

ASX Announcement ([ASX: AR3](#))

25 January 2022

Second Quarter Activities Report

For the three months ending 31 December 2021

Significant Activities

- The Company is well capitalised with approximately \$8.7 million cash and no debt.
- Regional drilling program completing 899 drillholes for 9,921m.
- Assays from the initial 174 holes confirm shallow rare earth mineralised clays ~40km to the north of the existing mineral resource area.
- Two additional South Australia tenements granted, supporting ongoing regional exploration.
- Naracoorte office/warehouse officially opened by Mayor Erika Vickery OAM and community members.
- AR3 collaborates with University of Adelaide to advance the geological understanding of the Koppamurra rare earth element deposit.
- AR3 is planning to commence an additional 10,000m drilling program in early February

Australian Rare Earths Limited ("AR3", the "Company", "[ASX: AR3](#)") is pleased to report on its activities for the three months ending 31 December 2021 ("Quarter").

Commenting on second quarter activities, Professor Dudley Kingsmith, Non-Executive Chairman of AR3, said:

"The past 3 months has seen an increasing recognition by manufacturers, governments and the broader scientific community of the unique role that rare earths have to play in the global drive to a carbon neutral economy. In particular, the rare earths used in high strength magnets, which are a key feature of the Koppamurra deposits, have a significant part to play in the energy efficient drives of electric vehicles, wind turbines and robotic equipment. The potential development of Koppamurra could add to the diversity of supply required for these critical materials' long-term environmentally sustainable availability."

Quarterly Activities to 31 December 2021

AR3's vision is to provide a sustainable, independent, rare-earth supply for future economies which delivers value to shareholders, stakeholders, and the community. The Company is progressing the exploration of its' flagship Koppamuura Project in the south-east region of South Australia. The maiden mineral resource of 39.9Mt at 725ppm Total Rare Earth Oxide (TREO) grade supports continued drilling across ~4000km² of tenements held by the Company.

Exploration Update

A comprehensive exploration program across targeted areas at Koppamurra was concluded, through the completion of 899 drillholes for a total of 9,921m.

Since the program conclusion, a small batch of expedited results were received within the December 2021 quarter, and a larger batch has since been received after the quarter end. Assays from 174 holes at EL6613 (Francis) have been interpreted, confirming shallow rare earth mineralised clayey sediments across a wide region of the Koppamurra Project area.

As shown in Figure 1, the results from the drill holes at EL6613 (Francis) are approximately 40km north of the reported Red Tail and Yellow Tail Mineral Resource located at EL6509 (Comaum). The average combined Neodymium/Praseodymium content of 21.5% Total Rare Earth Oxides (TREO), and Dysprosium content of 2.5% TREO for these intersections is consistent with the magnet rare earth contents of the Red Tail and Yellow Tail mineral resource, confirming the significant regional prospectivity of Koppamurra.

At a 350ppm TREO cut-off grade, 124 or 71% of the drill holes generated significant intersections, averaging 663ppm TREO.

At a 500ppm TREO cut-off grade, 109 or 63% of the drill holes generated significant intersections, averaging 800ppm TREO.

The pending assay results from the remaining drillholes are focussed on EL6509 (Red Tail and Yellow Tail) to expand the 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 the additional accumulation of rare earth mineralisation.

The Company believes that these results indicate that 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 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 quarter. These are also located in South Australia, EL6690 (Keith) and EL6691 (Bordertown), shown in Figure 2.

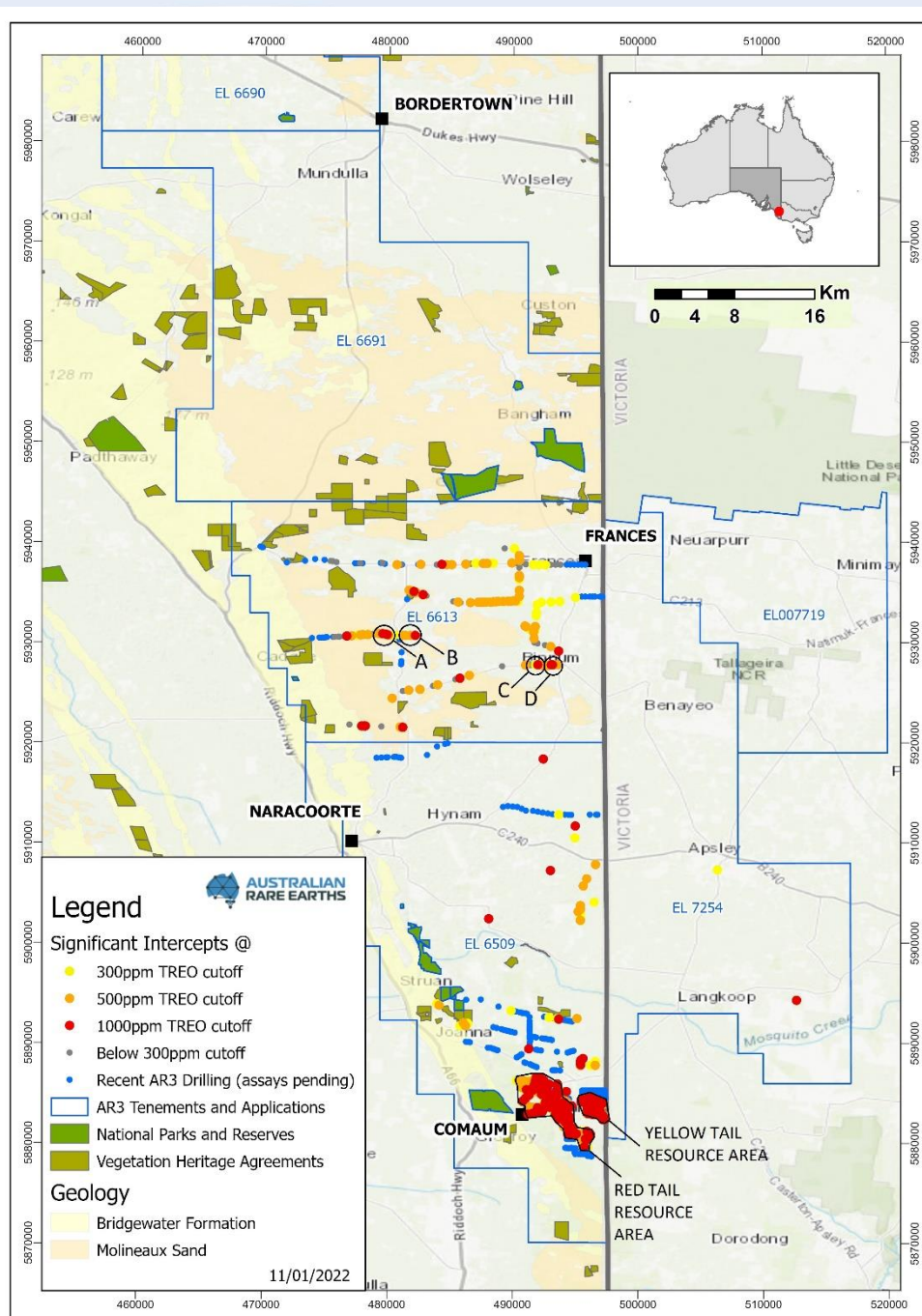


Figure 1 – Recent AR3 Drilling on EL6613 (Francis) in relation to Red Tail and Yellow Tail Mineral Resource located at EL6509 (Comaum)

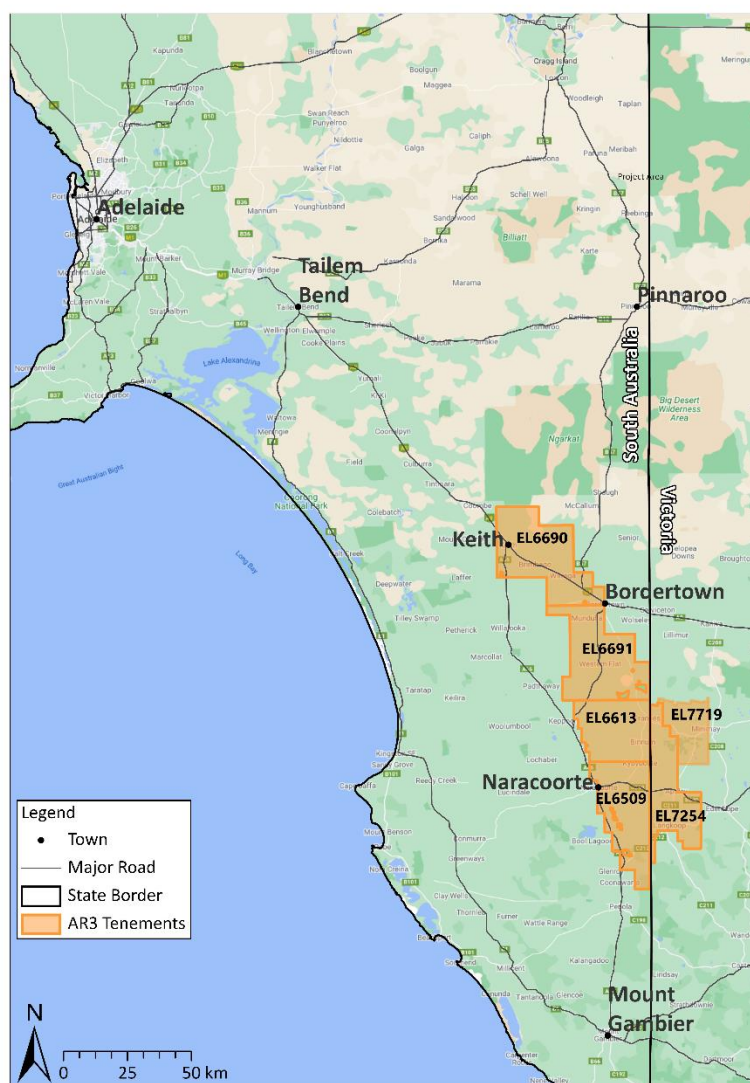


Figure 2 – Granted Tenements EL6690 (Keith) and EL6691 (Bordertown)

Community Activities

AR3 was proud to officially open the Naracoorte office/warehouse with the Mayor of Naracoorte Lucindale Council, local landholders, and the public. Through discussion with Company employees, the attending Community members 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 spoke to attendees and highlighted the exciting opportunity that the Koppamurra Project presented for the region.



Figure 3: Mayor Erika Vickery OAM with the Company's Technical Director Rick Pobjoy and interested community members in AR3's Naracoorte Office and Warehouse

The relationship between AR3 and the community surrounding the Koppamurra Project is continuing to develop positively. The recently concluded drilling program could not have occurred without the support of landowners and the broad community. AR3 recognises the importance of communication as a fundamental to building a strong and lasting business relationship in the region.

Corporate Appointments

Mr Don Hyma was appointed Managing Director and Ms Pauline Carr was appointed as Non-Executive Director. These appointments were detailed in the September Quarterly Report as events occurring after the end of the quarter.

On 1 December 2021, the Company appointed Ms Tamara Joukoff as Manager Mining. Ms Joukoff is a qualified engineer and geologist with over 20 years of multinational mining experience in operations, mine design, studies, and consulting across senior roles with Newmont, AMEC, Gemcom, and Golden Star Resources. The Company is thrilled to appoint a highly experienced professional with Ms Joukoffs credentials and who resides in Naracoorte to lead the early development of mine planning for Koppamurra Project.

Partnerships

AR3 entered into a Research Agreement with the University of Adelaide to advance the understanding of the geological evolution of the Koppamurra Rare Earth Elements (REE) deposit. AR3 is funding the research to understand the rare earth deportment and mineralogy in the ore system, define the sources of 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, which could be extended.

The Lead Researcher will be Associate Professor Carl Spandler who will be supported by Professor Nigel Spooner and the Prescott Environmental Luminescence Laboratory within the School of Physical Sciences.

FY21 Annual General Meeting

The AGM for the financial year ended 30 June 2021 was held on 26 November 2021 and all resolutions put to the meeting were passed on a poll.

Cash Balance

The Company's cash balance at the end of the Quarter was A\$8,688,000.

Capital Structure

Shares on issue: 110,988,261 fully paid ordinary shares.

Options on issue: Total of 20,197,200 unlisted options, comprising:

- 6,000,000 exercisable at \$0.30 and expiring 25 January 2025
- 6,597,200 exercisable at \$0.45 and expiring 29 June 2024
- 2,000,000 exercisable at \$0.60 and expiring 29 July 2025
- 1,600,000 exercisable at \$1.44 and expiring 1 December 2024
- 2,000,000 exercisable at \$1.46 and expiring 1 December 2024
- 2,000,000 exercisable at \$1.95 and expiring 1 December 2025

Appendix 5B Disclosures

AR3's accompanying Appendix 5B (quarterly Cashflow Report) includes an amount in item 6.1 which constitutes executive and non-executive director fees paid as salaries and wages for the quarter.

Use of Funds

AR3 provides the following disclosures required by ASX Listing Rule 5.3.4 regarding a comparison of its actual expenditure as of 31 December 2021 versus listing on 29 June 2021 and the "use of funds" statement in the Prospectus dated 7 May 2021.

Funds (A\$)	Prospectus (\$k)	Actual (\$k)	Balance Remaining (\$k)
Pre-offer Cash as at 31 March 2021	732	732	-
Funds Raised Under the Offer	12,000	12,000	-
Total Funds Available	12,732	12,732	-
Offer Expenses	1,047	1,047	-
Resource Definition Drilling	4,000	250	3,750
Regional Exploration	2,000	1,112	888
Metallurgical Testwork and Studies	3,000	205	2,795
Working Capital	2,685	1,430	1,255
Total Funds Applied	12,732	4,044	8,688
Cash as at 31 December 2021		8,688	

List of AR3 Tenements

Tenement ⁽¹⁾	Location	Commodity	Project	Jurisdiction
EL6509	Naracoorte	Rare Earths	Koppamurra	SA
EL6613	Frances	Rare Earths	Koppamurra	SA
EL7254	Apsley	Rare Earths	Koppamurra	VIC
EL6690 ⁽²⁾	Keith	Rare Earths	Koppamurra	SA
EL6691 ⁽²⁾	Bordertown	Rare Earths	Koppamurra	SA

Notes

- (1) All tenements are 100% held by AR3
 (2) Granted during the quarter

The Board of AR3 authorised this announcement to be given to ASX.

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Competent Person Statement

The information in this report that relates to Exploration results is based on information compiled by Australian Rare Earths Limited and reviewed by Mr. Rick Pobjoy who is the Technical Director of the Company and a member of the Australian Institute of Mining and Metallurgy (AusIMM). Mr. Pobjoy has sufficient experience that is relevant to the style of mineralisation, the type of deposit under consideration and to the activities undertaken to qualify as a Competent person as defined in the 2012 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr. Pobjoy consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

The Company confirms that it is not aware of any new information or data that materially affects the information included in the relevant market announcement (Prospectus dated 7 May 2021) and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement (Prospectus dated 7 May 2021) continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement (Prospectus dated 7 May 2021).

About Australian Rare Earths Limited

Australian Rare Earths (AR3) 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 element (REE) deposit; uniquely rich in all the REEs required in the manufacture of rare earth permanent magnets which are essential components in energy efficient motors. The Company is focused on executing a growth strategy that will ensure AR3 is positioned to become an independent and sustainable source of REEs, playing a pivotal role in the global transition to a green economy.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

Australian Rare Earths Limited

ABN

73 632 645 302

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	(218)	(218)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs - <i>net of allocations to capitalised exploration assets</i>	(263)	(351)
	(e) administration and corporate costs	(344)	(580)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives – R&D Tax incentive	-	-
1.8	Other (provide details if material)		
1.9	Net cash from / (used in) operating activities	(825)	(1,149)
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment <i>*includes prepayment for asset not yet received</i>	(28)	(225)
	(d) exploration & evaluation	(925)	(1,144)
	(e) investments	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(f) other non-current	-	-
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(954)	(1,369)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(885)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	(885)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	10,467	12,091
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(825)	(1,149)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(954)	(1,369)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	(885)

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	8,688	8,688

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	138	10,437
5.2	Call deposits	8,550	30
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	8,688	10,467

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	188
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(825)
8.2 (Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(926)
8.3 Total relevant outgoings (item 8.1 + item 8.2)	(1,751)
8.4 Cash and cash equivalents at quarter end (item 4.6)	8,688
8.5 Unused finance facilities available at quarter end (item 7.5)	-
8.6 Total available funding (item 8.4 + item 8.5)	8,688
8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3)	4.96 quarters
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
8.8 If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: n/a	
8.8.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: n/a	

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: n/a

Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date:25 January 2022.....

Authorised by:By the Board.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.