

Arafura Share Purchase Plan

Not for release or distribution in the United States



16 November 2018

Dear Shareholder

OFFER TO PARTICIPATE IN SHARE PURCHASE PLAN

The Directors of Arafura Resources Limited (ASX: ARU) (**Arafura** or the **Company**) are pleased to offer you the opportunity to participate in the Arafura Share Purchase Plan (**SPP**).

Under the SPP, the Company offers eligible shareholders who were registered holders of fully paid ordinary shares (**Shares**) in the Company as at 4:00pm Australian Western Standard Time (**AWST**) on Friday, 9 November 2018 (**Record Date**), and whose registered address is in Australia or New Zealand, the opportunity to apply for parcels of new Shares (**New Shares**) in Arafura of up to A\$15,000 without paying brokerage or other transaction costs.

The offer price for the New Shares will be set at a 20% discount to the volume weighted average market price of Arafura shares calculated over the last 5 days on which sales in the Shares are recorded before the day on which the issue is made.

Arafura is pleased to confirm that Patersons Securities Limited (**Patersons**) has agreed to underwrite the SPP to the amount of A\$3,000,000, subject to standard terms and conditions. Patersons has also agreed to act as Lead Manager to the SPP. Further details regarding the underwriting arrangements are set out on page 8. A scale-back policy will be applied if valid applications are received for greater than A\$3,000,000. Arafura reserves absolute discretion regarding the amount raised under the SPP and the exercise of its right to scale-back applications. Should a scale-back happen, you may be allocated New Shares to a value which is less than the parcel of New Shares you applied for and the difference will be refunded to you, without interest. Arafura has also agreed that Patersons may facilitate an offer of New Shares to be issued at the same price as those under the SPP (**Top-Up Placement**). The maximum number of New Shares that may be issued under the Top Up Placement will be equal to the Company's remaining placement capacity, pursuant to ASX Listing Rules 7.1 and 7.1A, on completion of the SPP, or such lower amount as nominated by the Company.

Funds raised under the SPP will be used to advance the Company's Nolans Neodymium Praseodymium (**NdPr**) Project in the Northern Territory and for general working capital.

The SPP will open (and the SPP offer documents will be despatched to eligible shareholders) on Friday, 16 November 2018 and will remain open until 5:00pm AWST on Friday, 7 December 2018. As soon as practicable after the close of the SPP, Arafura will make an ASX announcement as to the outcome of the SPP and the number of New Shares to be issued.

The offer of New Shares is made under an SPP Offer Booklet and an Application Form (both enclosed). To apply for a parcel of New Shares, please follow the instructions on pages 2 and 3 of the SPP Offer Booklet, and on the Application Form.

These documents are important and should be read thoroughly in conjunction with the publicly available information relating to Arafura. If you are unsure about whether to participate, please contact your professional adviser. If you require further information, please contact the Company Secretary (contact details are in the enclosed instructions).

On behalf of the Board, I encourage you to consider this opportunity to increase your investment in Arafura.

Yours sincerely

Ian Kowalick
Chairman
Arafura Resources Limited

Key Dates*

Date (and time if relevant)	Event
4:00pm AWST, Friday, 9 November 2018	Record Date The date and time at which Arafura determines who is eligible to participate in the SPP.
Friday, 16 November 2018	Opening Date
5:00pm AWST, Friday, 7 December 2018	Closing Date Application Forms together with payment by cheque or money order must be received by this time and date. NOTE: BPAY payments must be received by 3:00pm AWST, Friday, 7 December 2018 (which is when the BPAY system closes on the Closing Date).
Tuesday, 11 December 2018	Company to notify Underwriter of Shortfall (if any)
Friday, 14 December 2018	Issue Date The date on which the New Shares are expected to be issued and any scale back of the New Shares is announced.
Monday, 17 December 2018	Trading Date The date on which the New Shares are expected to begin trading.
Tuesday, 18 December 2018	Despatch Date Transaction confirmations / holding statements will be sent to shareholders on or around this date.

* Arafura may change any of the Key Dates at its discretion (even if the offer has opened or applications have been received).

Instructions

The SPP opens on Friday, 16 November 2018 and under the offer you may only apply for a parcel of New Shares as set out in the table below. Fractional entitlements to New Shares will be rounded up.

A\$1,000 of New Shares
A\$2,500 of New Shares
A\$5,000 of New Shares
A\$7,500 of New Shares
A\$10,000 of New Shares
A\$15,000 (maximum) of New Shares

To apply and pay for your New Shares, you have two options:

Option 1: BPAY®¹

You can make a payment by BPAY® if you have an Australian bank account enabled for this purpose. BPAY® customers must follow the instructions on page 5 and in the Application Form and must use the customer reference

¹ ® Registered to BPAY Pty Ltd ABN 69 079 137 518.

number shown on the Application Form which is required to identify your holding. If paying by BPAY®, you do not need to return your Application Form. See page 5 for further information.

Option 2: Application Form and cheque, bank draft or money order

You can complete the Application Form and return it to Link Market Services Limited (**Share Registry**), Locked Bag A14, Sydney South, New South Wales 1235 Australia together with a cheque, bank draft or money order, in accordance with the instructions on the Application Form.

Cheques, bank draft and money orders must be made payable to “Arafura Resources Limited” in Australian dollars and drawn on an Australian bank for the correct amount. Arafura will not accept payment by cash.

Timing

All payments by cheques, bank draft and money orders and Application Forms must be received before 5:00pm AWST, Friday, 7 December 2018. You cannot withdraw or cancel your application or BPAY® payment once you have sent it in. BPAY® payments must be received by 3:00pm AWST, Friday, 7 December 2018 (which is when the BPAY® system closes on the Closing Date).

Questions

If you have any questions, please contact the Share Registry, Link Market Services Ltd, on (+61) 1300 222 378 (toll free within Australia), 8:30am to 5:00pm (AEDT) Monday to Friday.

No offer outside Australia and New Zealand

This document may not be released or distributed in the United States or any country other than Australia and New Zealand. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or any country other than Australia and New Zealand. In particular, any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 (as amended) and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.

Terms and Conditions

IMPORTANT NOTICE: The market price of Arafura shares may rise or fall from now to when the New Shares are issued to you under the SPP. Therefore, if you apply for and we allot to you New Shares under the SPP, the offer price for those New Shares may be more than, or less than, the market price of Arafura shares you could buy at that time. By completing and returning the Application Form or making a BPAY payment, you acknowledge this risk. We encourage you to contact your professional adviser regarding whether to participate in the SPP and how much to contribute.

Offer timetable

- (a) The offer timetable is set out in the Key Dates above and is included in these Terms and Conditions.
- (b) Payment by BPAY®, Application Forms, cheques, bank draft and money orders may not be processed and may not be valid if they have not been received by or on behalf of Arafura by the time and date specified for the Closing Date. You must allow adequate time for Application Forms and cheques, bank draft or money orders forwarded by post to be received by the Share Registry. You should be aware that your financial institution may implement earlier cut-off times with regards to electronic payment, and you should therefore take this into consideration when making payment.
- (c) Arafura expects to send a transaction confirmation or holding statement to you on or around the Despatch Date.
- (d) Arafura expects that the New Shares will be issued under the SPP on the Issue Date and will commence trading on ASX on the Trading Date. You must confirm your holding before trading in any New Shares you believe have been issued to you under the SPP.
- (e) At any time, Arafura can change the Closing Date, the Issue Date, the Trading Date and the Despatch Date (even if the offer has opened, or BPAY® payments and Application Forms have been received) by lodging a revised timetable with ASX.

Eligible Shareholders

You are an eligible shareholder and may participate in the SPP if you were a registered holder of Arafura ordinary shares with a registered address in Australia or New Zealand as at 4:00pm AWST on Friday, 9 November 2018, unless you hold Arafura shares on behalf of another person who resides outside Australia or New Zealand (in which case you will not be

eligible to participate in respect of the shares of that person) (**Eligible Shareholder**).

Arafura has determined that it is not practical for holders of Arafura shares with registered addresses in other countries to participate.

- **Holders receiving more than one offer:** If you are the only registered holder of Arafura shares, but you receive more than one offer under the SPP (due to multiple registered holdings), you may only contribute a maximum of A\$15,000 in applying for New Shares.
- **Joint Holders:** If 2 or more persons are recorded in the register of members of Arafura as jointly holding Arafura shares, they are considered to be a single registered holder for the purpose of the SPP and they are entitled to participate in the SPP in respect of that single holding only. If as joint holders you receive more than one offer under the SPP due to multiple identical holdings, you may still only contribute a maximum of A\$15,000 in applying for New Shares.
- **Custodians, trustees and nominees:** If you are a custodian, trustee or nominee within the definition of "custodian" in ASIC Class Order [CO 09/425] (**Custodian**), and hold Arafura shares on behalf of one or more persons (each a **Participating Beneficiary**), or on behalf of a "downstream custodian" within the definition of ASIC Class Order [CO 09/425] who holds the beneficial interest in Arafura shares on behalf of a Participating Beneficiary, you may apply for up to a maximum of A\$15,000 worth of New Shares for each Participating Beneficiary, subject to providing Arafura with a Custodian Certificate in accordance with paragraph (d) of "Significance of applying for New Shares" below. If you are not a Custodian, the rules for multiple single holdings apply and you may only contribute a maximum of A\$15,000 in applying for New Shares. You are not eligible to participate on behalf of a person who resides outside Australia and New Zealand.

Participation is optional

Participation in the SPP is entirely optional. If you are an Eligible Shareholder, you can choose whether or not to participate.

How much can you invest?

- (a) If you are an Eligible Shareholder, you may apply to buy a parcel of New Shares by contributing a set amount of either A\$1,000, A\$2,500, A\$5,000, A\$7,500, A\$10,000 or A\$15,000.
- (b) Your application may be subject to a scaleback and rounding. A scale-back policy will be applied if valid applications are received for greater than A\$3,000,000 or for greater than 30% of the number of Arafura ordinary shares currently on issue. Arafura reserves absolute discretion regarding the amount raised under the SPP and exercise of its right to accept additional funds or to scaleback applications.
- (c) Unless you are applying as a Custodian, the maximum amount of A\$15,000 applies even if you receive more than one Application Form or if you hold shares in Arafura in more than one capacity (for example, if you are both a sole and joint holder of shares in Arafura - see "Eligible Shareholders" above) and irrespective of the number of Arafura shares you hold on the Record Date. We can reject any application for New Shares if we believe you have not complied with this condition.

How to apply for New Shares

If you would like to participate in the SPP, you have two options:

Option 1: BPAY

Provided you are not a Custodian, you can make a payment by BPAY® if you have an Australian bank account enabled for this purpose. BPAY® customers must use the customer reference number shown on the Application Form which is required to identify your holding. If paying by BPAY®, you do not need to return your Application Form.

IMPORTANT NOTE: By using this BPAY® facility to apply for New Shares, you represent that the total of the application price for the following does not exceed A\$15,000:

- (a) the New Shares the subject of this application;
- (b) any other shares applied for under this SPP, or shares or interests in the class issued under a similar arrangement in the 12 months before this application;
- (c) any other shares or interests in the class which you have instructed a custodian to acquire on your behalf under this SPP; and
- (d) any other shares or interests in the class issued to a custodian under an arrangement similar to this SPP in the 12 months before this application as a result of you instructing the custodian or another custodian, which resulted in you holding a beneficial interest in the shares or interests.

Payment by BPAY® may not be processed and may not be valid if it has not been received by Arafura by the time and date specified for the Closing Date. You should be aware that the BPAY® system closes at 3:00pm AWST and your financial institution may implement earlier cut-off times with regards to electronic payment, and you should therefore take this into consideration when making payment.

Option 2: Application Form and cheque, bank draft or money order

You must complete an Application Form and return it with a cheque, bank draft or money order in accordance with the instructions on the Application Form.

Cheques, bank draft and money orders must be payable to "Arafura Resources Limited", in Australian dollars and drawn on an Australian bank for the correct amount. Arafura will not accept payment by cash.

Application Forms, cheques, bank draft and money orders may not be processed and may not be valid if they have not been received by or on behalf of Arafura by the time and date specified for the Closing Date. You must allow adequate time for Application Forms and cheques, bank draft or money orders forwarded by post to be received by the Share Registry.

Arafura's discretion regarding applications

Arafura may accept or reject applications for New Shares under the SPP, including if:

- (a) an Application Form is incorrectly completed, incomplete or otherwise determined by Arafura to be invalid;
- (b) you are a Custodian, and we are not satisfied with your certification for any reason;
- (c) a cheque is dishonoured or has not been completed correctly;
- (d) the correct amount corresponding to your application is not provided with the Application Form or BPAY® payment;
- (e) a BPAY® payment is not received or is incomplete or invalid;
- (f) unless you are applying as a Custodian, an applicant appears to be contributing more than A\$15,000 under the SPP;
- (g) an application is received after the time and date specified as the Closing Date. Arafura has a discretion whether or not to accept late BPAY® payments, Application Forms and cheques, bank draft or money orders; or
- (h) Arafura believes you are not an Eligible Shareholder,

and Arafura must reject applications if required to do so under ASIC Class Order [CO 09/425].

Arafura reserves the right to return your cheque, bank draft or money order or refund your BPAY® payment and not allot you any New Shares.

Offer price

The New Shares under the SPP will be issued at a 20% discount to the volume-weighted average market price of Arafura shares calculated over the last 5 days on which sales in the Shares are recorded before the day on which the issue is made, rounded up to the nearest tenth of a cent. By way of example, if the volume weighted average market price (**VWAP**) of Arafura shares over the 5 trading days before the issue date is 7.0 cents, then the issue price would be 5.6 cents (i.e. a 20% discount to the 5 day VWAP of 7.0 cents per Share).

Arafura will announce the final issue price for the offer on the day on which the issue is made. The number of New Shares issued to an applicant will be determined by dividing the value of the New Shares applied for by the issue price. If this calculation produces a fractional number, the number of New Shares will be rounded up to the nearest whole share.

Applications may be scaled back

- (a) Arafura reserves the right to determine the amount it raises through the SPP, including the right to scale back applications (**Scaleback**). A scale-back policy will be applied if valid applications are received for greater than A\$3,000,000 or for greater than 30% of the number of Arafura ordinary shares currently on issue. Arafura reserves the right to change this cap at its discretion by announcement to ASX.
- (b) If there is a Scaleback you may not receive all the New Shares for which you have applied. Each applicant will be treated equally and scaled back on a pro rata basis. If a Scaleback produces a fractional number when applied to your parcel, the number of New Shares you will be issued will be rounded down.
- (c) Arafura will refund to you by direct credit deposit to your nominated bank account (where you have given your nomination to the Share Registry) or by cheque, the difference between your application money and the total offer price for the New Shares issued to you.

No other participation costs

No brokerage, commission or other participation costs are payable by you to acquire New Shares under the SPP.

No interest

No interest will be paid on any application money returned to you.

You cannot transfer your rights under this SPP

Your rights under this offer are personal to you and non-renounceable. This means you cannot transfer your right to purchase New Shares under this SPP to anyone else.

Equal ranking

New Shares issued under the SPP will, at the time of issue, rank equally with existing fully paid ordinary shares in Arafura quoted on ASX, with the same voting rights, dividend rights and other entitlements.

Significance of applying for New Shares

If you apply to participate in the SPP:

- (a) you agree that once you have sent in your application or made your BPAY® payment, you cannot withdraw or cancel your application and your application is unconditional;
- (b) you confirm that you are an Eligible Shareholder and that you are lawfully permitted to accept the offer under the SPP and participate in the SPP in accordance with these Terms and Conditions and any applicable laws;
- (c) you certify that, even if you have received more than one offer under the SPP or received offers in more than one capacity, the total of the application price for the following does not exceed A\$15,000:
- the New Shares the subject of this application;
 - any other shares applied for under this SPP, or shares or interests in the class issued under a similar arrangement in the 12 months before this application;
 - any other shares or interests in the class which you have instructed a Custodian to acquire on your behalf under this SPP; and
 - any other shares or interests in the class issued to a Custodian under an arrangement similar to this SPP in the 12 months before this application as a result of you instructing the Custodian or another custodian, which resulted in you holding a beneficial interest in the shares or interests;
- (d) if you are a Custodian and are applying for New Shares with a total application price exceeding A\$15,000, subject to you providing a notice in writing to Arafura certifying the matters required by ASIC Class Order [CO 09/425] condition 9 (**Custodian Certificate**). Custodians should request a pro forma Custodian Certificate when making an application on behalf of Participating Beneficiaries. To request a Custodian Certificate or if you would like further information on how to apply, you should contact the Share Registry;
- (e) you agree to these Terms and Conditions and you agree not to do anything which would be contrary to the spirit, intention or purpose of the SPP;
- (f) you agree to be bound by the Constitution of Arafura;
- (g) you authorise Arafura (and its officers or agents) to correct any error or omission in your Application Form and to complete the Application Form by inserting missing details if Arafura elects to do so;
- (h) you agree that Arafura may determine that your Application Form is valid and in accordance with these Terms and Conditions, even if it is incomplete, contains errors or is otherwise defective;
- (i) you agree that your application is only effective when received by, or on behalf of, Arafura and not when posted;
- (j) you accept the risk associated with any refund that may be sent to you by direct credit to your account as nominated to the Share Registry or cheque to your address shown on Arafura's register;
- (k) you agree that you are responsible for any dishonour fees or other costs which Arafura may incur if your cheque for payment is dishonoured;
- (l) you agree that Arafura and the Share Registry have not provided you with investment or financial product advice, and that they have no obligation to provide advice to you about your decision to apply for and be issued New Shares; and

- (m) you agree that Arafura is not liable for any exercise of its discretions referred to in these Terms and Conditions.

Notice to shareholders in New Zealand

The New Shares are not being offered or sold to the public within New Zealand other than to existing shareholders of Arafura with registered addresses in New Zealand to whom the offer of New Shares is being made in reliance on the *Financial Markets Conduct Act 2013 (New Zealand)* and the *Financial Markets Conduct (Incidental Offers) Exemption Notice 2016 (New Zealand)*.

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the *Financial Markets Conduct Act 2013 (New Zealand)*. This document is not a product disclosure statement, an investment statement or prospectus or other disclosure document under New Zealand law and is not required to, and may not, contain all the information that a product disclosure statement, an investment statement or prospectus or other disclosure document under New Zealand law is required to contain.

No US offer

If you apply to participate in the SPP or instruct a custodian to do so on your behalf, you acknowledge and agree that:

- (a) the New Shares have not, and will not be, registered under the *US Securities Act of 1933*, as amended (**US Securities Act**), or the securities laws of any state or other jurisdiction in the United States, or in any other jurisdiction outside Australia and New Zealand;
- (b) you must not send copies of these Terms and Conditions or any other material relating to the SPP to any person in the United States or elsewhere outside Australia and New Zealand;
- (c) you must not submit an Application Form or make payment by BPAY® for any person resident outside Australia or New Zealand; and
- (d) if you do not comply with these restrictions, it may result in violations of applicable securities laws.

Withdrawal, waiver, suspension and termination

Arafura reserves the right to withdraw the offer at any time up to the Issue Date.

Arafura reserves the right at any time to:

- (a) waive compliance with any provision of these Terms and Conditions;
- (b) amend or vary these Terms and Conditions; and
- (c) suspend or terminate the SPP.

Any amendment, variation, suspension or termination is binding on all Eligible Shareholders even if Arafura does not notify you of the event.

Settling disputes

Arafura may settle, in any manner it sees fit, any difficulties, anomalies or disputes which may arise in connection with the operation of the SPP whether generally or in relation to any participant or any application for New Shares. Arafura's decision is conclusive and binding on all participants and other persons to whom the determination relates. These rights may be exercised by Arafura's Board or any delegate of the Board.

Governing Law

These Terms and Conditions are governed by the laws in force in Western Australia. By accepting this offer, you submit to the non-exclusive jurisdiction of the courts in Western Australia.

Underwriting

Arafura has entered into an agreement with Patersons (**Underwriter**) under which the Underwriter will act as underwriter to the SPP up to the value of A\$3,000,000 (**Underwritten Amount**). If less than the Underwritten Amount is applied for under the SPP, then the resultant shortfall up to the Underwritten Amount will, subject to the terms of the underwriting agreement, be placed to the Underwriter or nominated sub-underwriters at the Underwriter's discretion. The underwriting agreement contains customary conditions, warranties and undertakings and is subject to various termination events exercisable by the Underwriter. These termination events include (among others) a fall in the All Ordinaries Index

or the S&P/ASX Small Resources Index of more than 7.5% from the level as at 9 November 2018, and the occurrence of certain events having a material adverse effect (in the reasonable opinion of the Underwriter) on the SPP or Arafura.

The shares to be issued to the Underwriter (or any sub-underwriters nominated by the Underwriter) are to be issued at the offer price under the SPP.

In addition to the Underwritten Amount, Arafura may, at the Underwriter's election, undertake a placement of additional shares at the same price as the issue of New Shares under the SPP (**Top-Up Placement**). If the Top-Up Placement occurs, the shares issued under it will be issued using Arafura's existing placement capacity under Listing Rules 7.1 and 7.1A (to the extent not already utilised by the Underwritten Amount, if any).

The Underwriter will be entitled to a fee of 6% of the funds raised under the SPP and the amount raised in the Top-Up Placement (**Underwriting Fee**), plus expenses. The Underwriter will meet all sub-underwriting and selling fees to third parties from the Underwriting Fee.

Interpretation

The term "these Terms and Conditions" includes terms and conditions in the Application Form, Instructions and Key Dates. The Application Form forms part of this offer document.

Risk factors

You should be aware that being issued New Shares involves various risks. This section discusses some of the key risks associated with an investment in New Shares. A number of risks and uncertainties, which are both specific to and of a more general nature, may adversely affect the operating and financial performance or position of Arafura, which in turn may affect the value of New Shares and the value of an investment in Arafura.

The risks and uncertainties described below are not an exhaustive list of the risks facing Arafura or associated with an investment in Arafura. Additional risks and uncertainties may also become important factors that adversely affect Arafura's operating and financial performance or position.

This document is not financial product advice

and has been prepared without taking into account your investment objectives or personal circumstances. Before investing in New Shares, you should consider whether an investment in New Shares is suitable for you. Potential investors should consider publicly available information on Arafura (such as that available on the websites of Arafura and ASX), carefully consider their personal circumstances and consult their stockbroker, solicitor, accountant or other professional adviser before making an investment decision.

Company specific risks

Exploration and production

The future profitability of Arafura and its subsidiaries (**Group**), and the value of the New Shares are directly related to the results of exploration, development and production activities as well as costs and prices. Exploration, project development and production involves significant risk.

Exploration is a speculative endeavour with an associated risk of discovery of finding rare earths including NdPr and other products in commercial quantities and risks associated with development of a project. No assurances can be given that funds spent on exploration and development will result in discoveries that will be commercially viable.

Development and production of NdPr requires sufficient reserves to support project development, cost overruns, production decrease or stoppage, which may be the result of commissioning, facility shutdowns, mechanical or technical failure and other unforeseen events. A significant poor development outcome or failure to maintain production could result in the Group lowering reserve and production forecasts, loss of revenue; increased working capital requirements; and additional operating costs to restore production.

In some instances, a loss of production may incur significant capital expenditure, which could require the Group to seek additional funding. The Group may fail to meet product quality requirements and material specifications required by buyers.

Volatility of the price of rare earth elements

NdPr and other rare earth products are not exchange traded commodities. The Group will require contracts for sale of these mineral

commodities. There is no guarantee the Group will secure contracts on terms favourable to the Group. NdPr and other rare earth product prices will depend on available markets at acceptable prices and distribution and other costs. Any substantial variation in the price of NdPr and other rare earth products or an increase in the distribution costs could have a significant impact on the Group.

Operating

Industry operating risks include, but are not limited to, fire, explosions and environmental hazards. The occurrence of any of these risks could result in substantial losses to the Group due to injury or loss of life, damage to or destruction of property, natural resources, or equipment; pollution or other environmental damage; clean-up responsibilities; regulatory investigation and penalties; or suspension of operations. Damages occurring to third parties as a result of such risks may give rise to claims against the Group.

Reliance on key personnel and advisors

The ability of the Group to achieve its objectives depends on the engagement of key employees, directors and external contractors that provide management and technical expertise.

If the Group cannot secure external technical expertise (for example to carry out development activities) or if the services of the present management or technical team cease to be available to the Group, this may affect the Group's ability to achieve its objectives either fully or within the timeframes and the budget that it has forecast. Additionally, industrial disruptions, work stoppages and accidents in the course of operations may adversely affect the Group's performance.

Reliance on third party infrastructure

The Group will rely on third party transportation infrastructure in order to deliver its production to the market and incoming reagents and supplies to the Nolans NdPr Project site. Any delay or failure to access or properly maintain operating infrastructure or shared facilities may have a material adverse effect on the Group.

Reserves and resource estimates

Mineral reserve and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may

alter or become uncertain when new information becomes available on the tenements through additional tests over the life of a project.

In addition, reserve and contingent resource estimates are necessarily imprecise and depend to some extent on interpretations, which may prove inaccurate. The actual reserves or contingent resources may differ from those estimated which may result in the Group altering its plans which could have either a positive or negative effect on its operations.

Changes in reserve estimates could also impact the Group's ability to maintain its borrowing capacity with its current or future lenders.

Metallurgy and Hydrometallurgy

Test work is used to develop the metallurgical and hydrometallurgical processes required to convert ore into final products. Scale up, technology and materials handling risks remain as the Group moves from development, to construction, commissioning and production. Product recoveries are dependent upon the metallurgical and hydrometallurgical processes, and by its nature contain elements of significant risk such as:

- (i) developing and identifying metallurgical and hydrometallurgical processes through test work to produce a saleable product;
- (ii) developing an economic process route to produce a saleable product; and
- (iii) changes in mineralogy in the ore deposit result in inconsistent product recovery, adversely affecting the economic viability of the project.

Native title

Both the Native Title Act (Cth), the Northern Territory Native Title Legislation and Aboriginal land rights and Aboriginal heritage legislation might affect Arafura's ability to gain access to prospective exploration areas or obtain mineral leases. The Group may from time to time, need to negotiate with any native title claimant for access rights to its tenements. In addition, agreement will need to be reached with native title claimants and/or holders prior to the grant of a mineral lease. There may be significant delays and costs associated with these negotiations and to reach agreement acceptable to all relevant parties. At this stage,

it is not possible to quantify the impact that these developments may have on the operations of Arafura.

Environmental

The Group's exploration, development and production activities are subject to legislation regarding environmental matters.

The legal framework governing this area is complex and constantly developing. There is a risk that the environmental regulations may become more onerous, making the Group's operations more expensive or cause delays. The Group may become subject to liability for pollution or other hazards against which it has not insured or cannot insure, including those in respect of past activities for which it was not responsible.

The Group's operations are subject to the Northern Territory and Commonwealth laws and regulations regarding environment including hazards and discharge of hazardous waste and materials. The mining and processing of Normally Occurring Radioactive Materials (NORM) is subject to additional laws and regulations regarding environmental matters. The cost of compliance with these laws and regulations may impact the cost of exploration, development, construction, operation of the production facilities and mine closure costs.

Title

All mining tenements which the Group may acquire either by application, sale and purchase or farm-in are regulated by the applicable state or territory mining legislation.

There is no guarantee that applications will be granted as applied for (although the Group has no reason to believe that tenements will not be granted in due course). Various conditions may also be imposed as a condition of grant. In addition, the relevant minister may need to consent to any transfer of a tenement to the Group.

Renewal of titles is made by way of application to the relevant department. There is no guarantee that a renewal will be automatically granted other than in accordance with the applicable state or territory mining legislation. In addition, the relevant department may impose conditions on any renewal, including relinquishment of ground.

In 2017 the Northern Territory Government (NTG) introduced a "Shared Land Use" policy which encourages consultation between the holder of a mineral title and a pastoral lessee. NTG approval of substantial disturbance activity by the mineral title holder requires evidence of a land access agreement between an explorer and pastoral lessee. Where such an agreement cannot be reached the matter can be referred to the NTG's Land Access Assessment Panel (LAAP). In the event of a positive determination from the LAAP the mineral title holder may undertake the substantial disturbance activities in accordance with the Mine Management Plan authorised by the Department of Primary Industries and Resources. There is the potential for the land access requirements to cause delays to the Group's planned development activities.

Legislative changes, government policy and approvals

Changes in government, monetary policies, taxation and other laws in Australia or internationally may impact the Group's operations and the value of the New Shares. The Group requires government regulatory approvals for its operations.

The impact of actions, including delays and inactions, by state, territory and federal governments may affect the Group's activities including such matters as access to lands and infrastructure, compliance with environmental regulations, production and exploration activities. This may from time to time affect timing and scope of work to be undertaken. No guarantee can be given that all necessary permits, authorisations, agreements or licences will be provided to the Group by government bodies, or if they are, that they will be renewed. The Group has received environmental approval from the Australian Government and the Northern Territory Environment Protection Authority has recommended the project for approval for the development at Nolans in the Northern Territory but there is no guarantee that the Group can comply with all conditions that are imposed under these approvals.

Access to Capital Markets

The Group's business relies on access to debt and equity funding. There can be no assurance that sufficient debt or equity funding will be available to the Group on favourable terms or within a reasonable timeframe. Failure to obtain additional funding may cause the Group to postpone any development plans, forfeit rights to some or all of its projects or reduce its

operating structures, including staff and overhead levels, which may delay or suspend the Group's business strategy and could have a material adverse effect on the Group's activities. Any additional equity financing may dilute existing shareholdings.

Occupational health and safety

Exploration and production activities may expose the Group's staff and contractors to potentially dangerous working environments. Occupational health and safety legislation and regulations differ in each jurisdiction. If any of the Group's employees or contractors suffers injury or death, compensation payments or fines may be payable and such circumstances could result in the loss of a licence or permit required to carry on the business. Such an incident may also have an adverse effect on the Group's business and reputation.

Insurance

Insurance of all risks associated with mineral exploration and production is not always available and, where available, the cost can be high. The Group maintains insurance within a coverage range that it considers to be consistent with industry practice and appropriate for its needs. The occurrence of an event that is uninsurable, not covered, or only partially covered by insurance could have a material adverse effect on the Group's business and financial position.

Financial risks

The Group's activities expose it to a variety of financial risks, including:

- *Market risk:* The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices interest rate risk, price risk, credit risk and liquidity risk (maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities). The Group's future activities will be subject to volatility and fluctuations in those particular areas.
- *Foreign exchange/currency risk:* The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures with respect to changes in foreign exchange rates. The Group's future commercial transactions include product sales, capital expenditure, purchase of foreign sources

inputs and debt facilities. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

- *Interest rate and credit risk:* This relates to the risk that interest rates applicable to the Group may fluctuate and have an impact on the value of the Group's assets and liabilities.
- *Liquidity risk:* This relates to the ability of the Group to maintain sufficient cash and the availability of funding through an adequate amount of committed credit facilities to support the Group's operations.

General risks

Potential for dilution

If shareholders do not take up any of their entitlements under the SPP, then their percentage holding in Arafura will be diluted. As the SPP is not a pro rata offer, some shareholders' interests may be diluted even if they take up their full entitlements under the SPP.

It is not possible to predict what the value of Arafura or its shares will be following the completion of the SPP and the Directors do not make any representation as to such matters.

The historical trading price of shares in Arafura on ASX prior to this SPP is not a reliable indicator as to the potential trading price of New Shares after completion of the SPP.

General market and share price

There are general risks associated with investments in equity capital such as the New Shares. The trading price of the New Shares may fluctuate with movements in equity capital markets in Australia and internationally.

Generally applicable factors which may affect the market price of shares include:

- general movements in Australian and international stock markets;
- investor sentiment;
- Australian and international economic conditions and outlook;

- commodity prices;
- changes in interest rates and the rate of inflation;
- changes in government legislation and policies, including taxation laws and foreign investment legislation;
- announcement of new technologies; and
- geo-political instability, including international hostilities and acts of terrorism.

Further, the effect of these conditions on the Group's ability to refinance its debt obligations, and the terms on which any such refinancing can be obtained, is uncertain. If these conditions result in the Group being unable to refinance its debt obligations, or to do so on reasonable terms, this may have an adverse impact on its financial position, financial performance and/or share price. The operational and financial performance and position of Arafura's share price may be adversely affected by a worsening of international economic and market conditions and related factors. It is also possible that new risks might emerge as a result of global markets experiencing extreme stress, or existing risks may manifest themselves in ways that are not currently foreseeable.

Underwriting

As the underwriting of the SPP is conditional and subject to termination events, there is a risk that the Underwriter may not be required to subscribe for the Underwritten Amount and that the SPP may therefore raise less than A\$3,000,000.

Dividends

Any future determination as to the payment of dividends by Arafura will be at the discretion of the directors and will depend on the financial condition of Arafura, future capital requirements and general business and other factors considered relevant by the directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by Arafura.

Taxation

The disposal of New Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor.

All investors are urged to obtain independent financial advice about the consequences of disposing of New Shares from a taxation viewpoint and generally. To the maximum extent permitted by law, Arafura, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of acquiring or disposing of New Shares under this SPP.

Speculative investment

The above list of risk factors ought not to be taken as an exhaustive list of the risks faced by Arafura or by investors in Arafura. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of Arafura and the value of the New Shares offered under the SPP. An investment in Arafura is speculative and investors should consult their professional adviser before applying for or disposing of New Shares.

Directory

Registered Office

Arafura Resources Limited
Level 3
263 Adelaide Terrace
Perth, WA 6000, Australia
Telephone: +61 8 6210 7666

Share Registry

Link Market Services Limited
Level 12
680 George Street
Sydney, NSW 2000, Australia

Underwriter

Patersons Securities Limited
Level 23
2 The Esplanade
Perth, WA 6000, Australia
Telephone: +61 8 9263 1111

Legal Advisers

Johnson Winter & Slattery
Level 4
167 St Georges Terrace
Perth, WA 6000, Australia
Telephone: +61 8 6216 7222
Facsimile: +61 8 6216 7200



ABN 22 080 933 455

All Registry communications to:
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia
Telephone: 1300 554 474
From outside Australia: +61 1300 554 474
ASX Code: ARU
Website: www.linkmarketservices.com.au

SRN/HIN:
Entitlement Number:
Record Date: 9 November 2018
Offer Opens: 16 November 2018

Offer Closes
5:00pm (AWST): 7 December 2018

SHARE PURCHASE PLAN ("SPP") APPLICATION FORM

How do I apply for Shares under this offer?

- Carefully read the Arafura Share Purchase Plan accompanying this form.
Decide on the amount you wish to apply for.
Pay for the Shares in accordance with the instructions outlined in the Arafura Share Purchase Plan and further important instructions on the reverse of this form.
Option 1: Paying by BPAY®.
Option 2: Paying by Cheque, Bank Draft or Money Order.
Payments must be in Australian dollars.

PAYMENT OPTIONS

Option 1: Paying by BPAY®

If paying by BPAY®, you do NOT need to complete or return the Acceptance Slip attached to this Application Form below. Payment must be received by the Registry by BPAY® by 3:00pm (AWST) on 7 December 2018. By paying by BPAY®, you will be deemed to have completed an Application Form for the number of Shares the subject of your Application Payment.

If you make a payment by BPAY® and Arafura Resources Limited receives an amount which is not equal to either A\$1,000, A\$2,500, A\$5,000, A\$7,500, A\$10,000 or A\$15,000, Arafura Resources Limited may round down the dollar amount of Shares that you are applying for to the next lowest parcel at their discretion. Your payment must be for a minimum of A\$1,000.

BPAY Biller Code: 43125 Ref:

Telephone & Internet Banking – BPAY®

Contact your bank or financial institution to make this payment from your cheque, savings, debit or transaction account. More info: www.bpay.com.au
Registered to BPAY Pty Ltd ABN 69 079 137 518

Option 2: Paying by Cheque, Bank Draft or Money Order

If paying by cheque, bank draft or money order, complete and return the Acceptance Slip attached to this Application Form with your Application Payment.

- A. Tick the box beside the amount you wish to apply for, either A\$1,000, A\$2,500, A\$5,000, A\$7,500, A\$10,000 or A\$15,000.
B. Enter your cheque, bank draft or money order details. The amount of your Application Payment should be equal to the amount applied for in section A of the Acceptance Slip. Cheques, bank drafts or money orders must be drawn on an Australian branch of a financial institution in Australian currency, made payable to "Arafura Resources Limited" and crossed "Not Negotiable". Please ensure sufficient cleared funds are held in your account, as your cheque will be banked as soon as it is received. If you provide a cheque, bank draft or money order for an amount that is not equal to either A\$1,000, A\$2,500, A\$5,000, A\$7,500, A\$10,000 or A\$15,000, Arafura Resources Limited may round down the dollar amount of Shares that you are applying for to the next lowest parcel at their discretion. Your payment must be for a minimum of A\$1,000.
C. Enter your contact telephone number at which we may contact you regarding your application for Shares, if necessary.

THIS IS A PERSONALISED FORM FOR THE SOLE USE OF THE SHAREHOLDER AND HOLDING RECORDED ABOVE.

Please detach and enclose with payment

SRN/HIN:
Entitlement Number:



A I/we wish to purchase a parcel of Shares to the dollar amount of (tick one box only):

Form with checkboxes for A\$1,000 OR A\$2,500 OR A\$5,000 OR A\$7,500 OR A\$10,000 OR A\$15,000

B Make your cheque, bank draft or money order payable to "Arafura Resources Limited" and crossed "Not Negotiable"

Form with fields for Drawer, Cheque Number, BSB Number, Account Number, Amount of Cheque (A\$.00)

C Telephone Number – Business Hours Telephone Number – After Hours Contact Name

Form with fields for telephone numbers and contact name

IMPORTANT INFORMATION

1. This is an important document which requires your immediate attention. If you are in any doubt as to how to deal with this Application Form, please consult a professional adviser.
2. If you do not wish to purchase additional Shares under this SPP, there is no need to take action.
3. Please ensure you have read and understood the Arafura Share Purchase Plan and this Important Information, before you make the Application Payment by BPAY® or you submit your Acceptance Slip with your Application Payment.
4. This SPP is non-renounceable. Applications can only be accepted in the name printed on the Application Form.
5. If you are a custodian, trustee or nominee within the definition of "custodian" in ASIC Class Order [CO 09/425] you must complete and submit an additional Schedule that contains additional certifications and details that must be provided ("the Schedule") before your Application will be received. The Schedule can be obtained by contacting the Arafura Resources Limited SPP Offer Information Line. Applications received by custodians that are not accompanied by the Schedule will be rejected.
6. For applicants that are not required to complete the Schedule, by submitting the Acceptance Slip (with a cheque, bank draft or money order) or making payment by BPAY®, you certify that the aggregate of the application price paid by you for:
 - the New Shares the subject of the Application Form;
 - any other shares or interests in the class applied for under the SPP or any shares or interests in the class issued under a similar arrangement in the 12 months before the application;
 - any other shares or interests in the class which you have instructed a custodian to acquire on your behalf under the SPP; and
 - any other shares or interests in the class issued to a custodian under an arrangement similar to the SPP in the 12 months before the application as a result of an instruction given by you to the custodian or another custodian and which resulted in you holding beneficial interests in the shares or interests,does not exceed \$15,000
7. Arafura Resources Limited reserves the right to make amendments to this Application Form where appropriate.
8. Applicants are not assured of receiving the Shares for which they have applied as Arafura Resources Limited may scaleback applications in its discretion.

How to Lodge your Acceptance Slip and Application Payment

Acceptance Slip and the payment for New Shares must be received by the Registry no later than the closing date shown overleaf. If paying by BPAY® you do not need to complete or return the Application Form. You should check the processing cut off-time for BPAY® transactions with your bank, credit union or building society to ensure your payment will be received by the Registry by the close of the offer.

Mailing Address

Arafura Resources Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

or

Hand Delivery

Arafura Resources Limited
C/- Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138 **(Please do not use this address for mailing purposes)**

Make sure you send your Acceptance Slip and Application Payment allowing enough time for mail delivery, so Link Market Services Limited receives them no later than 5:00pm (AWST) on 7 December 2018. Please ensure sufficient cleared funds are held in your account, as your cheque will be banked as soon as it is received. Arafura Resources Limited reserves the right not to process any Acceptance Slips and Application Payments received after the Closing Date.

If you require information on how to complete this Acceptance Slip please contact the Arafura Resources Limited SPP Offer Information Line on 1300 222 378 if calling within Australia or +61 1300 222 378 if calling from outside of Australia.