



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

22 July 2013

Dear Shareholder,

I am writing to provide you with an update on your company, Arafura Resources Limited (“Arafura” or the “Company”).

First, I would like to take this opportunity to thank you for your ongoing support and investment in Arafura.

Over the last 18 months, Arafura has operated under an external environment of depressed and volatile global markets. This environment has had an adverse impact on the world as a whole and on the mining industry in particular. The Rare Earths sector has seen the selling prices of Rare Earths products fall from extreme highs in 2011 to much lower values at present and the share prices of industry participants have tumbled in concert. At the same time, opportunities to raise capital have not been easy, particularly for junior mining companies. Many of these companies have found it difficult to progress their projects, including within our sector.

We have a large and complex project to develop and are cognisant of the need to maintain momentum notwithstanding prevailing economic and financial conditions, falling Rare Earth prices and the impact of rising costs. Arafura’s share price has also suffered, but despite this we have made significant progress with the Nolans Rare Earths Project (the “Project”) and are confident that we now have a clear path through to Project execution and commercialisation.

A number of important milestones have been achieved by the Company:

1. A Project Base Case was established in August 2012. This showed that the Project is capable of producing a strong return to shareholders, albeit at a high capital cost.
2. A JORC Ore Reserve was established with a minimum 22 year Project life. This significantly differentiates Arafura from its peers in the industry.
3. Arafura has been successful in separating five individual Rare Earth Oxide (“REO”) products to 99% purity for initial commercialisation of the Project, further differentiating the Company from its peers.

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4. In late 2012, we initiated and have now completed a Trade-Off Study that assessed a number of process options and plant configurations that could enhance the economics of the Project and its ability to attract suitable funding. This study has been successful and has resulted in some important changes to our process flow-sheet.
5. We made a decision in April 2013 to relocate the Project's intermediate chemical processing from Whyalla in South Australia, closer to the Nolans Bore Mine site in the Northern Territory. This was supported by the Company's discovery of an extensive aquifer system that we consider can supply water to the mine, concentrator and intermediate chemical processing plant at Nolans Bore, for the life of the Project.
6. The final part of the refining process, or Rare Earths separation, will be relocated alongside established infrastructure at a suitable chemical precinct that can offer "over the fence" access to reagents and other cost competitive advantages. The Company is examining a number of potential sites for Rare Earths separation as part of a global site assessment study.
7. These initiatives will result in substantial capital and operating cost savings and, in the case of the separation plant, other potential opportunities.
8. We have strengthened our relationship with our main shareholder and strategic partner, East China Mineral Exploration and Development Bureau ("ECE"). ECE is a strong supporter of Arafura and has introduced the Company to Chinese Rare Earth experts who we have engaged to work with our Project team to review and optimise the Project. This work involves identifying process and technology enhancements and opportunities to further reduce capital and operating costs through the specialised expertise and industrial experience of the Chinese parties. Preliminary results are encouraging.
9. In April 2013, we also announced that the Company is targeting savings of between A\$500 million and A\$1,000 million on the Project's capital costs, as well as savings in operating costs. Arafura considers that savings of this order are achievable without reducing the Project's stated production capacity of 20,000 tonnes of REO per annum.
10. Arafura raised A\$40 million in 2012 from several sources. This places the Company in a much stronger financial position than those peer companies that have yet to reach the position that Arafura has already achieved. We still have in excess of A\$30 million of those funds and our short term funding requirements have been reduced with much of our optimisation and remaining test work expected to be carried out in China.

The Company has recently reviewed its August 2012 Base Case for the Project and has based this review on current cost estimates and more up-to-date Rare Earth prices and

economic assumptions. While this needs more work and some refinement of estimates and assumptions, our preliminary analysis is positive for the Project. In addition, we have had feedback from our contacts in China, potential customers in Europe and other contacts around the world, that Arafura is increasingly being viewed as a strong candidate to be the next major Rare Earths producer after Lynas and Molycorp.

I have appreciated the support that I have received over the last 16 months as Arafura's Chief Executive Officer and Managing Director. Arafura has made much progress over this period in a volatile global environment and the Company is well positioned to approach the future with confidence. It has a world class resource at Nolans Bore with a strong representation of the "Critical Rare Earths" neodymium, europium, dysprosium, terbium and yttrium, a committed Board and Management team, an advanced Project and a clear path forward. Funding for Project development will be challenging until global financial markets improve, but we are getting our house in order so that the Company is ready to meet this challenge.

Arafura is looking to maintain momentum and will continue to build on our strong relationships around the world. In particular, we have a strong and growing relationship with ThyssenKrupp around the sale of Arafura's Rare Earths products into Germany and expect to be ramping up our product marketing activities over the coming year.

Unfortunately, I have found it difficult to maintain the necessary weekly travel between my home in Melbourne and Arafura's office in Perth, but will continue as a Director of the Company. Tomorrow, I am pleased to hand over the reins to Mr Gavin Lockyer who will be Arafura's new Chief Executive Officer and Managing Director. I worked with Gavin in his capacity as the Company's Chief Financial Officer and Company Secretary and know him as a passionate advocate for the Project – knowledgeable, well connected in the Rare Earths sector and highly credentialed for his new role. I congratulate Gavin and look forward to working with him and the Arafura team as they take the Company forward.

Yours sincerely,



**Chris Tonkin**

Chief Executive Officer and Managing Director