

17 October 2022

AR3 signs MOU for offtake and technical collaboration with global rare earths processor

Non-binding Memorandum of Understanding (the “MOU”) signed by Australian Rare Earths Limited (ASX:AR3) and international rare earths producer Neo Performance Materials Inc. (“Neo”) (TSX:NEO) to accelerate AR3’s Koppamurra rare earth project (“Koppamurra”) to first production, providing for execution of a joint development agreement and an offtake agreement for 50% of Koppamurra’s initial production.

Highlights

- MOU provides for good faith negotiation of a joint development agreement between AR3 and Neo, setting out the key deliverables that will accelerate the development of Koppamurra through to production of a mixed rare earth carbonate product (“MREC”)
- MOU provides for good faith negotiation of an offtake agreement pursuant to which Neo may purchase 50% of Koppamurra’s MREC capacity from the initial module, with a right of first refusal to secure up to 50% of production from a subsequent module
- AR3 and Neo to collaborate to identify and develop future clay-hosted rare earth projects in Australia and New Zealand, with AR3 to receive a first right of refusal to participate in such projects, and Neo to receive a first right of refusal on any offtake from developed projects
- On execution of the joint development agreement, AR3 to issue Neo 3,500,667 unlisted options exercisable at A\$0.48, expiring three years from the date of issue, serving to further align Neo with the success of AR3 and the Koppamurra Project.

Australian Rare Earths Limited (“AR3” or the “Company”) is pleased to announce that they have entered into a non-binding Memorandum of Understanding with Neo Performance Materials Inc. (“Neo”), providing for the good faith negotiation of a joint development agreement to accelerate Koppamurra towards first production.

Koppamurra MREC production is an important first step towards realising AR3’s ambitions to build a strategically significant, global rare earths business.

Neo is a world-leading producer of Neodymium iron boron (“NdFeB”) rare earth permanent magnets (“REPM”) and other rare earth products. Neo has been a shareholder in AR3 since its listing in 2021 and has identified Koppamurra as a potential key future source of Neodymium (“Nd”), Praseodymium (“Pr”), Terbium (“Tb”) and Dysprosium (“Dy”), which are all vital to REPMs.

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.

The agreement with Neo follows a series of positive developments at Koppamurra over recent months, including:

- A 104% increase in the Mineral Resource Estimate to 81.4Mt at 785 ppm TREO¹, including an Indicated Resource of 45Mt at 835 ppm TREO¹, and an Exploration Target of up to 220Mt¹ for the extensional area;
- Positive metallurgical test results, including average recovery rates of 60% for Nd & Pr and >40% for Tb & Dy at a reduced acid consumption²; and
- Successful completion of a trial mining pit, demonstrating the potential for low-cost mining and environmentally friendly progressive rehabilitation³.

Joint Development Agreement

Neo will assist AR3 pursuant to a joint development agreement (“JDA”) to be entered into that would include provision by Neo of technical consulting services to AR3, such as testing of samples from Koppamurra and collaborating to optimise the Koppamurra flowsheet to reduce impurities in the MREC to a level acceptable for feed into separation plants.

The JDA would also outline the general terms under which Neo and AR3 will collaborate to identify and develop future clay-hosted rare earth projects in Australia and New Zealand, with AR3 to receive a first right of refusal to participate in such projects, and Neo to receive a first right of refusal on any offtake from developed projects.

Offtake agreement

The MOU outlines the general terms on which Neo will, subject to final negotiations and customary conditions, enter into a binding offtake agreement to purchase 50% of the MREC produced by AR3’s first module of operation at Koppamurra.

The MOU also contemplates a right of first refusal for Neo to purchase 50% of the output of AR3’s second module on similar terms.

The precise pricing mechanisms underpinning the offtake agreement, which will be based on standard terms and conditions for such supply, remain subject to negotiation to be finalised closer to first production.

Unlisted options

In consideration for Neo’s services, and to further align Neo’s interests with the success of Koppamurra, upon execution of the JDA, AR3 will issue Neo (or its nominee) 3,500,667 unquoted options exercisable at a price of A\$0.48, expiring three years from the date of issue (the “Options”).

Neo may exercise some or all of the Options at any time prior to the expiry date, each entitling Neo to one ordinary share in AR3.

¹ See ASX release: “104% increase in Mineral Resource for Koppamurra Rare Earths Project”, 4 July 2022

² See ASX release: “Koppamurra test work results in excellent recoveries”, 19 September 2022

³ See ASX release: “Quarterly Activities/Appendix 5B Cash Flow Report”, 28 July 2022

AR3 Non-Executive Chairman, Professor Dudley Kingsnorth, said:

“AR3 is delighted to partner with Neo, a world-leader in the rare earths industry, to accelerate the development of our world-class Koppamurra project. Koppamurra has the potential to be a significant near-term source of strategically important heavy rare earths as well as Neodymium and Praseodymium and it is pleasing to see Neo identify the significance of our project.”

About Australian Rare Earths Limited

Australian Rare Earths is committed to the timely exploration and development of its 100% owned, flagship Koppamurra Project, located in South Australia and Victoria. Koppamurra is a prospective ionic clay hosted rare earth deposit, uniquely rich in all the elements required in the manufacture of rare earth permanent magnets which are essential components in electric vehicles, wind turbines and domestic appliances.

The Company is focused on executing a growth strategy that will ensure AR3 is positioned to become an independent and sustainable source of rare earths, playing a pivotal role in the global transition to a green economy.

The announcement has been authorised for release by the Board of AR3 Limited.

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