

Australian Rare Earths Limited

(ABN 73 632 645 302)



**AUSTRALIAN
RARE EARTHS**

Financial Report

Half-year ended

31 December 2022

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About this Report

This report has been prepared for Australian Rare Earths Limited stakeholders in line with statutory and regulatory obligations. It provides a summary of the Company's operations, performance and financial position as at and for the half year ended 31 December 2022.

All references to Australian Rare Earths Limited, AR3, the Group, the Company, we, us, and our, refer to Australian Rare Earths Limited (ABN 73 632 645 302) and its subsidiaries. All dollar figures are in Australian currency unless otherwise stated. All references to half year refer to the six-month period ending 31 December 2022.

This report should be read in conjunction with the Company's Annual Report for the year ended 30 June 2022, and any public announcements made by the Company during the half year ended 31 December 2022 and up to the date of this report.

Directors' Report

The Directors of Australian Rare Earths Limited present this report for the half year ended 31 December 2022 and the Independent Review Report thereon.

Directors

The following persons were directors of Australian Rare Earths during the half year and until the date of this report:

Professor Dudley Kingsnorth (Independent Non-Executive Director)

Bryn Jones (Non-Executive Director)

Rick Pobjoy (Acting Managing Director)

Pauline Carr (Independent Non-Executive Director)

Don Hyma (Managing Director) – resigned as a Director on 19 August 2022.

Principal activities

Australian Rare Earths is a mineral exploration and development company focused on ionic clay hosted rare earths resource opportunities in South Australia and Victoria.

There was no significant change in this activity during the half year ended 31 December 2022.

Summary of Financial Performance

The net loss of the Group for the half year ended 31 December 2022 was \$696,236 (31 December 2021: \$3,389,044) and includes:

- Share based payments expense of \$285,784 representing the expense for the 6-month period to 31 December 2022, associated with fair value of unlisted options issued during the current and prior periods (31 December 2021: \$2,284,891).
- Corporate, administration and wages expenses of \$1,142,217 (31 December 2021: \$875,733).

The above expense items are offset by:

- Interest income of (\$35,830).
- Write-back of share based payments expense associated with previously issued options that were unvested and forfeited during the period (\$744,583).

During the reporting period the Group's net cash position decreased by \$3,709,000 from \$12,615,020 (30 June 2022) to \$8,906,020 (31 December 2022), and the Group has no corporate debt.

This decrease in cash was predominantly influenced by cash outflows associated with:

- Exploration expenditure of \$2,819,885.
- Corporate, administration and wages expenditure (net of allocations to exploration assets) of \$914,447.

These outflows were offset by inflows associated with:

- Interest income receipts of \$35,731.

Changes in equity

The following changes in equity took place during the half-year ended 31 December 2022:

- 2,500,000 Options, in aggregate, were issued to Directors and the Company Secretary. Shareholder approval for the issue of Options to Directors was received at the Company's Annual General Meeting held on 24 November 2022. The 2,500,000 Options issued comprise as follows:
 - 1,750,00 Options exercisable at \$0.50 each, expire on or before 2 December 2025 and vested immediately on the date of issue; and
 - 750,000 Options exercisable at \$0.50 each, expire on or before 2 December 2026 and are subject to service-based vesting conditions.
- 500,000 Options were issued to an employee of the Company. The Options are exercisable at \$0.5743 each, expire on or before 4 July 2025 and are subject to service-based vesting conditions.
- 800,000 Options were issued to employees of the Company. The Options are exercisable at \$0.50 each, expire on or before 4 July 2025 and are subject to service-based vesting conditions.
- 2,000,000 Options exercisable at \$1.46 each, expiring on or before 1 December 2024, with a vesting date of 5 October 2022, were forfeited in accordance with the terms in which they were issued.
- 2,000,000 Options exercisable at \$1.95 each, expiring on or before 1 December 2025, with a vesting date of 5 October 2023, were forfeited in accordance with the terms in which they were issued.

Refer Note 14 for further details of the Options issued during the half year.

Dividends

There were no dividends paid, recommended or declared during the current or previous reporting period.

Review of Operations

Strategic Partnership

During the period the Company has made significant progress on the development at its flagship Koppamurra ionic clay rare earths project ("Koppamurra") and entered into strategic relationships with internationally recognized downstream processors of rare earths.

During the period the Company entered a non-binding Memorandum of Understanding ("MoU") with North American Based global rare earths processor, Neo Performance Materials Inc (Neo). The MoU provides for the good faith negotiation of a joint development agreement to accelerate Koppamurra towards first production of a Mixed Rare Earth Carbonate ("MREC").

Neo operates several rare earth production facilities around the world, including separation plants in Estonia and China that source MREC from third-party producers. Neo's experience in providing input to MREC supply will be invaluable to AR3, as demonstrated by Neo's ongoing success in securing light and heavy rare earth raw materials from the United States and elsewhere.

Koppamurra Project

The Koppamurra Project comprises four granted exploration licenses in South Australia (EL6509, EL6613, EL6690 & EL6691) and two granted exploration licenses in Victoria (EL007254 & EL7719).

During the period the Company expanded the JORC Mineral Resource Estimate (MRE) for Koppamurra by 104% to 81.4Mt at 785ppm TREO (total rare earth oxide). The mineral resource inventory includes more than 50% in the Indicated Resource category. This includes an initial Indicated Resource of 45Mt at 835ppm TREO, as shown in the table below. The updated MRE was announced to the ASX on 4th July 2022.

Koppamurra Mineral Resource Estimate – July 2022										
JORC Category	Tonnes Mt	TREO ppm	Magnet Rare Earths							
			Pr ₆ O ₁₁		Nd ₂ O ₃		Tb ₄ O ₇		Dy ₂ O ₃	
			ppm	% TREO	ppm	% TREO	ppm	% TREO	ppm	% TREO
Indicated	45	835	37	4.4	142	17	4	0.5	22	2.6
Inferred	36	721	32	4.4	122	17	3	0.5	19	2.6
Total	81	785	34	4.4	133	17	4	0.5	21	2.6
Exploration Target¹	90-220	629- 849	29- 41	4.6- 4.8	110- 150	17-18	3-4	0.5- 0.5	16- 22	2.5- 2.6
April 2021 Initial Resource ²										
Inferred	39.9	725	32	4.4	124.6	17.2	3.5	0.5	19.2	2.6

Mineral Resources reported at a cut-off grade of 325 ppm TREO-CeO₂, consistent with the previous MRE.

1. The potential quantity and grade of the Exploration Target is conceptual in nature. Further exploration is required to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource.
2. Australian Rare Earths Prospectus dated 7 May 2021

The Company concluded a substantial additional drilling program at Koppamurra during the period. Over 13,000m of air-core drilling was completed consisting of 1,239 drillholes targeting infill drilling and immediate extensions of the current MRE of 81.4Mt at 785ppm TREO. It is anticipated this drilling campaign will allow for a significant upgrade to the current MRE and Exploration Target of Koppamurra during the first quarter of 2023.

Following a short break over the Christmas and the holiday period, drilling recommenced in January 2023. Approximately 1,000 samples are expected to be generated each week during the 2023 10,000m air-core drilling program, which will be submitted to the Company's laboratory, Bureau Veritas, in Adelaide for analysis. Much of this additional drilling will continue to be targeted at extensions of the existing resource. Regional drilling on Victorian portions of the Koppamurra Project area, and follow up drilling in the Frances, South Australian area of the Koppamurra Project will also be undertaken.

Metallurgical Test work

Processing by ANSTO of ~800kg of material collected from the Trial Pit at Koppamurra for rare earth recovery and product specification analysis was largely concluded during the period. This work has been a step change in the scale of rare earth recovery test work that has been conducted to date. The information gathered during this test work will further inform the design and operational criteria for even larger scale technology selection testing and inform offtake assessments.

Early assay test results have indicated a viable processing pathway for Koppamurra; Leach optimisation test work has resulted in excellent recoveries of the four key magnet rare earth elements (REE) while reducing acid consumption and impurity dissolution.

The processing of this material has included large scale impurity removal and rare earth carbonate precipitation steps so as to confirm precipitation conditions and expected product purity from the bulk composite liquors.

The testing has produced samples of rare earth carbonate for demonstration and marketing purposes and the assays supporting the reporting of results which follow the currently proposed flowsheet are expected to be available during the March 2023 quarter.

Community Engagement

The Company has established the Koppamurra Landholder Reference Group (KLRG) to share information and seek feedback on the Project and has held meetings during the period with interested parties, including

government departments, landholders and industry associations. The reference group allows a forum to enhance participants' understanding of the Project.

The Company remains committed to continuing its open conversation with key stakeholders as it undertakes a range of environmental, economic and technical studies.

Mining Lease Application

A number of studies are being undertaken by the Company to support its Mining Lease Application for submission to the South Australian Department for Energy and Mining, including:

- Impacts to groundwater and any identified Groundwater Dependent Ecosystems
- Heritage assessment and risk review
- Ecological desktop studies, field surveys and impact assessment
- Impacts to residential receptors for noise, vibration and air quality
- Impacts to traffic and the road network
- Impacts to surrounding visual amenity
- Socio-economic impacts

Members of the public wishing to learn more on our projects are always welcome to contact Jacqui Owen, Manager – Community and Land, who is based in AR3's regional office in Naracoorte, should they have any questions.

Significant changes to the state of affairs

On 19 August 2022, Mr Hyma resigned as a Director of the Company, following the Company's termination of his executive services agreement. Mr Pobjoy accepted the role of Acting Managing Director, effective 19 August 2022.

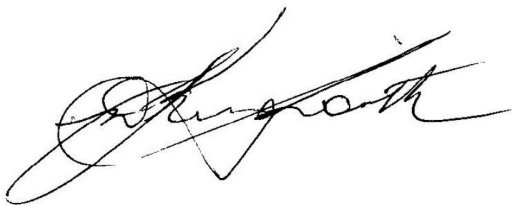
There have been no further significant changes to the state of affairs of the Group during the report period.

Events subsequent to the end of reporting date

- On 1 February 2023, Noel Whitcher was appointed as the Company's Chief Financial Officer (CFO) and Company Secretary, replacing Damien Connor who has consulted to the Company in the role of CFO and Company Secretary on a part time basis since November 2020.

The Directors are not aware of any other matter or circumstance that has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future reporting periods.

This report is signed in accordance with a resolution of the Board of Directors.



Dudley Kingsnorth
Non-Executive Chairman

Perth

Dated this 1st day of March 2023

Auditor's Independence Declaration



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Auditor's Independence Declaration

To the Directors of Australian Rare Earths Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Australian Rare Earths Limited for the half-year ended 31 December 2022. I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.

A stylized blue ink signature of the Grant Thornton firm.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A blue ink signature of J. L. Humphrey.

J. L. Humphrey
Partner – Audit & Assurance

Adelaide, 1 March 2023

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Statement of Profit or Loss and Other Comprehensive Income

(For the half-year ended 31 December 2022)

CONSOLIDATED GROUP			
	NOTES	31 December 2022	31 December 2021
		\$	\$
REVENUE			
Revenue from ordinary activities		-	-
Other income	3	35,830	6,222
EXPENSES			
Depreciation		(8,189)	(1,456)
Right-of-use asset amortisation		(21,349)	(14,425)
Corporate consulting		(267,829)	(242,289)
Exploration expenditure expensed		(19,110)	(218,761)
Employee benefits expense		(522,244)	(391,807)
Share based payments expense	13	(285,784)	(2,284,891)
Share based payments expense write back - forfeited options	13	744,583	-
Other expenses	4	(352,144)	(241,637)
LOSS BEFORE INCOME TAX EXPENSE		(696,236)	(3,389,044)
Income tax benefit		-	-
LOSS FOR THE PERIOD		(696,236)	(3,389,044)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		(696,236)	(3,389,044)
EARNINGS PER SHARE		Cents	Cents
Basic and diluted loss per share		(0.54)	(3.06)

The accompanying notes form part of the financial statements.

Statement of Financial Position

(As at 31 December 2022)

CONSOLIDATED GROUP			
	NOTES	31 December 2022 \$	30 June 2022 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		8,906,020	12,615,020
Trade and other receivables	7	845,268	279,162
Other current assets		113,757	53,364
Total current assets		9,865,045	12,947,546
NON-CURRENT ASSETS			
Restricted cash – bank guarantees for exploration bonds		100,000	100,000
Exploration and evaluation expenditure	8	7,135,621	5,155,043
Property, plant and equipment	9	208,910	221,186
Right-of- use assets	11	34,639	56,433
Total non-current assets		7,479,170	5,532,662
TOTAL ASSETS		17,344,215	18,480,208
CURRENT LIABILITIES			
Trade and other payables	10	1,211,810	1,158,458
Lease Liability	11	33,529	44,145
Employee benefits		26,636	38,062
Total current liabilities		1,271,975	1,240,665
NON-CURRENT LIABILITIES			
Lease Liability	11	4,814	18,082
Employee benefits		1,000	-
Total non-current liabilities		5,814	18,082
TOTAL LIABILITIES		1,277,789	1,258,747
NET ASSETS/(LIABILITY)		16,066,426	17,221,461
EQUITY			
Issued capital	12	20,163,426	20,163,426
Reserves	13	2,562,742	3,021,541
Retained losses		(6,659,742)	(5,963,506)
TOTAL EQUITY		16,066,426	17,221,461

The accompanying notes form part of the financial statements.

Statement of Changes in Equity

(For the half-year ended 31 December 2022)

	Issued Capital \$	Retained Losses \$	Reserves \$	Total \$
BALANCE AT 1 JULY 2021	12,204,685	(592,421)	360,662	11,972,926
Expense associated with unlisted option vesting during the period.	-	-	1,984,891	1,984,891
Shares issued during the period	300,000	-	-	300,000
Transactions with owners	300,000	-	1,984,891	2,284,891
Total loss for the period	-	(3,389,044)	-	(3,389,044)
BALANCE AT 31 DECEMBER 2021	12,504,685	(3,981,465)	2,345,553	10,868,773

	Issued Capital \$	Retained Losses \$	Reserves \$	Total \$
BALANCE AT 1 JULY 2022	20,163,426	(5,963,506)	3,021,541	17,221,461
Expense associated with unlisted option vesting during the period.	-	-	285,784	285,784
Transactions with owners	-	-	285,784	285,784
Transfer of share option forfeited from share based payments reserve to profit and loss for the period.	-	-	(744,583)	(744,583)
Total loss for the period	-	(696,236)	-	(696,236)
BALANCE AT 31 DECEMBER 2022	20,163,426	(6,659,742)	2,562,742	16,066,426

The accompanying notes form part of the financial statements.

Statement of Cash Flows

(For the half-year ended 31 December 2022)

	CONSOLIDATED GROUP	
	31 December	31 December
	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES	\$	\$
Payments to suppliers and employees	(891,008)	(1,198,332)
Interest received	35,731	48
NET CASH USED IN OPERATING ACTIVITIES	(855,277)	(1,198,284)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration expenditure	(2,819,885)	(1,143,150)
Payment for plant and equipment	(10,399)	(170,465)
NET CASH USED IN INVESTING ACTIVITIES	(2,830,284)	(1,313,615)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of lease liability	(23,439)	(6,851)
Movement in restricted cash	-	(20,000)
Transaction costs – IPO	-	(884,649)
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES	(23,439)	(911,500)
Net (decrease) / increase in available cash held	(3,709,000)	(3,423,399)
Available cash at beginning of period	12,615,020	12,081,355
AVAILABLE CASH AT THE END OF THE PERIOD	8,906,020	8,657,956

The accompanying notes form part of the financial statements.

Notes to the Financial Statements

(For the half-year ended 31 December 2022)

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2022 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Australian Rare Earths Limited and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2022, together with any public announcements made during the half-year.

Significant Accounting Policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2022 unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. There was no impact of adoption of new standards during the period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

NOTE 2 – SEGMENT REPORTING

For management purposes, the Group is organised into one main business and geographic segment, which involves exploration for mineral deposits in Australia. All of the Group's activities are interrelated, and no discrete financial information is reported to the Board (Chief Operating Decision Makers) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from the segment are equivalent to the financial statement of the Group as a whole.

NOTE 3 – OTHER INCOME

	CONSOLIDATED GROUP	
	31 December 2022	31 December 2021
	\$	\$
Interest received	35,830	6,222
	<u>35,830</u>	<u>6,222</u>

NOTE 4 – OTHER EXPENSES

	CONSOLIDATED GROUP	
	31 December 2022	31 December 2021
	\$	\$
Compliance	67,988	52,750
Legal, insurance and registry	75,757	96,459
Office, website & marketing expenses	56,520	61,451
Travel related expenses	102,053	17,512
Other expenses	49,826	13,465
	352,144	241,637

NOTE 5 – CASH AND CASH EQUIVALENTS

	CONSOLIDATED GROUP	
	31 December 2022	30 June 2022
	\$	\$
Cash at bank and cash on hand	8,906,020	12,595,020
Short term bank deposits	-	20,000
TOTAL AVAILABLE CASH AT BANK AND ON HAND	8,906,020	12,615,020

NOTE 6 – RESTRICTED CASH

	CONSOLIDATED GROUP	
	31 December 2022	30 June 2022
	\$	\$
Bank guarantees in relation to rehabilitation obligations	100,000	100,000
	100,000	100,000

Bank guarantees relate to exploration rehabilitation obligations and are held by the South Australian Department for Energy and Mines for rehabilitation obligations on two South Australian tenements (\$90,000) and the Victorian Department of Jobs, Precincts and Regions for one Victorian tenement (\$10,000).

NOTE 7 – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED GROUP	
	31 December 2022	30 June 2022
	\$	\$
Research and development tax incentive - FY22 (lodged)	453,438	-
Research and development tax incentive - HY23 estimate	211,703	-
GST receivable	179,901	216,596
Other receivable	226	62,566
	845,268	279,162

NOTE 8 – EXPLORATION AND EVALUATION EXPENDITURE

	CONSOLIDATED GROUP	
	31 December 2022	30 June 2022
	\$	\$
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation at cost	7,135,621	5,155,043
Movements in carrying amounts:		
Balance at the beginning of the period	5,155,043	940,265
Amounts capitalised during the period	2,645,719	4,214,778
Research and development tax incentive - FY22 (lodged) ¹	(453,438)	-
Research and development tax incentive - HY23 estimate	(211,703)	-
Balance at the end of the period	7,135,621	5,155,043

¹ Research and development tax incentive for financial year ended 30 June 2022 was lodged on 24 February 2023.

During the six-month period to 31 December 2022, \$14,486 of equipment depreciation was included in the amount capitalised as exploration and evaluation expenditure (31 December 2021: \$9,085).

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED GROUP	
	31 December 2022	30 June 2022
	\$	\$
Plant and Equipment at cost	262,257	251,858
Accumulated depreciation	(53,347)	(30,672)
	208,910	221,186
Movements in carrying amounts:		
Balance at the beginning of the period	221,186	478
Additions	10,399	251,381
Depreciation	(22,675)	(30,673)
Balance at the end of the period	208,910	221,186

NOTE 10 – TRADE AND OTHER PAYABLES

	CONSOLIDATED GROUP	
	31 December 2022	30 June 2022
	\$	\$
Trade payables	822,211	623,004
Accrued bonus payments	-	416,100
Other creditors and accruals	389,599	119,354
	1,211,810	1,158,458

NOTE 11 – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	CONSOLIDATED GROUP	
	31 December 2022	30 June 2022
	\$	\$
Lease Liabilities		
Current	33,529	44,145
Non-current	4,814	18,082
	38,343	62,227
Right-of-use assets		
Right-of-use assets – Office/Warehouse leases	92,051	92,496
Accumulated depreciation	(57,412)	(36,063)
	34,639	56,433

The Group has lease contracts for commercial office/warehouse space and accommodation in Naracoorte in South Australia, and a car park lease in Adelaide. The Naracoorte office/warehouse lease has a term of two years (commenced 1 September 2021), with an option to extend for a further three years. The car park lease in Adelaide has a three year term (commenced 1 September 2021).

NOTE 12 – ISSUED CAPITAL

	31 December 2022 \$	30 June 2022 \$
129,498,220 (30 June 22: 129,498,220) fully paid ordinary shares	20,163,426	20,163,426
Six months ended 31 December 2022	Number of Shares	31 December 2022 \$
(a) issued and paid up capital		
Fully paid ordinary shares	129,498,220	20,163,426
Movements in fully paid shares		
Balance as at 1 July 2022	129,498,220	20,163,426
N/a – no movement during the period	-	-
Balance as at 31 December 2022	129,498,220	20,163,426

NOTE 13 – RESERVES

	Six months to 31 December 2022 \$	Year ended 30 June 2022 \$
Share based payment reserve	2,562,742	3,021,541
Movement associated with Options during the period:		
Opening Balance	3,021,541	360,662
Options issued	285,784	2,660,879
Options exercised	-	-
Forfeited/lapsed	(744,583)	-
Closing Balance	2,562,742	3,021,541

The share based payments reserve records items recognised as an expense on the valuation of Options or performance rights. Refer Note 14 for further details regarding the movement in Options during the reporting period.

The Company did not issue any performance rights during the current or prior reporting period.

NOTE 14- SHARE BASED PAYMENTS

UNLISTED OPTIONS

Options and weighted average exercise prices are as follows for the reporting period presented:

Six months ended 31 December 2022	Number of Shares	31 December 2022 \$	Weighted average exercise price per share
Opening Balance - 1 July 2022	21,197,200	3,021,541	\$0.76
Granted	3,800,000	285,784	\$0.51
Exercised	-	-	-
Forfeited/Lapsed	(4,000,000)	(744,583)	\$1.71
Closing Balance as at 31 December 2022	20,997,200	2,562,742	\$0.53

Weighted average remaining contractual life of Options at 31 December 2022 is 2.16 years (31 December 2021: 2.89 years)

Options granted during the period

Directors

On 2 December 2022, 2,500,000 Options, in aggregate, were issued to Directors, following Shareholder approval received at the Company's Annual General Meeting held on 24 November 2022. The Options were issued at no cost to the recipient and entitle the holder to receive one fully paid ordinary share in the Company for each Option exercised, and comprise as follows:

- 750,000 Options issued to Mr Kingsnorth, exercisable at \$0.50 each, expire on or before 2 December 2025 and vested immediately on the date of issue;
- 500,000 Options issued to Ms Carr, exercisable at \$0.50 each, expire on or before 2 December 2025 and vested immediately on the date of issue;
- 500,000 Options issued to Mr Jones, exercisable at \$0.50 each, expire on or before 2 December 2025 and vested immediately on the date of issue; and
- 750,000 Options issued to Mr Pobjoy, exercisable at \$0.50 each, expire on or before 2 December 2026 and are subject to service-based vesting conditions.

NOTE 14- SHARE BASED PAYMENTS.....continued

Other employees

- 500,000 Options issued to an employee, exercisable at \$0.5743 each, expire on or before 4 July 2025 and are subject to service-based vesting conditions; and
- 800,000 Options, in aggregate, issued to employees, exercisable at \$0.50 each, expire on or before 2 December 2026 and are subject to service-based vesting conditions.

Details of the Options granted during the six month period to 31 December 2022 are set out below:

ISSUED TO	GRANT DATE	ISSUE DATE	NUMBER OF OPTIONS GRANTED	OPTION EXERCISE PRICE	1 st VESTING DATE	2 nd VESTING DATE	3 rd VESTING DATE	EXPIRY DATE
Non Executive Directors	24/11/2022	2/12/2022	1,750,000	\$0.50	2/12/2022	n/a		2/12/2025
Executive Director	24/11/2022	2/12/2022	750,000	\$0.50	2/12/2023	2/12/2024	2/12/2025	2/12/2026
Employees	1/12/2022	2/12/2022	800,000	\$0.50	2/12/2023	2/12/2024	2/12/2025	2/12/2026
Employee	4/7/2022	8/4/2022	500,000	\$0.5743	4/7/2022	4/7/2023	4/7/2024	4/7/2025
			3,800,000					

All Options are unlisted and are exercisable into fully paid ordinary shares in the Company on a one for one basis. The fair value of the Options issued during the period was calculated by using a Black-Scholes option pricing model.

The fair value of the Options was estimated on the date of grant using the following assumptions:

ASSUMPTION	NON-EXECUTIVE DIRECTOR OPTIONS	EXECUTIVE DIRECTOR OPTIONS	EMPLOYEE OPTIONS	EMPLOYEE OPTIONS
Exercise price (\$)	0.50	0.50	0.50	0.5743
Share price at date of grant (\$)	0.355	0.355	0.355	0.40
Historic volatility (%)	60.1	66.8	66.4	62.4
Risk free interest rate (%)	3.24	3.34	3.21	2.97
Expected life of Options (days)	1,104	1,469	1,462	1,096

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of the Options is based on the historical exercise patterns, which may not eventuate in the future.

The total fair value at the grant date for the 3,800,000 Options issued was \$502,672, and this amount is being expensed to the Statement of Profit or Loss and Other Comprehensive Income under 'share based payments expense' over the respective vesting periods applicable to the Options, which vary from immediately to December 2025.

An amount of \$285,784 has been included in the Statement of Profit or Loss and Other Comprehensive Income under 'share based payments expense' for the six-month period ended 31 December 2022 (31 December 2021: \$1,984,891) relating to the fair value of options issued during the current and prior periods.

NOTE 14- SHARE BASED PAYMENTS.....continued

Options exercised during the period

No Options issued as remuneration or as payment for services provided to the Company, have been exercised during the six-month period ended 31 December 2022 (31 December 2021: nil), or as at the date of this report.

Options lapsed/forfeited during the period

During the reporting period 4,000,000 Options, in aggregate, were forfeited in accordance with the terms in which they were issued, comprising:

- 2,000,000 Options exercisable at \$1.46 each, expiring on or before 1 December 2024, with a vesting date of 5 October 2022; and
- 2,000,000 Options exercisable at \$1.95 each, expiring on or before 1 December 2025, with a vesting date of 5 October 2023.

An amount of \$744,583 was written-back to the 'share-based payments expense' on the Statement of Profit or Loss and Other Comprehensive Income' for the six-month period ended 31 December 2022, relating to prior period share-based payments expense associated with the unvested Options that were forfeited during the period.

NOTE 15 – CONTINGENT ASSETS, LIABILITIES & COMMITMENTS

The Company has no contingent assets, liabilities or commitments as at 31 December 2022 (31 December 2021: Nil).

The Group has minimum expenditure commitments on exploration licences as per the terms of each exploration licence. Unexpended commitment for a particular year can be deferred or rolled over to subsequent years of the licence term.

NOTE 16 – EVENTS SUBSEQUENT TO REPORTING DATE

On 1 February 2023, Noel Whitcher was appointed as the Company's Chief Financial Officer (CFO) and Company Secretary, replacing Damien Connor who has consulted to the Company in the role of CFO and Company Secretary on a part time basis since November 2020.

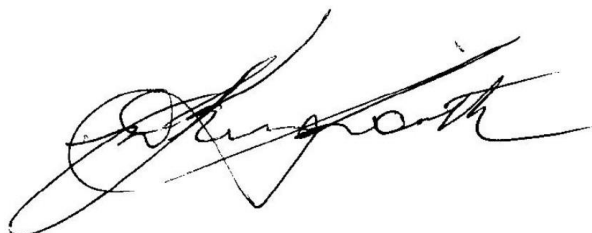
The Directors are not aware of any other matter or circumstance that has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future reporting periods.

Directors' Declaration

The Directors of the Company declare that:

1. The Financial Statements and Notes, as set out on pages 8 to 19 are in accordance with the *Corporations Act 2001*, including:
 - a) complying with Accounting Standard AASB 134 Interim Financial Reporting, and
 - b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the half-year ended on that date.
2. In the Director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'D. Kingsnorth', with a large, stylized loop at the beginning and a long horizontal stroke extending to the right.

Dudley Kingsnorth
Independent Non-Executive Chairman

Perth

Dated this 1st day of March 2023

Independent Auditor's Review Report



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Independent Auditor's Review Report

To the Members of Australian Rare Earths Limited

Report on the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Australian Rare Earths Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Australian Rare Earths Limited does not comply with the *Corporations Act 2001* including:

- a giving a true and fair view of the Australian Rare Earths financial position as at 31 December 2022 and of its performance for the half year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J L Humphrey
Partner – Audit & Assurance

Adelaide, 1 March 2023

Corporate directory

DIRECTORS

Professor Dudley Kingsnorth – Independent Non-Executive Chairman

Bryn Jones – Non-Executive Director

Pauline Carr – Independent Non-Executive Director

Rickie Pobjoy – Acting Managing Director

COMPANY SECRETARY AND CFO

Damien Connor

REGISTERED OFFICE

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AUDITORS

Grant Thornton Audit Pty Ltd

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AUSTRALIAN SECURITIES EXCHANGE

The Company is listed on the Australian Securities Exchange

ASX CODE: AR3