



## SECOND PARTY OPINION (SPO)

Sustainability Quality of the Borrower and Green Loans

Arafura Rare Earths Ltd (Sponsor)  
Arafura Nolans Project Pty Ltd (Borrower)  
20 June 2023

### VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>Green Loans</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>Green Loan Principles jointly issued by the Loan Market Association (“LMA”), Asia Pacific Loan Market Association (“APLMA”) and the Loan Syndications &amp; Trading Association (“LSTA”) in February 2023.</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>Arafura Green Loan Framework (as of March 14, 2023)</li><li>Arafura Eligibility criteria (as of March 14, 2023)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>As long as there is no material change to the Framework</li></ul>

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## SCOPE OF WORK

Arafura Rare Earths Ltd (“Arafura” or “the Company”) and Arafura Nolans Project Pty Ltd (“the Borrower”) commissioned ISS Corporate Solutions (ICS) to assist with its Green Loans by assessing three core elements to determine the sustainability quality of the instruments:

1. Arafura’s Green Loan Framework (as of March30, 2023) – benchmarked against Green Loan Principles jointly issued by the Loan Market Association (“LMA”), Asia Pacific Loan Market Association (“APLMA”) and the Loan Syndications & Trading Association (“LSTA”) in February 2023.
2. The Eligibility Criteria– whether the project categories contribute positively to the UN SDGs and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Linking the transaction to Arafura’s overall ESG profile – drawing on the issuance-specific Use of Proceeds categories.

## ARAFURA’S BUSINESS OVERVIEW

The Borrower is classified in the Mining & Integrated Production, as per ISS ESG’s sector classification.

Arafura Rare Earths Ltd. engages in the exploration and development of mineral resource properties. The firm holds interests in the Nolan Project<sup>1</sup> as well as the Exploration Project, including Aileron-Reynolds and Bonya. Its products include rare earths, phosphate, vanadium, and tungsten. The company was founded on December 3, 1997 and is headquartered in Perth, Australia.

<sup>1</sup> Arafura intends to produce high purity rare earth products from the Nolans Project, principally Neodymium- Praseodymium (NdPr) oxide and a phosphoric acid by-product suitable for use in granular fertilizers.

## ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>2</sup>
<b>Part 1: Alignment with GLP</b>	The Borrower has defined a formal concept for its Green Loans regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the Green Loan Principles jointly issued by the Loan Market Association (“LMA”), Asia Pacific Loan Market Association (“APLMA”) and the Loan Syndications & Trading Association (“LSTA”) in February 2023.	<b>Aligned</b>
<b>Part 2: Sustainability quality of the Eligibility Criteria</b>	<p>The Green Loans will (re-)finance eligible asset categories which include Neodymium and Praseodymium (NdPr) Oxide Extraction and Processing for Production of Wind Turbines and Electric Vehicles.</p> <p>NdPr Oxide Extraction and Processing for Production of Wind Turbines use of proceeds category has a significant contribution to SDGs 7 ‘Affordable and Clean Energy’ and 13 ‘Climate Action’.</p> <p>NdPr Oxide Extraction and Processing for Production of Electric Vehicles use of proceeds category has a limited contribution to SDGs 7 ‘Affordable and Clean Energy’ and 13 ‘Climate Action’.</p> <p>Additionally, both these use of proceed categories have a limited obstruction to SDG 6 ‘Clean Water and Sanitation’ and SDG 15 ‘Life on Land’.</p> <p>The environmental and social risks associated with those use of proceeds categories are well managed.</p>	<b>Positive</b>
<b>Part 3: Linking the transaction to Arafura’s overall ESG profile</b>	The key sustainability objectives and the rationale for issuing Green Loans are clearly described by the Borrower. The project categories financed are in line with the sustainability objectives of the Borrower.	<b>Consistent with Borrower’s sustainability strategy</b>

<sup>2</sup> The evaluation is based on the Arafura’s Green Loan Framework (as of March 14, 2023), on the analyzed eligibility criteria as received on the March 30, 2023, and on publicly available information.

## SPO ASSESSMENT

### PART I: ALIGNMENT WITH GREEN LOAN PRINCIPLES

This section evaluates the alignment of the Arafura’s Green Loan Framework (as of March 14, 2023) with the Green Loan Principles jointly issued by the Loan Market Association (“LMA”), Asia Pacific Loan Market Association (“APLMA”) and the Loan Syndications & Trading Association (“LSTA”) in February 2023.

GREEN LOAN PRINCIPLES	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by Arafura’s Green Loan Framework is <b>aligned</b> with the Green Loan Principles.</p> <p>The Borrower’s green categories and criteria are defined in a clear and transparent manner. While the exact disclosure of distribution of proceeds by project category between renewable energy and clean transportation is not provided, Arafura confirms that the proceeds will be used for Neodymium and Praseodymium (NdPr) Oxide extraction and processing and provides visibility on the future sales distribution as well and the environmental benefits are also described and quantified.</p> <p>The Borrower defines exclusion criteria for harmful projects categories in line with best market practice. The Borrower also defines the look-back period up to 36 months prior to the date of issuance of the Green Loans in line with best market practice.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by Arafura’s Green Loan Framework is <b>aligned</b> with the Green Loan Principles.</p> <p>The project selection process is defined and structured. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Borrower.</p> <p>The Borrower transparently defines various stakeholders and their responsibilities in the process for project evaluation and selection, which is in line with best market practice.</p>

<p><b>3. Management of Proceeds</b></p>	<p>✓</p>	<p>The Management of Proceeds proposed by Arafura’s Green Loan Framework is <b>aligned</b> with the Green Loan Principles.</p> <p>The net proceeds collected will not exceed the amount allocated to eligible projects. The net proceeds are moved to a sub portfolio and attested in a formal internal process. The net proceeds are managed on an aggregated basis for multiple Green Loans (portfolio approach). Moreover, the Borrower discloses the temporary investment instruments for unallocated proceeds.</p> <p>The Borrower commits to segregate the proceeds collected and earmark towards specific projects.</p>
<p><b>4. Reporting</b></p>	<p>✓</p>	<p>The allocation and impact reporting proposed by Arafura’s Green Loan Framework is <b>aligned</b> with the Green Loan Principles.</p> <p>The Borrower commits to disclose the allocation of proceeds transparently. The reporting will be available annually and will be disclosed to the finance parties under the Green Loans and the Borrower may consider publishing this on its website. Arafura explains the level of expected reporting and the type of information that will be reported. Moreover, the Borrower commits to report annually, until the proceeds have been fully allocated.</p> <p>The Borrower is transparent on the information reported in the impact report, in line with best market practice.</p>

## PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

### A. CONTRIBUTION OF THE GREEN LOANS TO THE UN SDGs<sup>3</sup>









Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

The assessment of UoP categories for (re)financing products and services are based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of a Borrower's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on 5-point scale (see Annex 1 for methodology)<sup>4</sup>:

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
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Each of the Green Loan's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs<sup>5</sup>:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Renewable Energy</b>  <i>Expenditures primarily dedicated to NdPr Oxide extraction and processing for the production of wind turbines.</i>	<b>Significant contribution</b>	 
	<b>Limited Obstruction</b>	 
<b>Clean Transport</b>  <i>Expenditures primarily dedicated to NdPr Oxide extraction and processing for the production of Electric Vehicles.</i>	<b>Limited Contribution</b>	 
	<b>Limited Obstruction</b>	 

<sup>3</sup> The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Borrower's description in the framework.

<sup>4</sup> The display of the UoP categories impacts to the UN SDGs on a 5-point scale does not reflect the most updated template of our SPOs, which now show a 3-point scale (given that the update was implemented at the end of the SPO process with Arafura). However, it has to be noted that the underlying assessment methodology hasn't changed.

<sup>5</sup> The "NdPr Oxide Extraction and Processing" category is assessed according to a proprietary methodology applying generally to all NdPr mining projects to date, not specifically in relation to Arafura / Nolans Project. According to our assessment, the environmental and social risks (including risks related to water and biodiversity) associated with this use of proceeds category is well managed by Arafura.

## B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

### Rare earth mining and extraction project for electric vehicles and wind power plants component

The table below evaluates the Eligibility Criteria against issuance-specific KPIs, based on publicly available information and internal documents provided by Arafura, including policies, manuals, working plans, guidance, and procedures. As a result, the evaluation may differ from the Part III - ESG strengths and points of attention related to the Borrower's disclosures. The assets (Nolans project) will be located in Australia.

#### ASSESSMENT AGAINST KPIs

##### Labor and health and safety

✓ Beyond the high labor and health and safety standard in Australia, Arafura has established a health and safety management system for the Nolans rare earth mining and extraction project. The system is based on two approved internal documents, the Health & Safety Policy Rev 2.0 and the Construction, Safety and Security Management Plan. It includes defined health and safety objectives and targets, leadership structure, accountability and responsibility measures, hazard, and risk management protocols, as well as competence and training requirements, monitoring, and reporting. The system is designed to maintain high labor and health and safety standards, and it applies to all employees including Arafura's own staff, contractors, subcontractors, consultants and vendors to ensure their safety.

✓ Arafura has established a range of working procedures which are internal documents not available to the public, to ensure high operational safety standards for the Nolans project. These procedures and documents include the mining management plan, emergency response management plan, radiation protection & waste management plan, and the mentioned health & safety policy rev 2.0, and the construction, safety and security management plan. The company has taken a systemic approach to ensure the safety of its workers.

##### Human rights

✓ Arafura is currently developing a human rights policy (not publicly available) applicable to all Arafura stakeholders, including its directors, employees, and other people who work with Arafura, including contractors and consultants and suppliers. The policy aims to uphold human rights protection, drive the due diligence and performance of the supplier as well as achieve certification from the Initiative for Responsible Mining Assurance (IRMA). The policy is currently under development and expected to be finalized by the end of June 2023, and Arafura is committed to having it in place before entering into any operational contracts related to the procurement of chemicals and reagents from overseas suppliers. The certification process for IRMA is ongoing. Arafura



has conducted a social impact assessment for the Nolans project<sup>6,7,8</sup>. The developing Human Rights policy will include training requirements, and Arafura has also stated that a human rights audit will be a requirement as part of its human rights policy. However, it is not currently conducted on a regular basis, and there is no visibility into how frequently the human rights audit will be performed in the future.

Apart from that, Arafura has a whistleblower policy<sup>9</sup> in place and delegated Whistleblower Protection Officer to upload the human right.

### Local community



Arafura has developed a range of working procedures which are internal documents not available to the public, to ensure community dialogue and protection of community rights. These procedures and documents include the mining management plan, cultural heritage management plan, social impact management plan, territory benefits plan, and indigenous engagement strategy. The social impact management plan provides detailed descriptions of key processes for community consultation.

### Waste management



Arafura has developed a range of working procedures which are internal documents not available to the public, to ensure the proper management of tailings and waste rock. These procedures and documents include the mining management plan, waste management plan, hazardous substances management plan, waste rock management plan, residue storage facility management plan, and mine closure plan. According to the mine closure plan, Arafura is committed to carrying out regular inspections and audits of environmental performance, ongoing sampling and testing of tailings throughout the operation, and ensuring that waste rock, tailings, residues, and any other waste storage facilities (such as solid waste landfills) with potential for environmental impact are managed appropriately.



Arafura has developed a set of working procedures which are internal documents not available to the public, to reduce pollution and minimize the risk of waste and radioactive waste at its mining operations. In addition to the previously mentioned procedures, the company has developed a radiation protection and waste management plan that outlines the radionuclide concentration range in ore, beneficiation concentrate, tailings, and other materials, as well as controls for radiation, assessment methods, monitoring programs, and processes for waste, contaminated water, and waste management.

<sup>6</sup> Arafura, 2016, Appendix H: Community Consultation Report: Appendix H: Community Consultation Report:  
[https://www.arultd.com/images/EIS/DOCUMENTS/Volume2/Nolans\\_EIS\\_Appendix\\_H\\_web.pdf](https://www.arultd.com/images/EIS/DOCUMENTS/Volume2/Nolans_EIS_Appendix_H_web.pdf)

<sup>7</sup> Arafura, 2016, Appendix S: Social Impact Assessment  
[https://www.arultd.com/images/EIS/DOCUMENTS/Volume4/Nolans\\_EIS\\_Appendix\\_S\\_web.pdf](https://www.arultd.com/images/EIS/DOCUMENTS/Volume4/Nolans_EIS_Appendix_S_web.pdf)

<sup>8</sup> Appendix X: Indigenous Engagement Strategy (IES):  
[https://www.arultd.com/images/Mine%20Management%20Plan%20Documents/APPENDIX\\_X\\_INDIGENOUS\\_ENGAGEMENT\\_STRATEGY.pdf](https://www.arultd.com/images/Mine%20Management%20Plan%20Documents/APPENDIX_X_INDIGENOUS_ENGAGEMENT_STRATEGY.pdf)

<sup>9</sup> Arafura, 2020, a whistleblower policy  
[https://www.arultd.com/images/202006%20Corporate%20Governance%20Update/2\\_5\\_Whistleblower\\_Protection\\_Policy\\_-\\_RevA.pdf](https://www.arultd.com/images/202006%20Corporate%20Governance%20Update/2_5_Whistleblower_Protection_Policy_-_RevA.pdf)

## Environmental management system

Arafura has implemented several policies and working procedures which are internal documents not available to the public, to ensure that the Nolans project adheres to high environmental management standards. The mine management plan, with its associated environmental management plans, serves as the primary document for managing the project, outlining Arafura's environmental policy and commitment, as well as criteria for environmental training and education, emergency preparedness and response plans, and guidelines for environmental risk assessment. In addition, the environmental management plans outline monitoring and measurement protocols, as well as adaptive management plans to prevent, minimize, or mitigate environmental impacts that were identified through environmental risk and impact assessments.



Additionally, the ISO 14001 environmental management system (EMS) is the most recognized certification standard for demonstrating the efforts in upholding high environmental standards. As of now, the Nolans project, which currently has no existing operations, is not able to be certified for ISO 14001 EMS. Arafura has committed to having an ISO 14001 certified main construction contractor for the Nolans project and, they will enhance their EMS to align with the requirements of ISO 14001 with the goal of achieving certification in due course (when the operation started with enough operation experience and record that satisfied the ISO requirements). In addition, Arafura is not only committed to obtaining ISO 14001 certification but also to achieving IRMA certification.

## Water

Arafura has developed various plans and working procedures which are internal documents not available to the public, to ensure effective water management, such as the water management plan and the water extraction management plan. In its water management plan, Arafura has defined a water management hierarchy that includes a water efficiency audit, engineering controls, constant monitoring, inspections of site water bodies, and water monitoring and reporting. According to Arafura's 2022 sustainability report, the company has recently added a reverse osmosis (RO) plant as a supplement to treat dirty water process streams. This plant produces clean water for reuse in the plant. Additionally, Arafura has expanded the reuse of dirty water within the process plant to reduce the use of clean RO water and bore field water.



## Site Closure, decommissioning and reclamation

Arafura has developed a mine closure plan<sup>10</sup> to address site closures, decommissioning, and reclamation-related issues. The plan includes a stakeholder engagement strategy that covers key aspects, such as an agreement on the nominated post-closure land use, mine closure strategies for closure domains, draft completion criteria, socio-economic aspects of transition, and potential retention of mine infrastructure and services for use by post-closure land users. In addition, the plan covers baseline closure data and analysis, mine closure risk assessment, closure implementation, and monitoring and



<sup>10</sup> Arafura, 2022, MINE CLOSURE PLAN for Nolans Rare Earths

[https://www.arultd.com/images/Mine%20Management%20Plan%20Documents/APPENDIX\\_S\\_MINE\\_CLOSURE\\_PLAN\\_Rev\\_2.pdf](https://www.arultd.com/images/Mine%20Management%20Plan%20Documents/APPENDIX_S_MINE_CLOSURE_PLAN_Rev_2.pdf)

maintenance. In addition, under the Mining Authorisation, Arafura is required to publish an environmental report annually.

### **Biodiversity**



Arafura has conducted a biodiversity risk assessment specifically for biodiversity and established a register for relevant species, which includes dingoes, cats, rabbits, and different types of weeds. The risk assessment is guided by various internal plans and working procedures, such as the weed management plan, topsoil management plan, and biodiversity management plan. The biodiversity management plan provides guidance on mitigation measures, trigger points, action and response plans, monitoring, and threat abatement programs, ensuring effective management of potential impacts to the relevant species.

### **Air-pollution**



Arafura has developed an air quality and dust management plan which are internal documents not available to the public, to reduce air pollution, specifically targeting dust emissions. The plan defines the potential impacts of dust and pollutants, dust management and mitigation objectives, measures, trigger points, and action and response plans.

## PART III: LINKING THE TRANSACTION TO ARAFURA'S ESG PROFILE

### A. CONSISTENCY OF GREEN LOANS WITH ARAFURA'S SUSTAINABILITY STRATEGY

#### *Key sustainability objectives and priorities defined by the Borrower*

Arafura's sustainability strategy focuses on the following areas<sup>11</sup>:

- **Environmental Permits:**  
Arafura has a biodiversity management plan in place as a part of the mining management Plan submitted during the mining approval process. It is used to provide biodiversity management across the project site.
- **Water Management:**  
Arafura aims to minimize bore field water usage of Nolan's mine by recycling and utilizing storm water as it is operating in Central Australia. While the borrower does not have precise water reduction targets, Arafura is currently conducting a water reduction study and has identified opportunities to consume significantly less water than the quantity allocated, including the addition of a supplementary reverse osmosis plant within the processing plant design to treat dirty water process streams for reuse in the plant.
- **Water and hazardous materials:**  
Arafura has approvals from the Northern Territory and Commonwealth to dispose of radioactive materials on project site. Arafura will manage and dispose radioactive tailings using the Residue Storage Facility (RSF), which has been designed in accordance with the appropriate Territory and national tailings storage facility guidelines. The residue storage facility aims at protecting groundwater from waste storage and keeping it out of harm's way in the environment.
- **Health & Safety:**  
Arafura states its commitment to maintaining high health and safety standards. The operations resulted in zero injuries in 2021, and they aim at maintaining similar levels in the future.
- **Indigenous People and Participation:**  
Arafura aims to support the local communities and the traditional landowners to provide long-term employment and training while respecting the indigenous local culture. The company plans to execute a 'Local and Indigenous Employment Plan' including a 20% indigenous employment target.
- **Emissions and Net Zero:**  
Arafura's target is to achieve net zero across operations by 2050 and has prepared a pathway for being aligned with the Science-based targets initiative. Arafura is committed to a 30% reduction in emissions from the Nolans Project by 2030 and a 75% reduction by 2040 relative to the forecast baseline emissions at full plant capacity in 2027.

The Issuer's commitments to achieve Net Zero by 2050 are as follow:

<sup>11</sup> Arafura 2022, Sustainability Report 2022 :  
[https://www.arultd.com/images/Sustainability/Arafura\\_Sustainability\\_Report\\_2022\\_reduced.pdf](https://www.arultd.com/images/Sustainability/Arafura_Sustainability_Report_2022_reduced.pdf)

- Solar and wind electricity generation and the use of battery storage targeting 50 percent of project power by 2030.
- Concentrated solar thermal generation along with thermal energy storage for steam generation, with transition commencing in 2030.
- Transition to renewable fuels for firming power to commence in 2040.

Arafura is taking steps to explore use of biofuels for firming power and steam generation, concentrated solar thermal generation, with thermal energy storage for steam generation and using on site solar photovoltaic and wind generation for electricity supply. Arafura is also a signatory to the United Nations Global Compact.

Arafura's sustainability strategy to achieve net zero by 2050 includes reusing high-pressure steam generated by on-site sulphuric acid plant for power generation using steam turbine, using wind turbines for electrical power generation, green hydrogen or ammonia production for firming power and steam generation, and concentrated solar thermal capture for steam generation.

Arafura's Board of Directors aim at overseeing and approving all of the strategic risk management and financial investment decisions, including sustainability and climate related matters. The board operates in four committees: the audit committee, risk management committee, remuneration and nomination committee and the sustainability committee. Arafura has a risk management committee and has risk management policy that identifies and manage safety and health risk and environmental risks.

### *Rationale for issuance*

Arafura has developed its Green Loan framework aiming to attract specific funding which will contribute to the development of the Nolans Project, producing NdPr oxide for use in the manufacturing of high-efficiency electric vehicles and wind turbines to support the transition to a low carbon economy.

**Opinion:** *The key sustainability objectives and the rationale for issuing Green Loans are clearly described by the Borrower. The project categories financed are in line with the sustainability objectives of the Borrower.*

## B. ARAFURA'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Borrower is exposed through its business activities, providing additional context to the issuance assessed in the present report.

### *ESG risks associated with the Borrower's industry*

Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company-specific assessment but areas that are of relevance for companies within that industry. The Borrower is classified in the Mining & Integrated Production, as per ISS ESG's sector classification.

ESG KEY ISSUES IN THE INDUSTRY
Protection of human rights and community outreach
Business ethics and government relations
Environment risks and impacts of operations
Worker safety and accident prevention
Climate protection, energy efficiency and recycling

### *ESG strengths and points of attention related to Arafura's disclosures*

Leveraging ISS ESG's Research, the following strengths and points of attention<sup>12</sup> have been identified:

STRENGTHS	POINTS OF ATTENTION
<p>The company has a Health and Safety management system in place that includes presence of health and safety policy, designated environmental officer, programs on health and safety management, trainings, emergency response plans and audits.</p> <p>Additionally, contractors are integrated in health and safety management system which covers aspects such as induction trainings, monitoring, and audit procedures.</p> <p>The company is a signatory of the United Nations Global Compact that ensures commitment to respect internationally</p>	<p>The Health and Safety management system of the company is not certified to an international standard.</p> <p>The company's disclosure on energy management system is limited to energy efficiency measures. However, information on other elements such as energy policy, training, and energy audits are missing. Additionally, information on energy consumption and reduction targets are not publicly disclosed.</p> <p>The company has disclosed information on need for protection of protected areas and has disclosed about some of its projects located in protected areas or adjacent areas. However,</p>

<sup>12</sup> Please note that Arafura is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Diversified Metals & Mining sector, based on publicly available information exclusively. No direct communication between the Borrower and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

recognized human rights. Furthermore, the company has reported its policies regarding respect for indigenous communities and public outreach. In addition, the company also conducts human right risk assessment, trainings, engages with stakeholders while assessing human rights risks and impacts and has grievance mechanism in place.

The company informs affected communities about its operations through surveys, workshops, site visits and engages with international association.

The company has publicly disclosed a code of conduct covering relevant ethical aspects such as corruption, conflict of interest, the validity of financial information, etc. In addition to that, some compliance procedures are also reported regarding business ethics, which include business ethics awareness, confidential and anonymous whistleblowing mechanisms, compliance training, etc.

The company has disclosed its position on climate change in clear terms by acknowledging it as a global issue. Additionally, the company has plans to transition towards renewable energy by investing in wind, hydrogen, and concentrated solar.

The company has biodiversity management plan in place that includes various aspects of biodiversity management such as environmental impact assessment, consultation with experts, mitigation, and monitoring measures. The company has reported some information regarding tailing management procedure and acid drainage management system.

Additionally, during the process of site closure, decommissioning and reclamation, the company disclosed procedures of engaging with multiple stakeholders and considers various environmental aspects such as water quality, soil conditioning, habitat and vegetation protection, etc.

there is no commitment on not operating in protected areas that are particularly important in terms of biodiversity.

Please note that the consistency between the issuance subject to this report and the Borrower's sustainability strategy is further detailed in Part III.A of the report.

### *Sustainability impact of products and services portfolio*

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the Borrower's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the Borrower's production process.

### *Social impact of the product portfolio:*

Arafura Rare Earths Limited has plans to generate revenue through mining rare earth material. However, as the company has not yet started production, the impact of the product portfolio of the company on social Sustainable Development Goals cannot be assessed with certainty.

### *Environmental impact of the product portfolio*

Arafura Rare Earths Limited has plans to generate revenue through mining rare earth material. However, as the company has not yet started production, the impact of the product portfolio of the company on environmentally Sustainable Development Goals cannot be assessed with certainty.

### *Breaches of international norms and ESG controversies*

#### At Borrower level

At the date of publication and leveraging ISS ESG Research, no controversy in which the Borrower would be involved has been identified.

#### At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Mining & Integrated Production industry are as follows: Failure to prevent water pollution, Failure to respect indigenous rights, Failure to respect the right to life.

Please note, that this is not a company specific assessment but areas that can be of relevance for companies within that industry.

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1. Validity of the Second Party Opinion ("SPO"): Valid as long as the cited Framework remains unchanged.



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## ANNEX 1: Methodology

### Green KPIs

The Green Loans KPIs serve as a structure for evaluating the sustainability quality – i.e., the social and environmental added value – of the use of proceeds of Arafura’s Green Loan.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

### Environmental and social risks assessment methodology

The Environmental and social risks assessment evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Loan KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available or that the information provided did not fulfil the requirements of the Green Loans KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by Arafura (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the Borrower.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, the extent to which Arafura’s Green Loans Framework contributes to related SDGs has been identified.

## ANNEX 2: Quality management processes

### SCOPE

Arafura commissioned ICS to compile a Green Loans SPO. The Second Party Opinion process includes verifying whether the Green Loans align with the Green Loan Principles jointly issued by the Loan Market Association (“LMA”), Asia Pacific Loan Market Association (“APLMA”) and the Loan Syndications & Trading Association (“LSTA”) in February 2023 and to assess the sustainability credentials of its Green Loans, as well as the Borrower’s sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- Green Loan Principles jointly issued by the Loan Market Association (“LMA”), Asia Pacific Loan Market Association (“APLMA”) and the Loan Syndications & Trading Association (“LSTA”) in February 2023.
- Key Performance Indicators relevant for the Use of Proceeds categories selected by the Borrower

### BORROWER’S RESPONSIBILITY

Arafura’s responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

### ISS ESG’S VERIFICATION PROCESS

ISS ESG is one of the world’s leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly reputed thought leader in the green and social loan market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Green Loan Framework to be issued by Arafura has been conducted based on a proprietary methodology and in line with the ICMA Green Loan Principles jointly issued by the Loan Market Association (“LMA”), Asia Pacific Loan Market Association (“APLMA”) and the Loan Syndications & Trading Association (“LSTA”) in February 2023.

The engagement with Arafura took place from January to June 2023.

### ISS’ BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Loan Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Borrower themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the loans from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-Loan-services/> For more information on SPO services, please contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

For more information on this specific Green Loans SPO, please contact: [SPOOperations@iss-esg.com](mailto:SPOOperations@iss-esg.com)

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