

Sustainability Report

About Arafura Resources

Arafura Resources ("Arafura" or the "Company") is focused on becoming a leading global supplier of rare earths ("REs"), specifically high value and in-demand REs neodymium ("Nd") and praseodymium ("Pr") that are critical raw material inputs for the manufacture of high-strength permanent RE magnets.

Applications of RE magnets cover a wide variety of high-growth sectors due to their unique properties that help make certain technologies perform with greater efficiency. These include transportation and vehicles, consumer electronics, aerospace and defence and renewable energy.

Arafura's advanced and wholly owned Nolans Rare Earths Project in Australia's Northern Territory hosts one of the world's largest low-risk resources of NdPr. Together, sales of NdPr are forecast to generate approximately 75-80% of Arafura's revenue.

Development of the Project will comprise a mine, concentrator, RE intermediate plant and related infrastructure located at the Nolans site in the Northern Territory, and a RE separation plant to be constructed and located within an established chemical industry precinct at an offshore location.

About this Sustainability Report

This is Arafura's inaugural Sustainability Report and it focuses on the Company's transition from explorer to developer with the Nolans Project.

Sustainability to Arafura means integrating high standards of economic, environmental and social considerations into business practice, and ensuring safe and responsible conduct underpins everything that the Company and its employees do.



Economic Sustainability

In its current stage, Arafura does not have a material exposure to economic sustainability risk. However, as the Nolans Rare Earths Project transitions through construction and into production in the medium to long term, the risk becomes more significant to the Company, and to the local economy where the Project's impact will be greatest.



Nolans is enriched in NdPr rare earths, the building blocks of permanent magnets

Arafura intends to manage its future economic sustainability risk by being profitable, and maintaining a strong balance sheet and working capital throughout the life cycle of the Project. This will allow the Company to fulfil its vision of becoming one of the world's leading RE companies.

Current models indicate that the operational life of the Nolans Project is likely to exceed twenty years. Consequently the opportunity exists to promote long life stability to Arafura's employees, associated communities, shareholders and other stakeholders. This presents the Company's biggest economic sustainable risk in the medium to long term due to the significant benefits that risk being lost as Nolans moves through its complete life cycle.

The Company will provide a more detailed economic sustainability outlook as it realises its vision to be one of the world's leading RE companies through the development of the Nolans Project.

STAKEHOLDER INVOLVEMENT

A profitable long-life operation such as Nolans is able to support the economy in many ways, and benefit a wide variety of stakeholder groups such as local communities, state and national governments, employees and local suppliers.

Arafura plans to support these stakeholders in ways that build sustainable infrastructure, business and employment opportunities whilst maintaining a high degree of care and commitment to the environment. To achieve these objectives, the Nolans Project will potentially enable Arafura to directly invest in local and site infrastructure for the benefit of the wider community such as new water access from the Southern Basin and provide ongoing market competitive wages to its employees. Other economic avenues include financial and other support to local communities through donations, fulfilling established land agreements, using local employment, skills and suppliers where practical as well as the payment of royalties and taxes in support of additional government initiatives.

Arafura was established on the foundation of its shareholders. A profitable and cash positive operation will potentially enable Arafura to reward its shareholders through the payment of dividends.

Environmental Sustainability



ENVIRONMENTAL MANAGEMENT SYSTEMS AND COMPLIANCE

Arafura has been operating in the Northern Territory ("NT") since the late 1990s and has during that time established and maintained a good professional working relationship with a number of NT regulators. To date, no regulatory non-compliance matters or issues have been recorded against the Company.

Over this period management system processes and protocols have been developed to adequately guide and manage the Company's exploration activities. These are not yet refined to a point where they comply with ISO certified management systems. As the Company transitions to the construction and operational phase of the Nolans Project it intends to design and roll out its final operating management system.

All of Arafura's activities and systems are based on the management of risk. The Company has developed risk management, safety and environmental management plans, and all safety, environmental and community related incidents are routinely recorded. Meetings are convened on a regular basis with all key stakeholder groups to report on current and planned activities. Audits are also completed when operational activities occur at the Nolans work site.

As part of the development of the Nolans Project an environmental impact assessment ("EIS") is being completed. The EIS process necessitates the collection of a significant amount of baseline data

relating to the local region around the Nolans site, including local and regional biodiversity, surface and groundwater quality, ambient dust and noise levels, radiation levels and heritage. These data sets will also be used to develop appropriate management protocols aimed at reducing and managing operational risks and impacts.

ENVIRONMENTAL EFFICIENCY – WATER, WASTE AND ENERGY

As a general operating principle, Arafura endeavours to minimise the production of waste products during its exploration activities. Whilst operating on the Company's sites, including Nolans, contractors are required to recycle or dispose of waste products through licenced waste recyclers wherever possible. This includes products such as waste oils, batteries and tyres.

Residues from drilling activities and metallurgical testwork are normally disposed of on site in a manner that doesn't present a risk to the environment, and easily recovered during mining. Prior to disposal tests are completed on the residues to help monitor their behaviour in the environment, and to assist in designing and managing future waste stream storages and associated practices.

Water will be an integral requirement for the Nolans Project and Arafura has demonstrated a commitment to minimising impacts on groundwater resources in Central Australia. Extensive exploration aimed at locating an alternative and sustainable groundwater supply



Groundwater drilling south-west of the Nolans Processing Site

to the highly valued Ti Tree Basin resource was completed by the Company. This program was successful in delineating an extensive poorer quality groundwater resource that can sustain Nolans for its planned operational life. Nonetheless, work aimed at reducing the Project's water requirements is ongoing. The aquifer is also capable of providing water for pastoral activities which, until this discovery, were very limited in the region.

Power is another key input into the Nolans Project and the processing plant has been sited adjacent to the Amadeus Natural Gas Pipeline to leverage off lower cost and emissions-producing natural gas for power generation using high efficiency gas turbine generation. The Nolans processing circuit will also provide 25-30% of the Project's energy needs by recycling waste heat.

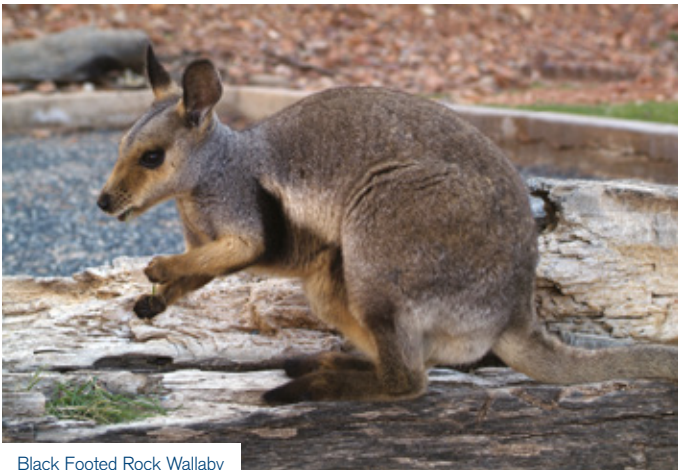
OTHER ENVIRONMENTAL ISSUES – TOXICS, BIODIVERSITY

To date minor amounts of hazardous materials have been used or generated by the Company's activities. All residues from drilling and metallurgical testwork have been disposed of in accordance with regulatory requirements and routine monitoring is completed to ensure that they continue to pose minimal potential risk to the environment.

Several of the Nolans EIS studies are aimed at ensuring future activities protect the environment, community, the Company's workforce and the Company. These studies include:

- ▶ understanding the fate and behaviour of all waste streams;
- ▶ engineering design and monitoring systems to manage on-site process waste residue disposal;
- ▶ processing plant emissions minimisation, control, management and monitoring;
- ▶ processing circuit water efficiencies and maximum reuse of water across the operation;
- ▶ transportation to and on-site management of hazardous chemicals, including emergency response; and
- ▶ establishing and understanding surface and groundwater baseline quality, ambient dust levels, noise levels and local biodiversity in and around the planned operation.

Data acquired through these studies better positions the Company to effect appropriate modifications to operating conditions or practices to mitigate potential impacts from issues that may arise during operations.



Black Footed Rock Wallaby

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Social Sustainability

WORKPLACE HEALTH AND SAFETY

Effective workplace health and safety (“WH&S”) management requires commitment and strong leadership from everyone in the workplace. The Company has a duty to provide and maintain a work environment that is safe and free from hazards or risks to health.

There are laws and regulations that set out the minimum requirements in how the Company is required to conduct business. These laws and regulations have objectives to promote and improve occupational safety and health standards. The law imposes a general duty of care to protect persons at work from hazards and maintain safe and health workplaces, and places certain duties on employers with which they must comply. These duties include:

- ▶ not exposing workers to hazards;
- ▶ providing information, instruction and training;
- ▶ conducting risk assessments;
- ▶ investigating hazards or injuries that have been reported to employers by employees;
- ▶ notifying WorkSafe WA or NT WorkSafe (as appropriate) of reportable injuries;
- ▶ providing safe workplaces; and
- ▶ designing and constructing safe machinery, equipment and tools.

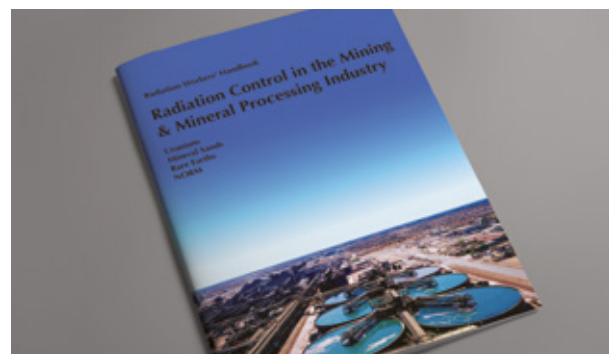
Employees are also required to co-operate with employers in safety and health matters to ensure that employers are able to meet their obligations.

Some ways that Arafura will ensure compliance with the relevant laws and regulations are as follows:

- ▶ conducting WH&S training and inductions;
- ▶ conducting ergonomic assessments on individual workstations;
- ▶ recording and tracking incidents, accidents and hazards; and
- ▶ managing workers’ compensation claims and return to work programs.

Some risks associated with poor WH&S can include increased likelihood of incidents or accidents resulting in injury or harm, costs associated with workers compensation claims, increased liability, poor employee morale and poor work practices.

The Company will continue to monitor these risks and conduct regular audits to ensure compliance with the relevant laws and regulations.



HUMAN CAPITAL MANAGEMENT

Human capital management (“HCM”) refers to the way in which key aspects of employee relations are managed and dealt with within the organisation. In recognising the importance of HCM, Arafura:

- ▶ adheres to and complies with relevant employment law, regulations and codes;
- ▶ ensures the consistent management of employees and industrial relations;
- ▶ provides professional development programs and training for employees;
- ▶ encourages diversity in the workplace;
- ▶ provides flexible working arrangements for all employees;
- ▶ ensures employees are treated in a fair and consistent manner; and
- ▶ ensures that equal opportunities are provided within the workplace.

Poor HCM can result in non-compliance with the minimum requirements as set out in the National Employment Standards, increased employee grievances, high employee turnover, incidents of harassment or bullying within the workplace, and claims against the organisation enforced by the Fair Work Commission.

The Company will continue to monitor these risks and all components of HCM to ensure compliance with the relevant legislation.

CORPORATE CONDUCT

Arafura believes that a high degree of importance be placed on its Corporate Conduct framework and how that may affect or be perceived by its stakeholders. Furthermore, if this framework is unsatisfactory or if corporate actions reflect a lack of integrity or

transparency within the market, this may hinder the Company across a range of areas over the life of the Nolans Project such as current and prospective employment, project finance, operations, supplier and shareholder relations, and damage the Company's reputation.

The Company has adopted a number of Corporate Governance charters, codes, policies and procedures that are made available on its website www.arultd.com. They include Continuous Disclosure, Code of Conduct, Trading in Company Securities, Whistleblower and Shareholder Communication. These are living documents as demonstrated by the Company adopting a new Corporate Governance Manual in recent months with the assistance of a specialist corporate governance law firm. This process gave the Company an opportunity to review its current practices to ensure that all documented policies were current, accurate, consistent with ASX Corporate Governance Principles and Recommendations, and reflect the way in which the Company operates.

STAKEHOLDER ENGAGEMENT

As it transitions from a mineral explorer to a RE production company, Arafura is on a journey that will ultimately see it earn its "Licence to Operate" in the communities within which it seeks to operate. The Company adopts a pragmatic, transparent and timely approach to stakeholder engagement as a core organisational value.

The Company's key stakeholders have been identified and documented in its risk management system, and is reviewed on a regular basis. They include its employees, investors, suppliers, advisers, regulators, local communities, and potential customers, strategic partners and financiers. They range from the very local in the case of pastoralists, small business owners and traditional indigenous custodians of the Nolans site in Central Australia, to offshore in the case of its major Chinese shareholder and potential business partners in Asia, Europe and North America.

The Company actively maintains a web presence as a window into its business, and endeavours to keep stakeholders informed of progress and material adjustments to its strategy via public disclosures through the ASX and online media where appropriate. Face-to-face meetings remain an effective mechanism through which the Company imparts details of and solicits feedback on all aspects of the Nolans development from its stakeholders. These meetings are being convened more frequently as part of the Nolans EIS process, the results of which will better inform the Company in its desire to be a responsible and sustainable operator.

The effectiveness of the Company's exploration activities has been enhanced through regular interaction and information exchange with business, cultural and government stakeholders. The Company maintains a long-standing exploration agreement over its extensive Central Australian land holdings with the region's indigenous custodians. The agreement allows for consultation on work programs and contains provisions aimed at identifying and protecting sites of cultural significance.

Arafura is an active member of the Minerals Council of Australia and holds a place on its Northern Territory Board of Management. In addition the Company is represented on the Northern Territory Work Health and Safety Advisory Council and the Northern Territory Mining Advisory Board.

An illustration of Arafura's stakeholders and corresponding engagement processes are shown in the table to the right.

Stakeholder group	Example of stakeholders	Examples of stakeholder approach
Shareholders	<ul style="list-style-type: none"> - Shareholders - Investors - Corporate advisors - Brokers - Financiers 	<ul style="list-style-type: none"> - Annual & Quarterly reports - Website, email & letters - Market announcements - Annual General Meeting - Meetings & face-to-face discussions
Employees	<ul style="list-style-type: none"> - Staff - Contractors - Consultants 	<ul style="list-style-type: none"> - Direct engagement between management & staff - Quarterly update from Managing Director - Project workshops - Email
Local communities	<ul style="list-style-type: none"> - Pastoralists - Local residents - Indigenous communities 	<ul style="list-style-type: none"> - Site visits - Project briefings - Fact sheets - Collaborative agreements - Sponsorships - Website
Suppliers	<ul style="list-style-type: none"> - Local suppliers - Non-local suppliers 	<ul style="list-style-type: none"> - Face-to-face engagement & discussions - Tenders - Contractual agreements
Government & regulators	<ul style="list-style-type: none"> - Australian, Northern Territory & local government - Government departments - Northern Territory Environment Protection Authority - Central Land Council - Aboriginal Areas Protection Authority 	<ul style="list-style-type: none"> - Face-to-face engagement & discussions - Compliance audits & inspections - Reports - Industry body & advisory council involvement - Collaborative agreements
Industry	<ul style="list-style-type: none"> - Resources industry - Business & professional associations 	<ul style="list-style-type: none"> - Meetings, face-to-face discussions & presentations - Sub-committee memberships
NGOs	<ul style="list-style-type: none"> - Environmental 	<ul style="list-style-type: none"> - Meetings & face-to-face discussions
Education & research	<ul style="list-style-type: none"> - Research institutes - Tertiary institutes 	<ul style="list-style-type: none"> - Commissioned research - Sponsorships - Conference attendance
Media	<ul style="list-style-type: none"> - Business media - Local media 	<ul style="list-style-type: none"> - Press releases - Interviews - Trade journal articles - Site visits
Customers	<ul style="list-style-type: none"> - Trading companies - Toll refiners - End users 	<ul style="list-style-type: none"> - Meetings, face-to-face discussions & presentations - Site visits - Conference attendance



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