

ASX ANNOUNCEMENT

ARAFURA SIGNS CORNERSTONE NDPR OFFTAKE AGREEMENT WITH HYUNDAI MOTOR COMPANY AND KIA CORPORATION

7 November 2022



- Arafura enters into a cornerstone binding offtake agreement with Hyundai Motor Company and Kia Corporation (the Buyers) to supply NdPr (in the form of NdPr Oxide or NdPr Metal at the Buyer's election) from the Nolans Project over a 7-year term
- The offtake agreement is for the supply of annual contract quantities of NdPr that will increase to up to 1,500 tonnes per annum of NdPr Oxide or its equivalent in NdPr Metal when the Nolans Project achieves nameplate production capacity
- The supply commitment represents approximately 40% of the 85% annual production available to be secured under long term sale arrangements
- Non-Binding Heads of Agreement (HoA) signed for discussion of potential strategic investment by Hyundai Motor Company and affiliates in Arafura

Arafura Rare Earths Limited (ASX: ARU) ("Arafura" or the "Company") is pleased to announce the signing of a binding offtake agreement (**Offtake Agreement**) with its key foundation offtake partner, South Korean based Hyundai Motor Company (**Hyundai**). Kia Corporation (**Kia**) can make orders under the Offtake Agreement in its own right. This follows the signing of the non-binding Memorandum of Understanding with Hyundai earlier this year (refer to ASX Announcement dated 19 May 2022).

The Offtake Agreement is for the supply of NdPr from the Company's Nolans Project (**Project**) to Hyundai over a seven-year term (which may be extended for a further five years by mutual agreement).

Under the Offtake Agreement, the Buyer may choose whether to be supplied with NdPr Oxide or its equivalent in NdPr Metal. Contract volumes (per Contract Year) for NdPr Oxide are 600 tonnes per annum (**tpa**) in year one, increasing to 1,500 tpa in years four to seven to align with ramp up of the project.

Supply of NdPr is currently anticipated to commence in calendar year 2025 subject to project financing, completion of construction and development and commissioning of the Project.

The other key terms of the Offtake Agreement are set out below:



"Our goal is to be a trusted global leader and supplier of choice for sustainably mined and processed rare earth products, helping our customers deliver clean and efficient technologies. We are committed to delivering positive intergenerational economic, environmental and social benefits to our stakeholders."

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- Pricing (in \$US) is determined using a formula-based mechanism referencing the NdPr Price Ex Works China price per tonne.
- Commercial grade NdPr Oxide/Total Rare Earth Oxide (TREO) must be $\geq 99.0\%$.
- The Offtake Agreement is subject to certain conditions precedent being satisfied by no later than 30 June 2026, such as completion of construction and development of the Project, commencement of commercial production and ramp up.

In addition, Arafura has also entered into a non-binding HoA with Hyundai. Under the HoA, Arafura will commence discussions for strategic investment with Hyundai and its affiliates. Any subscription funds raised by the Company are intended to be applied towards funding a portion of the equity component of the development funding required for the Project. The potential investment has not yet been determined and is subject to further negotiation between the parties. Arafura will make a further announcement to the ASX if definitive and binding subscription agreements are finalised and executed in the future.

Arafura's offtake strategy for the Project has been to target original equipment manufacturers (OEMs) from geographic regions with supportive Export Credit Agencies and Arafura continues to receive strong interest from a range of parties that are aligned with its offtake and investment strategy. Arafura has a view to secure 85% of its planned production as binding offtake, with the remaining 60% under negotiation with a range of multi-national companies (including GE Renewable Energy where a non-binding MoU for collaboration was signed in July 2022 - refer to ASX Announcement Dated 12 July 2022).

As detailed in the Company's Project Update (refer to ASX Announcement dated 11 May 2021), and subject to project financing, completion of construction and development and commissioning of the Project, Arafura currently anticipates first production of NdPr Oxide from the Project in 2025 with annual production expected to ramp up to 4,440 tpa in 2027. The front-end engineering design (FEED) initiated in August 2021 remains on track, including tendering of the various major construction contracts, which will inform the Final Investment Decision.



Mr Park Chan Young (Vice President, Electric Vehicle Parts Purchasing Sub-Division) and Mr Gavin Lockyer (Managing Director) sign NdPr Offtake Agreement at signing ceremony in South Korea.

Commenting on the Offtake Agreement, Arafura's Managing Director, Gavin Lockyer, said: "We are delighted to have concluded negotiations to execute our first binding offtake agreement which includes the exercise of the option provided in the MoU to take the full offtake volume of 1,500 tpa in relation to the Nolans Project. This establishes the foundation for a long-term partnership, and we are proud to have committed to supplying NdPr to Hyundai, a respected global automotive leader".

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About Hyundai Motor Company

Established in 1967, Hyundai Motor Company is present in over 200 countries with more than 120,000 employees dedicated to tackling real-world mobility challenges around the globe. Based on the brand vision 'Progress for Humanity', Hyundai is accelerating its transformation into a Smart Mobility Solution Provider. The company invests in advanced technologies such as robotics and Urban Air Mobility (UAM) to bring about revolutionary mobility solutions, while pursuing open innovation to introduce future mobility services. In pursuit of sustainable future for the world, Hyundai will continue its efforts to introduce zero emission vehicles equipped with industry-leading hydrogen fuel cell and EV technologies.

About Kia Corporation

Kia (www.kia.com) is a global mobility brand with a vision to create sustainable mobility solutions for consumers, communities, and societies around the world. Founded in 1944, Kia has been providing mobility solutions for more than 75 years. With 52,000 employees worldwide, a presence in more than 190 markets, and manufacturing facilities in six countries, the company today sells around three million vehicles a year. Kia is spearheading the popularization of electrified and battery electric vehicles and developing a growing range of mobility services, encouraging millions of people around the world to explore the best ways of getting around. The company's brand slogan – 'Movement that inspires' – reflects Kia's commitment to inspire consumers through its products and services.

About the Nolans Project

Arafura's Nolans Project is a rare earth ore to oxide mine and processing facility in the Northern Territory. The project is Australia's first vertically integrated rare earths operation, where its single site mining and processing operations (including waste disposal) will provide a secure and traceable supply chain to meet domestic and international economic and security interests and the ESG needs of global customers. Nolans has received Major Project Status from the Northern Territory Government (refer to ASX Announcement dated 31 July 2020) and has received support from Federal Ministers (refer to ASX Announcement dated 13 May 2021). In 2021, Arafura received conditional letters of support for debt facilities from Export Finance Australia (EFA) and the Northern Australia Infrastructure Facility (NAIF) for \$200m and \$100m respectively (refer to ASX Announcements dated 7 May 2021 and 18 June 2021). In March 2022, Arafura was awarded grant funding of \$30m under the Federal Government's Modern Manufacturing Initiative (MMI) (refer to ASX Announcement dated 16 March 2022).

Production Targets and Forecast Financial Information

The information in this announcement that relates to production targets and forecast financial information is extracted from the Company's ASX announcement dated 11 May 2021 (Nolans Project Update). The production target is based on 12% Proved Reserves, 62% Probable Reserves and 26% inferred resources as reported in the Company's ASX announcement dated 11 May 2021. There is a low level of geological confidence associated with inferred mineral resources and there is no certainty that further exploration work will result in the determination of indicated mineral resources or that the production target itself will be realised. Arafura confirms that all material assumptions underpinning the production target and forecast financial information derived from the production target set out in the Company's ASX announcement dated 11 May 2021 (including any assumptions referred to in the Company's ASX announcement dated 11 May 2021 that were sourced from the DFS as set out in the Company's ASX announcement dated 7 February 2019 (Nolans Project Definitive Feasibility Study) or from the Updated Mining Study as set out in the Company's ASX announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project)), continue to apply and have not materially changed.

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Forward Looking Statements

This announcement includes forward-looking statements. These statements relate to Arafura's expectations, beliefs, intentions or strategies regarding the future. These statements can be identified by the use of words like "will", "progress", "anticipate", "intend", "expect", "may", "seek", "towards", "enable" and similar words or expressions containing same.

The forward-looking statements reflect Arafura's views and assumptions with respect to future events as of the date of this announcement and are subject to a variety of unpredictable risks, uncertainties, and other unknowns. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, many of which are beyond our ability to control or predict. Given these uncertainties, no one should place undue reliance on any forward-looking statements attributable to Arafura, or any of its affiliates or persons acting on its behalf. Arafura does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Neither Arafura nor any other person, gives any representation, warranty, assurance, nor will guarantee that the occurrence of the events expressed or implied in any forward-looking statement will actually occur. To the maximum extent permitted by law, Arafura and each of its advisors, affiliates, related bodies corporate, directors, officers, partners, employees and agents disclaim any responsibility for the accuracy or completeness of any forward-looking statements whether as a result of new information, future events or results or otherwise.

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