

Australian Rare Earths Limited

(ABN 73 632 645 302)



**AUSTRALIAN
RARE EARTHS**

Financial Report

Half-year ended
31 December 2021

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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 2021.

All references to Australian Rare Earths, 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 2021.

This report should be read in conjunction with the Company's Annual Report for the year ended 30 June 2021, and any public announcements made by the Company during the half year ended 31 December 2021 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 2021 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:

Dudley Kingsnorth (Independent Non-Executive Director)

Bryn Jones (Non-Executive Director)

Rickie Pobjoy (Executive Technical Director)

Don Hyma (Managing Director) - appointed 5 October 2021.

Pauline Carr (Independent Non-Executive Director) - appointed 15 October 2021.

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 2021.

Dividends

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

Consolidated results

During the half-year ended 31 December 2021 the Group incurred a loss of \$3,389,044 (31 December 2020: \$27,350).

The Company was admitted to the Official List of ASX on 29 June 2021, therefore the loss experienced in the half year ended 31 December represents a general increase in expenditure commensurate with the level of activity when compared with prior half year ended 31 December 2020, where very little activity had been undertaken or costs incurred. Contributing to the loss for the half year to 31 December 2021 was the recognition of \$2,284,891 of non-cash accounting expense associated with the valuation of unlisted options and shares issued to directors and other employees during the half year ended 31 December 2021.

Changes in equity

The following changes in equity took place during the half-year ended 31 December 2021:

Shares

The number of fully paid ordinary shares (**Shares**) on issue increased from 110,680,000 (1 July 2021) to 110,988,261 (31 December 2021).

During the half year ended 31 December 2021:

- 308,261 fully paid ordinary shares were issued to the Managing Director, Mr Don Hyma, following shareholder approval at the Company's Annual General Meeting held on 26 November 2021. The shares were issued pursuant to the Managing Director's employment contract with the Company.

Refer Note 11 for further details of the Shares issued during the half year.

Unlisted Options

The number of unlisted options (**Options**) on issue increased from 12,597,200 (1 July 2021) to 20,197,200 (31 December 2021).

During the half year ended 31 December 2021:

- 7,600,000 Options, in aggregate, were issued to Directors and the Company Secretary. Shareholder approval was received at the Company's Annual General Meeting held on 26 November 2021, for the issue of Options to Directors.

Refer Note 13 for further details of the Options issued during the half year.

Review of Operations

During the period the Company focused its operations on progressing exploration and development activities at its flagship Koppamurra ionic clay rare earths project ("Koppamurra Project").

Mineral exploration and development

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

A comprehensive exploration program across targeted areas at Koppamurra was concluded during the period, through the completion of 899 drillholes for a total of 9,921m. Since its conclusion, a small batch of expedited assay results were received within the December 2021 quarter, and a larger batch has since been received after the half year end. Assays from 174 holes at EL6613 (Francis) have been interpreted, confirming shallow rare earth mineralised clay sediments across a wide region of the Koppamurra Project area.

The pending assay results from the remaining drillholes are focused on EL6509 (Red Tail and Yellow Tail) to expand the existing and previously reported mineral resource at that location. Extension drilling to the north and south of Red Tail and Yellow Tail has continued to indicate a prospective setting for accumulation of rare earth mineralisation.

The Company believes these results indicate a larger resource area can be assessed as part of the upgrade to the existing Mineral Resource Estimate (MRE). To test this theory and follow up the success of the December 2021 quarter drill program, a 10,000m drilling program is now planned to commence in February 2022 to define additional resources.

AR3 will continue to investigate the recently discovered mineralised zone in EL6613 in addition to expanding the Red Tail and Yellow Tail resources and will progress the planning for exploration drilling of the two additional tenements that were granted to the Company during the December 2021 quarter. These are also located in South Australia, EL6690 (Keith) and EL6691 (Bordertown)

Additional work to support the economic assessment of Koppamurra includes the metallurgical testing of selected drill core samples by the Australian Nuclear Science and Technology Organisation (ANSTO), and the University of Toronto. Concurrently AR3 entered into a Research Agreement with the University of Adelaide to advance the understanding of the geological evolution of the Koppamurra deposit. The research aims to understand the rare earth deportment and mineralogy within the ore system, define the sources of the rare earth elements, and develop a new ore genesis model for this unique style of mineralisation at Koppamurra. It will also explore the potential of fluorescence spectroscopy for rapid ore identification and exploration. Initially, the research effort is planned to be conducted over a 12-month period.

AR3 is focused on partnering with the community to grow Koppamurra in a responsible and sustainable manner. This has commenced with early and transparent engagement together with establishing a local presence in Naracoorte. A local office and warehouse were established during the half year, for the ongoing exploration program and community engagement efforts.

In December 2021, AR3 was proud to officially open the Naracoorte office and warehouse facility with the Mayor of Naracoorte Lucindale Council, local landholders, and residents in the region. Through discussion with Company employees, attendees were able to learn first-hand about the Project, view exploration drilling samples and discuss potential employment and regional development opportunities. The Mayor of Naracoorte Erika

Vickery OAM officially opened the facility and spoke to attendees, highlighted the exciting opportunity that the Koppamurra Project presented for the region.

South Australia mineral exploration license holders have a statutory requirement to identify relevant environmental, social, and economic impacts prior to obtaining regulatory approval to undertake exploration activities. AR3's exploration programmes were submitted in accordance with the South Australian government's Environmental Protection and Rehabilitation (PEPR's) process and have all been approved. This reflects the thorough approach taken by the Company.

Significant changes to the state of affairs

Admission to the Official List of ASX

Australian Rare Earths Limited was successfully admitted to the Official List of the Australian Securities Exchange (ASX) on 29 June 2021 and official quotation of the Company's shares commenced on 1 July 2021, following the successful raising of \$12,000,000 from the issue of 40,000,000 fully paid ordinary shares at \$0.30 per share, pursuant to the Initial Public Offering (IPO) Prospectus dated 7 May 2021.

Executive Director appointments

Pursuant to Mr Pobjoy's employment agreement with the Company, from 1 July 2021 Mr Pobjoy was the Company's interim Managing Director and remained in that role until Mr Don Hyma was appointed as the Company's Managing Director on 5 October 2021. Following the appointment of Mr Hyma, Mr Pobjoy reassumed his role as the Company's Executive Technical Director and continued as a member of the Board.

Change of Registered Office and Principal Place of Business

On 31 August 2021, the Company changed its registered office and principal place of business to Level 10, 111 Gawler Place, Adelaide, South Australia, 5000.

New subsidiary company incorporated

WRDBD Developments Pty Ltd was incorporated on 7 December 2021 as a wholly owned subsidiary of Australian Rare Earths Limited.

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

Events subsequent to the end of reporting date

The Directors are not aware of any other matter or circumstance that has arisen since 31 December 2021 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.

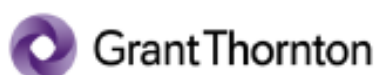


Dudley Kingsnorth
Non-Executive Chairman

Perth

Dated this 24th day of February 2022

Auditor's Independence Declaration



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Adelaide SA 5000

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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 2021, 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 auditor, which appears to read "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A blue ink signature of J L Humphrey.

J L Humphrey
Partner – Audit & Assurance

Adelaide, 24 February 2022

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Statement of Profit or Loss and Other Comprehensive Income

(For the half-year ended 31 December 2021)

		CONSOLIDATED GROUP	
	NOTES	31 December	31 December
		2021	2020
		\$	\$
REVENUE			
Interest income		6,222	-
Other income – loans from related parties forgiven		-	4,000
EXPENSES			
Depreciation		(1,456)	-
Right-of-use asset amortisation		(14,425)	-
Corporate consulting		(242,289)	(15,648)
Exploration expenditure expensed		(218,761)	(3,798)
Employee benefits expense		(391,807)	-
Share based payments expense	13	(2,284,891)	-
Other expenses	3	(241,637)	(11,904)
LOSS BEFORE INCOME TAX EXPENSE		(3,389,044)	(27,350)
Income tax benefit		-	-
LOSS FOR THE PERIOD		(3,389,044)	(27,350)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		(3,389,044)	(27,350)
EARNINGS PER SHARE		Cents	Cents
Basic and diluted loss per share		(3.06)	(0.01)

The accompanying notes form part of the financial statements.

Statement of Financial Position

(As at 31 December 2021)

	NOTES	CONSOLIDATED GROUP	
		31 December 2021	30 June 2021
ASSETS		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		8,657,956	12,081,355
Trade and other receivables	6	139,957	88,099
Other current assets		146,001	30,373
Total current assets		8,943,914	12,199,827
NON-CURRENT ASSETS			
Restricted cash – bank guarantees for exploration bonds		30,000	10,000
Exploration and evaluation expenditure	7	2,280,461	940,265
Property, plant and equipment	8	160,403	478
Right-of- use assets	10	78,071	-
Total non-current assets		2,548,935	950,743
TOTAL ASSETS		11,492,849	13,150,570
CURRENT LIABILITIES			
Trade and other payables	9	529,014	1,177,644
Lease Liability	10	43,400	-
Employee benefits		9,417	-
Total current liabilities		581,831	1,177,644
NON-CURRENT LIABILITIES			
Lease Liability	10	42,245	-
Total non-current liabilities		42,245	-
TOTAL LIABILITIES		624,076	1,177,644
NET ASSETS/(LIABILITY)		10,868,773	11,972,926
EQUITY			
Issued capital	11	12,504,685	12,204,685
Reserves	12	2,345,553	360,662
Retained losses		(3,981,465)	(592,421)
TOTAL EQUITY		10,868,773	11,972,926

The accompanying notes form part of the financial statements.

Statement of Changes in Equity

(For the half-year ended 31 December 2021)

	Issued Capital \$	Retained Losses \$	Reserves \$	Total \$
BALANCE AT 1 JULY 2020	4	(5,657)	-	(5,653)
Shares issued during the period	1,378,000	-	-	1,378,000
Transaction costs	(78,000)	-	-	(78,000)
Transactions with owners	1,300,000	-	-	1,300,000
Total comprehensive loss for the period	-	(27,350)	-	(27,350)
BALANCE AT 31 DECEMBER 2020	1,300,004	(33,007)	-	1,266,997
	Issued Capital \$	Retained Losses \$	Reserves \$	Total \$
BALANCE AT 1 JULY 2021	12,204,685	(592,421)	360,421	11,972,926
Fair value of options issued during the period	-	-	1,984,891	1,984,891
Shares issued during the period ¹	300,000	-	-	300,000
Transactions with owners	300,000	-	1,984,891	2,284,891
Total comprehensive 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

¹ Shares issued to Mr Hyma (Managing Director) pursuant to his employment contract with the Company. Shareholders approved the issue of shares at the Company's Annual General Meeting held on 26 November 2021.

The accompanying notes form part of the financial statements.

Statement of Cash Flows

(For the half-year ended 31 December 2021)

	CONSOLIDATED GROUP	
	31 December	31 December
	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES	\$	\$
Payments to suppliers	(1,198,332)	(59,193)
Interest received	48	-
NET CASH USED IN OPERATING ACTIVITIES	(1,198,284)	(59,193)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration expenditure	(1,143,150)	(82,417)
Payment for plant and equipment	(170,465)	(280)
NET CASH USED IN INVESTING ACTIVITIES	(1,313,615)	(82,697)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	1,300,000
Transaction costs – IPO ¹	(884,649)	-
Repayment of lease liability	(6,851)	-
Movement in restricted cash	(20,000)	-
Proceeds from loans from related parties	-	4,000
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES	(911,500)	1,304,000
Net (decrease) / increase in available cash held	(3,423,399)	1,162,110
Available cash at beginning of period	12,081,355	5,373
AVAILABLE CASH AT THE END OF THE PERIOD	8,567,956	1,167,483

¹ Relates to costs associated with the Company's Initial Public Offering (IPO) that were included in trade and other payables at 30 June 2021.

The accompanying notes form part of the financial statements.

Notes to the Financial Statements

(For the half-year ended 31 December 2021)

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 2021 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 2021, 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 2021 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 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 EXPENSES

	CONSOLIDATED GROUP	
	31 December 2021	31 December 2020
	\$	\$
Compliance	52,750	7,000
Legal, insurance and registry	96,459	1,114
Office, website & marketing expenses	61,451	3,790
Travel related expenses	17,512	-
Other expenses	13,465	-
	241,637	11,904

NOTE 4 – CASH AND CASH EQUIVALENTS

	CONSOLIDATED GROUP	
	31 December 2021	30 June 2021
	\$	\$
Cash at bank and cash on hand	147,956	12,081,355
Short term bank deposits	8,510,000	-
TOTAL AVAILABLE CASH AT BANK AND ON HAND	8,657,956	12,081,355

Short term bank deposits are at call with 30 days' notice.

NOTE 5 – RESTRICTED CASH

	CONSOLIDATED GROUP	
	31 December 2021	30 June 2021
	\$	\$
Bank guarantees in relation to rehabilitation obligations	30,000	10,000
	30,000	10,000

Bank guarantees in relation to exploration rehabilitation obligations and are held by the South Australian Department for Energy and Mines for rehabilitation obligations on two South Australian tenements (\$20,000) and the Victorian Department of Jobs, Precincts and Regions for one Victorian tenement (\$10,000).

NOTE 6 – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED GROUP	
	31 December 2021	30 June 2021
	\$	\$
GST receivable	133,530	88,099
Accrued interest	6,174	-
Other receivable	253	-
	139,957	88,099

NOTE 7 – EXPLORATION AND EVALUATION EXPENDITURE

	CONSOLIDATED GROUP	
	31 December 2021	30 June 2021
	\$	\$
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation at cost	2,280,461	940,265
Movements in carrying amounts:		
Balance at the beginning of the period	940,265	-
Amounts capitalised during the period	1,340,196	940,265
Balance at the end of the period	2,280,461	940,265

During the six-month period to 31 December 2021, \$9,085 of equipment depreciation was included in the amount capitalised as exploration and evaluation expenditure (30 June 2021: nil).

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED GROUP	
	31 December 2021	30 June 2021
	\$	\$
Plant and Equipment at cost	170,943	478
Accumulated depreciation	(10,540)	-
	160,403	478
Movements in carrying amounts:		
Balance at the beginning of the period	478	-
Additions	170,465	478
Depreciation	(10,540)	-
Balance at the end of the period	160,403	478

NOTE 9 – TRADE AND OTHER PAYABLES

	CONSOLIDATED GROUP	
	31 December 2021	30 June 2021
	\$	\$
Trade payables	226,441	988,798
Other creditors and accruals	302,573	188,846
	529,014	1,177,644

NOTE 10 – RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	CONSOLIDATED GROUP	
	31 December 2021	30 June 2021
	\$	\$
Lease Liabilities	-	-
Current	43,400	-
Non-current	42,245	-
	85,645	-
Right-of-use assets	-	-
Right-of-use assets – Office/Warehouse leases	92,496	-
Accumulated depreciation	(14,425)	-
	78,071	-

During the period the Group entered into lease contracts for commercial office/warehouse space and accommodation in Naracoorte in South Australia, and a car park lease in Adelaide.

Accounting policy, judgements, and estimates

With the exception of short-term leases and leases of low value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability.

Where a lease has an extension option the Group has used its judgement to determine whether or not an option would be reasonably certain to be exercised. The Group considers all facts and circumstances including any significant improvements, current stage of projects, location, and their past practice to help them determine the lease term. The Group has not included the current extension option in determining the lease term.

The Naracoorte office/warehouse lease has a term of two years, with an option to extend for a further three years. The car park lease in Adelaide has a three year term.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at commencement date of the lease.

The weighted average incremental borrowing rate applied to lease liabilities was 4.1%.

In the consolidated statement of cash flows, the Group has recognised cash payments for the principal portion of the lease liability within financing activities, cash payments for the interest portion of the lease liability as interest paid within operating activities and short-term lease payments and payments for lease of low-value assets within operating activities.

NOTE 11 – ISSUED CAPITAL

	31 December 2021 \$	30 June 2021 \$
110,988,261 (30 June 21: 110,680,000) fully paid ordinary shares	12,504,685	12,204,685

Six months ended 31 December 2021

	Number of Shares	31 December 2021 \$
(a) issued and paid up capital		
Fully paid ordinary shares	110,988,000	12,504,685
Movements in fully paid shares		
Balance as at 1 July 2021	110,680,000	12,204,685
Shares issued – Managing Director (per employment contract) ¹	308,261	300,000
Balance as at 31 December 2021	110,988,261	12,504,685

¹ Shares issued to Mr Hyma (Managing Director) pursuant to his employment contract with the Company. Shareholders approved the issue of shares at the Company's Annual General Meeting held on 26 November 2021.

Year ended 30 June 2021

	Number of Shares	30 June 2021 \$
(a) issued and paid up capital		
Fully paid ordinary shares	110,680,000	12,204,685
Movements in fully paid shares		
Balance as at 1 July 2020	4	4
Shares issued – share subdivision (28 October 2020) ¹	8,999,996	-
Shares issued - seed investors (19 November 2020)	13,000,000	1,300,000
Shares issued - fee relating to seed funds raised (19 November 2020) ²	780,000	78,000
Shares issued – Directors in lieu of fees (10 February 2021) ³	630,000	63,000
Shares issued – Company Secretary in lieu of fees (12 March 2021)	150,000	15,000
Shares issued - Share subdivision (15 April 2021) ⁴	47,120,000	-
Shares issued – allotment of IPO shares (11 June 2021) ⁵	40,000,000	12,000,000
Shares issue costs – IPO	-	(1,173,319)
Shares issue costs – seed funding	-	(78,000)
Balance as at 30 June 2021	110,680,000	12,204,685

¹ Shares were split on the basis of 1 for 2,250,000.

² Shares issued in settlement of brokerage fees payable on seed capital raised and have been valued at the same price per share as the seed capital.

³ Shareholder approval was received on 25 January 2021 for the issue of shares to directors in lieu of fees.

⁴ On 15 April 2021, shareholders approved the subdivision of the Company's fully paid ordinary shares on a 3 for 1 basis. Following the subdivision of shares, the Company had 70,680,000 fully paid ordinary shares on issue (from 23,560,000 fully paid ordinary shares on issue).

⁵ On 11 June 2021 40 million shares were issued following receipt of \$12 million pursuant to the IPO Prospectus dated 7 May 2021. The Company was admitted to the Official List of ASX on 29 June 2021 and quotation commenced on 1 July 2021.

NOTE 12 – RESERVES

	Six months to 31 December 2021 \$	Year ended 30 June 2021 \$
Share based payment reserve	2,345,553	360,662

Movement associated with Options during the period:

Balance at the Opening Balance	360,662	-
Options issued	1,984,891	360,662
Options exercised	-	-
Forfeited/lapsed	-	-
Closing Balance	2,345,553	360,662

The share based payments reserve records items recognised as an expense on valuation of options or performance rights.

An amount of \$1,984,891 was expensed to the statement of profit or loss and other comprehensive income for the half year ended 31 December 2021 in respect of unlisted options that were issued to Directors and the Company Secretary (year ended 30 June 2021: \$98,918).

Refer Note 13 for further details regarding the fair value of Options issued during the half-year ended 31 December 2021.

The Company did not issue any performance rights during the half year ended 31 December 2021 (year ended 30 June 2021: None).

NOTE 13– SHARE BASED PAYMENTS

A) UNLISTED OPTIONS

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

Six months ended 31 December 2021	Number of Shares	31 December 2021 \$	Weighted average exercise price per share
Opening Balance - 1 July 2021	12,597,200	360,662	\$0.38
Granted to KMP as remuneration	7,600,000	1,984,891	\$1.36
Exercised	-	-	-
Forfeited/Lapsed	-	-	-
Closing Balance as at 31 December 2021	20,197,200	2,345,553	\$0.75

Weighted average remaining contractual life of Options at 31 December 2021 is 2.89 years (31 Dec 2021: n/a)

Options granted during the period

Director and Company Secretary

On 1 December 2021, the Company issued 7,600,000 unlisted options (Options), in aggregate, to Directors and the Company Secretary, following shareholder approval of the Director Options at the Company's Annual General Meeting held on 26 November 2021. The Options were issued at no cost to the recipient and entitle the

NOTE 13- SHARE BASED PAYMENTS.....continued

holder to receive one fully paid ordinary share in the Company for each Option exercised, and comprise as follows:

Directors

- 600,000 Options issued to Ms Carr, exercisable at \$1.44 each and expiring on 1 December 2024, and vest on the date of issue.
- 500,000 Options issued to Mr Kingsnorth, exercisable at \$1.44 each and expiring on 1 December 2024, and vest on the date of issue.
- 2,000,000 Options issued to Mr Hyma, exercisable at \$1.46 each and expiring on 1 December 2024, with a vesting date of 5 October 2022.
- 2,000,000 Options issued to Mr Hyma, exercisable at \$1.95 each and expiring on 1 December 2025, with a vesting date of 5 October 2023.
- 2,000,000 Options issued to Mr Pobjoy, exercisable at \$0.60 each and expiring on 29 July 2025, and vest on the date of issue.

Company Secretary

- 500,000 Options issued to Mr Connor, exercisable at \$1.44 each and expiring on 1 December 2024, and vest on the date of issue.

Details of the Options granted during the six month period to 31 December 2021 are set out below:

ISSUED TO	ISSUE DATE	GRANT DATE	NUMBER OF OPTIONS GRANTED	OPTION EXERCISE PRICE	VESTING DATE	EXPIRY DATE
DIRECTORS & COMPANY SECRETARY	01/12/2021	26/11/2021	1,600,000	\$1.44	01/12/2021	01/12/2024
DIRECTORS	01/12/2021	26/11/2021	2,000,000	\$1.46	5/10/2022	01/12/2024
DIRECTORS	01/12/2021	26/11/2021	2,000,000	\$1.95	5/10/2023	01/12/2025
DIRECTORS	01/12/2021	26/11/2021	2,000,000	\$0.60	1/12/2021	29/07/2025
			7,600,000			

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	DIRECTOR & COMPANY SECRETARY OPTIONS	DIRECTOR OPTIONS	DIRECTOR OPTIONS	DIRECTOR OPTIONS
Exercise price (\$)	1.44	1.46	1.95	0.60
Share price at date of grant (\$)	1.00	1.00	1.00	1.00
Historic volatility (%)	73.5	73.5	66.5	68.2
Risk free interest rate (%)	0.93	0.93	0.93	0.93
Expected life of Options (days)	1,101	1,101	1,466	1,341

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.

NOTE 13- SHARE BASED PAYMENTS.....continued

The total fair value at the grant date for the 7,600,000 Options issued was \$3,305,476, 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 October 2023.

An amount of \$1,984,891 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 2021 (31 December 2020: nil) relating to the fair value of options issued to the Directors and Company Secretary.

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 2021 (31 December 2020: nil), or as at the date of this report.

Options lapsed/forfeited during the period

No Options issued as remuneration or as payment for services provided to the Company, have lapsed or been forfeited during the six-month period ended 31 December 2021 (31 December 2020: nil), or as at the date of this report.

B) SHARES

Six months ended 31 December 2021

Shares issued to Key Management Personnel during the period

On 3 December 2021, Mr Hyma was issued 308,261 fully paid ordinary shares (Shares) in the Company, following shareholder approval at the Company's Annual General Meeting held on 26 November 2021. The Shares were issued pursuant to Mr Hyma's employment agreement with the Company. The fair value of the Shares issued was \$300,000.

An amount of \$300,000 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 2021.

NOTE 14 - INVESTMENT IN CONTROLLED ENTITIES

		Percentage Owned	
		31 December 2021	30 June 2021
	Country of Incorporation	%	%
Parent Entity			
- Australian Rare Earths Limited	Australia		
Subsidiaries of Australian Rare Earths Limited:			
- RDBD Developments Pty Ltd	Australia	100	100
- QRDBD Developments Pty Ltd	Australia	100	100
- WRDBD Developments Pty Ltd ¹	Australia	100	-

¹ WRDBD Developments Pty Ltd was incorporated on 17 December 2021.

NOTE 15 – CASH FLOW INFORMATION

Reconciliation of cash flows from operations with Loss after Income Tax	31 December 2021 \$	31 December 2020 \$
Loss after income tax	(3,389,044)	(27,350)
Depreciation (net of capitalised depreciation)	1,456	-
Amortisation - leased assets	14,425	-
Loan from related parties forgiven	-	(4,000)
Share based payments expense	2,284,891	-
Changes in assets and liabilities:		
- Increase in trade and other receivables	(167,487)	(46,716)
- Increase in trade and other payables	48,058	15,075
- Increase in employee entitlements	9,417	-
Net cash used in operating activities	(1,198,284)	(62,991)

NOTE 16 – CONTINGENT ASSETS, LIABILITIES & COMMITMENTS

The Company has no contingent assets, liabilities or commitments as at 31 December 2021 (31 December 2020: 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 17 – EVENTS SUBSEQUENT TO REPORTING DATE


The Directors are not aware of any other matter or circumstance that has arisen since 31 December 2021 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 7 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 2021 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.



Dudley Kingsnorth
Independent Non-Executive Chairman

Perth

Dated this 24th day of February 2022

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 review of 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 2021, 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 Australian Rare Earths financial position as at 31 December 2021 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.

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.

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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 2021 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.

A stylized blue ink signature of the firm, Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A stylized blue ink signature of J L Humphrey.

J L Humphrey
Partner – Audit & Assurance

Adelaide, 24 February 2022

Corporate directory

DIRECTORS

Dudley Kingsnorth – Independent Non-Executive Chairman

Bryn Jones – Non-Executive Director

Pauline Carr – Independent Non-Executive Director

Donald Hyma – Managing Director

Rickie Pobjoy – Executive Technical Director

COMPANY SECRETARY AND CFO

Damien Connor

REGISTERED OFFICE

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SOLICITOR

O'Loughlins Lawyers

Level 2, 99 Frome Street,

ADELAIDE SA 5000

BANKERS

Commonwealth Bank of Australia

96 King William Street

ADELAIDE SA 5000

AUSTRALIAN SECURITIES EXCHANGE

The Company is listed on the Australian Securities Exchange

ASX CODE: AR3