, BDO; and the Company's share registry Link Market Services.

Arafura Resources has come a long way in 2018/19. I will take this opportunity to quickly recap how we have brought the Nolan's NdPr project to the cusp of commercialisation and then provide a brief road map of the year ahead.

Firstly, on the project itself: This time last year the Board and shareholders were keenly anticipating the delivery of the Definitive Feasibility Study (DFS), a milestone which would then unlock many other avenues of activity directed at building the Nolans NdPr project. Pleasingly, Gavin and his team produced the DFS in Q3 of FY19. The document demonstrated Nolans to be a low cost producer of 4,357 tonnes per annum of NdPr oxide with a very long mine life of 23 years and a base case NPV of A\$729m. It also highlighted exciting leverage to a tightening NdPr market with a A\$130m valuation uplift for every \$5/kg increase in NdPr oxide prices. As the Board looks at the rare earths supply chain as it stands today, there are limited other NdPr development projects globally, which can compete with the scale of Nolans.

Secondly, I will turn to customer engagement. Subsequent to the release of the DFS engagement by potential off-takers participating at various points in the NdPr supply chain in Japan, South Korea, China and Europe proved encouraging. With non-binding MoUs for NdPr supply signed in late CY2018 with JingCi Material Science Co in China and most recently with Tianhe Magnetics, one of China's leading manufacturers of Neodymium Iron Boron (NdFeB) permanent magnets, the Nolans Project now has offtake agreements covering 1800 tonnes per annum of NdPr oxide or approximately 41% of the Project's total planned annual NdPr output. This is a critical step forward in the financing of the project as debt and equity funders alike will both seek to understand the level of customer interest in and commitment to, the Nolan's product.



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On the technical aspects of the Project: Stage 1 to 6 of our 7 Stage Pilot program were completed and all performance objectives were met. This is no easy feat, even for a pilot scale effort, and yielded highly valuable data for inclusion into the DFS. It has also provided encouragement to our potential customers and financiers who appreciate the level of technical de-risking this pilot work will contribute to the full scale project.

Finally, on our financial position: The publication of the DFS helped provide the necessary conditions to facilitate the \$23.2m equity raising late in FY19. The fully underwritten transaction saw the introduction of Noble Group's subsidiary, Talaxis to the company's register. It is fair to say that by virtue of its position in the commodities sector, Talaxis sees a vast number of potential investment opportunities globally and is extremely well placed to judge and compare the merits of the multitude of projects put before it. That it has chosen to invest in Arafura for exposure to the growing NdPr market is a significant tick for the Project.

The completion of the capital raise in July 2019 plus existing cash reserves left Arafura in the strongest financial position it's been in over 5 years. We are now exceptionally well placed for the activity that lies ahead. Now that the fundamentals of Nolans Project are well understood, in the coming year the Board and Executive team will be most focused on the remaining practical steps to facilitate construction and the subsequent production, as well as the commercial boxes that remain to be ticked.

In terms of practical efforts, the item of immediate focus is the completion of negotiations with indigenous land owners to allow the signing of the Native Title Agreement. This Agreement is of critical importance to our social licence to operate and also to permit the awarding the Mining Lease. While this has taken longer than expected we remain confident that the Agreement will be signed by the end of CY19, with the Mining Lease to follow several months later.

With respect to outstanding technical work to be completed, the Company is in advanced stages of planning for the seventh and final phase of the Pilot Program. This is the rare earths separation test phase. This has been delayed by several months but we expect to complete Stage 7 in 2020.

In parallel with these efforts the Executive team has been undertaking a broad range of activities best described as Execution Readiness. This work consists of activities such as: Finalisation of tendering and contracting strategies and identification of potential contractors; Preparation of major contract scopes of work ready for tendering; and Development of budgets and schedules based on the DFS. This work is designed to allow rapid transition into Front End Engineering and Design once the Project Commitment decision has been taken by the Board.

On the commercial front, Gavin and his team are extremely focused on 2 key areas, namely customer engagement and financing. Having secured non-binding MoUs in the last 12 months, the Company is seeking to evolve these agreements into more robust binding contracts for offtake. This will provide finance partners, particularly in the debt market the highest level of comfort. In addition to the existing offtake agreements with JingCi and Tianhe Magnetics I referred to earlier, the Company is also seeking additional MoUs and other offtake arrangements for NdPr supply with customers outside of China to provide geographic diversity to our offtake relationships. In the coming year we are seeking to conclude MoUs to cover the majority of our NdPr and phosphoric acid production.

Financing the Project is the key objective for FY20. Gavin and our CFO Peter Sherrington have been in regular discussion with key debt market participants for some time now and the release of the DFS has been a critical step forward, as has been the signing of our offtake MoUs. While I cannot disclose

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specific detail here, our strategy has multiple options which we hope to advance further in 2020. These include; the involvement of Export Credit Agencies and the North Australia Infrastructure Fund with which we are already well engaged, commercial bank lending backed by the all important offtake contracts, as well as project sell down. We expect that our relationships with Talaxis, which has become a Substantial Shareholder in Arafura recently, and our current offtake partners should yield improved access to project funding and accelerate the process of identifying both debt and equity participants in the Project.

The company's strong share price performance in FY19, up 33% was gratifying. It outperformed not only the broader market and the resources sector generally, but also the median performance of our emerging developer and producer peer group. We like to think that this is recognition of the company's emerging status as the next major producer of NdPr, not just on the ASX, but globally.

On behalf of the Board I would like to thank our Managing Director, Gavin Lockyer, and the team for their truly tireless efforts to advance the Nolan's Project so far this year. As I have set out earlier, there is a lot of work left to do but we are optimistic on the outlook. We have publicly set a Project Commitment date by end of March 2020. The Board remains committed to this timetable and I know Gavin and his team are striving as hard as possible to meet this target and move into Front End Engineering and Design immediately thereafter, which will be the culmination of many many years of hard work.

Finally, on behalf of the Board I would like to thank our employees for their hard work in 2019 and shareholders for their continued support. I look forward to this time next year and reporting on the progress we have made in turning Nolans into the world's next great NdPr development project.

Yours sincerely

Mark Southey
Non-Executive Chairman
Arafura Resources Limited