

Australian Rare Earths Limited

(ABN 73 632 645 302)



Financial Report

Half-year ended
31 December 2023

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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 Group's operations, performance and financial position as at and for the half year ended 31 December 2023.

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 2023.

This report should be read in conjunction with the Groups' Annual Report for the year ended 30 June 2023, and any public announcements made by the Group during the half year ended 31 December 2023 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 2023 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:

Angus Barker (Independent Non-Executive Chairman)

Bryn Jones (Non-Executive Director)

Pauline Carr (Independent Non-Executive Director)

Professor Dudley Kingsnorth OAM (Independent Non-Executive Director) – retired as a Director on 31 January 2024

Rick Pobjoy (Executive Director)

Principal Activities

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

There was no significant change in this activity during the half year ended 31 December 2023.

Summary of Financial Performance

The net loss of the Group for the half year ended 31 December 2023 was \$1,659,897 (31 December 2022: \$696,236) and includes:

- Share based payments expense of \$313,115 representing the expense for the 6-month period to 31 December 2023, associated with fair value of unlisted options issued during the current and prior periods (31 December 2022: \$458,799).
- Corporate, administration and wages expenses of \$1,450,888 (31 December 2022: \$1,142,217).

The above expense items are offset by:

- Interest income of \$262,966 (31 December 2022: \$35,830).

During the reporting period the Group's net cash position decreased by \$5,107,554 from \$14,981,232 (30 June 2022) to \$9,873,678 (31 December 2023), and the Group has no corporate debt.

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

- Exploration expenditure of \$2,559,982 (31 December 2022: \$2,819,885).
- Corporate, administration and wages expenditure (net of allocations to exploration assets) of \$2,723,424 (31 December 2022 \$914,447).

These outflows were offset by inflows associated with:

- Interest income receipts of \$272,973 (31 December 2022 \$35,731).

Changes in equity

The following changes in equity took place during the half-year ended 31 December 2023:

- 6,308,333 Options, in aggregate, were issued to Directors and employees.
- Shareholder approval for the issue of Options to Directors was received at the Company's Annual General Meeting held on 8 November 2023, comprising:
 - 1,500,00 Options exercisable at \$0.50 each, expiring on or before 26 November 2026 and vesting immediately on the date of issue;
 - 1,500,000 Options exercisable at \$0.37 each, expiring on or before 26 November 2026 and vesting immediately on the date of issue; and
 - 700,000 Options exercisable at \$0.435 each, expiring on or before 26 November 2027 and subject to service-based vesting conditions.
- Options issued to employees during the period comprised:
 - 1,500,000 Options exercisable at \$0.4739 each, expiring on or before 20 December 2026 and subject to service-based vesting conditions.
 - 1,108,333 Options exercisable at \$0.435 each, expiring on or before 26 November 2027 and subject to service-based vesting conditions.
- During the period a total of 9,058,697 options expired unexercised on 13 December 2023. The expired options were issued as free attaching options to participants in the Groups May 2022 capital raise.

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

Koppamurra Project Update

Koppamurra Mineral Resource Update

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 84% to 186 Mt of total MRE with an average Total Rare Earth Oxide (TREO) grade of 712 ppm. This includes 99 Mt in the Measured and Indicated categories.

The updated September 2023 ([ASX: AR3 MRE](#)) Mineral Resource estimate is set out in the table below.

Table 1 – Koppamurra MRE September 2023 - Rounding may cause differences in the last significant figure.

| Koppamurra Mineral Resource Estimate – September 2023 | | | | | | | | | | |
|---|------------|------------|---------------------------------|--------|--------------------------------|--------|--------------------------------|--------|--------------------------------|--------|
| 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 |
| Measured | 0.8 | 747 | 33 | 4.4 | 122 | 16.4 | 3.3 | 0.4 | 19 | 2.5 |
| Indicated | 98 | 716 | 32 | 4.4 | 122 | 17.0 | 3.3 | 0.5 | 18 | 2.6 |
| Inferred | 88 | 709 | 32 | 4.5 | 121 | 17.0 | 3.2 | 0.4 | 18 | 2.5 |
| Total | 186 | 712 | 32 | 4.5 | 121 | 17.0 | 3.2 | 0.5 | 18 | 2.5 |

Koppamurra Exploration Target Estimate

In September 2023, following extensive road verge drilling, AR3 announced an updated and significantly increased Exploration Target for the Koppamurra project. The revised global Exploration Target is between 340 Mt and 3,100 Mt with varying grades of TREO. It should be noted that the Exploration Target is conceptual and there is insufficient exploration to estimate a Mineral Resource at this stage.

The updated Exploration Target estimate is set out in Table 2 below. This Exploration Target has been reported using a cut-off grades range of 225 ppm and 425 ppm TREO-CeO₂.

Table 2 – Koppamurra Exploration Target September 2023

| Koppamurra Exploration Target – September 2023 | | | | | | | | | | |
|--|---------------|--------------|---------------------------------|---------|--------------------------------|--------|--------------------------------|-------------|--------------------------------|---------|
| Exploration Target | 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 |
| Total | 340- 3,100 | 510 - 780 | 20 - 30 | 3.9-3.8 | 90 - 140 | 18-18 | 2.4 - 3.6 | 0.5- 0.5 | 13 - 20 | 2.6-2.6 |

Tenement Expansion at Koppamurra

During the interim period, the Company expanded its project portfolio with the grant of EL6942 and EL6943 in South Australia, adding 1,875 km² to the Koppamurra project. This brings the total project area to 6,270 km², covering regions in South Australia and Victoria.

Pending approvals for two additional EL applications in Victoria (EL8208 and EL8254) could further extend the Koppamurra project area to 7,600 km². The review of drill core samples confirmed favourable geological characteristics, including clay lithologies underlain by Gambier limestone, indicating potential for rare earth element mineralisation within EL6942/6943.

Drilling Results at Koppamurra

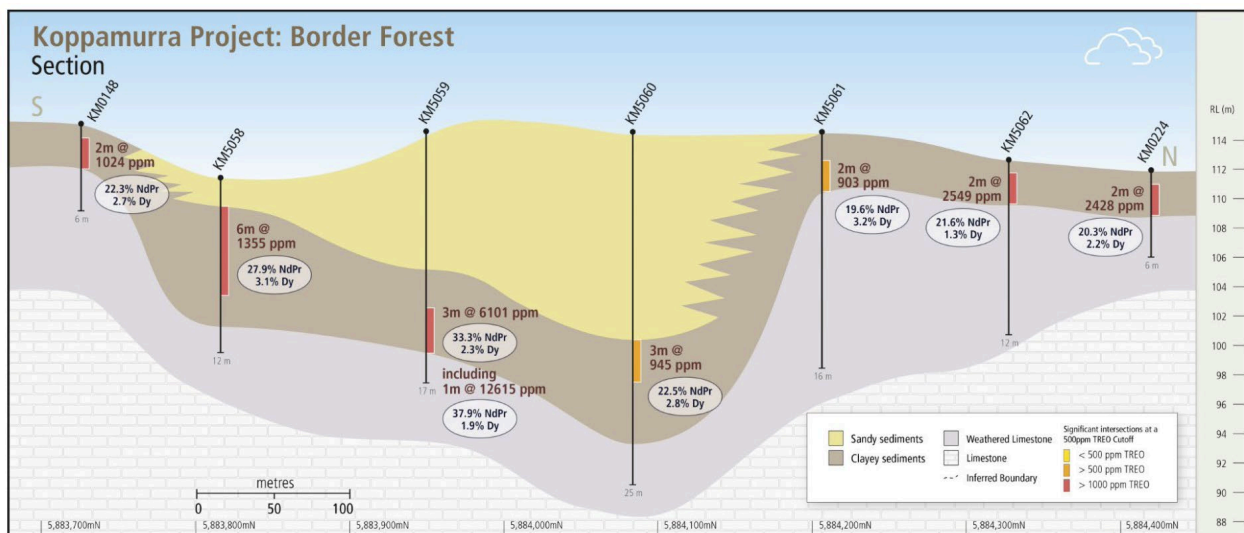
Koppamurra's drilling during the interim reporting period delivered high-grade mineralisation within the existing mineral resource area, exceeding expectations. Infill drilling revealed numerous sections rich in Magnet Rare Earth Oxides (MREO), surpassing the project's average of 24.5% (*See ASX Announcement on 19 December 2023*).

Drilling highlights include:

- KM5059, 3m @ 6,101 ppm TREO from 12m, with 33.3% combined Neodymium/Praseodymium (Nd/Pr) and 2.3% Dysprosium (Dy) – Section 1
 - Including 1m @ 12,615ppm from 13m, with 37.9% Nd/Pr and 1.9% Dy
- KM5058, 6m @ 1,355 ppm TREO from 2m, with 27.9% combined Nd/Pr and 3.1% Dy – Section 1
- KM5062, 2m @ 2,549 ppm TREO from 1m, with 21.6% combined Nd/Pr and 1.8% Dy – Section 1
- KM4927, 3m @ 1,631 ppm TREO from 3m with 32.7% combined Nd/Pr and 2.0% Dy
 - Including 1m @ 3,535ppm TREO from 4m, with 40.6% combined Nd/Pr and 1.9% Dy
- KM4970, 2m @ 2,322 ppm TREO from 6m, with 20.8% combined Nd/Pr and 4.0% Dy
- KM4972, 8m @ 1,483 ppm TREO from 8m, with 24.0% combined Nd/Pr and 2.8% Dy
- KM4983, 3m @ 1,880 ppm TREO from 5m, with 25.0% combined Nd/Pr and 2.3% Dy
- KM5017, 2m @ 1,810 ppm TREO from 1m, with 28.6% combined Nd/Pr and 2.6% Dy
- KM5038, 3m @ 1,683 ppm TREO from 5m, with 26.4% combined Nd/Pr and 2.1% Dy

These results, predominantly within the Inferred Resource area, suggest significant potential for a high-grade and high magnet rare earth subset of the broader Koppamurra resource.

More Koppamurra assay results, including data from the resource extension drilling, are expected in Q1 2024 and it is anticipated that they will continue to provided positive results.



Section 1- Border Forest (see figure 2 for section location)

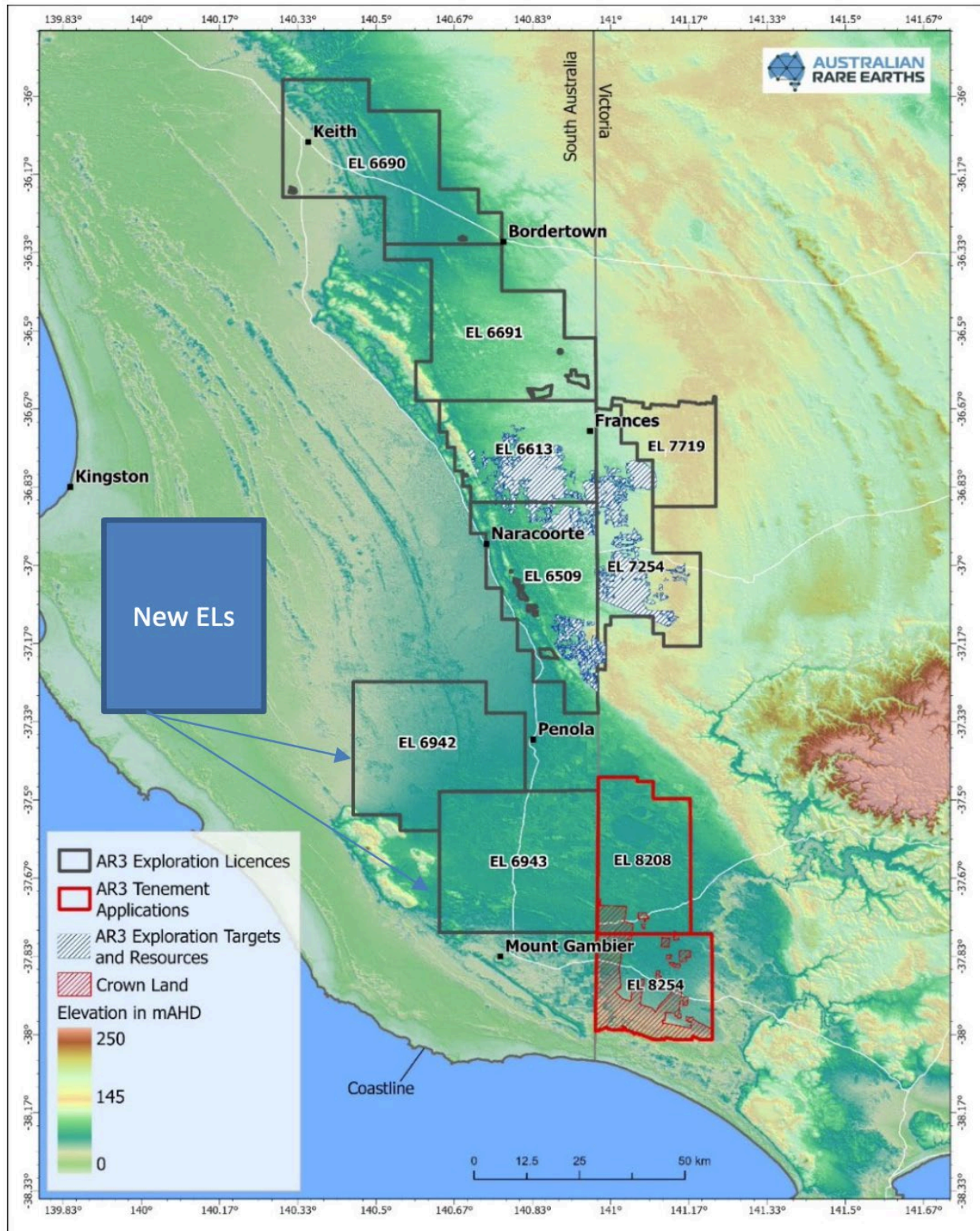


Figure 1 - Koppamurra project expansion area SA and Victoria

Environmental, Social and Governance

AR3 values transparency and collaboration with stakeholders. During the interim period, the Company continued its active engagement with local landowners and stakeholders through regular meetings to educate and inform the community about the Koppamurra project's responsible environmental management.

In December 2023, over 50 community members visited the trial mining site to see the progress made with rehabilitating the site. The trial pit pilot provided valuable data and learnings for future development plans, including exploring soil improvement opportunities.

Queensland Project Update

Tenure Expansion

At the Dalrymple Rare Earths Project in Queensland, Exploration Permit-Minerals (EPM) 28167 was granted, adding ~80km² to the project area (See ASX Announcement on 12 December 2023).

The Dalrymple Project in northern Queensland comprises four granted EPM's and one EPM in application, bringing the total project area to 933km². The remaining application at the Dalrymple project is well advanced, with a grant expected early 2024.

Applications are progressing at the Company's Oaky Valley, Sandy Tate, and 40-Mile Scrub EPM's in Northern Queensland.

Exploration Activities

AR3 completed a field program at the Dalrymple project in Queensland during the period which has generated a combination of surface and shallow auger samples within EPM28169. Samples have been sent for analysis with assays expected to be received in early 2024.

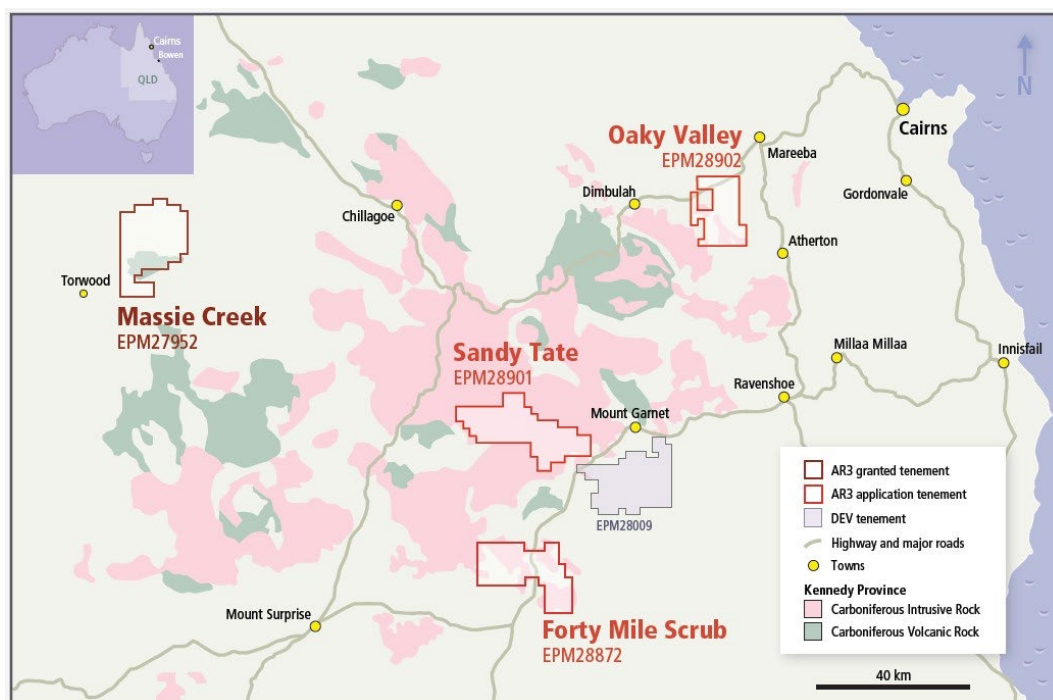


Figure 2 – Project locations in Kennedy Province, North Queensland

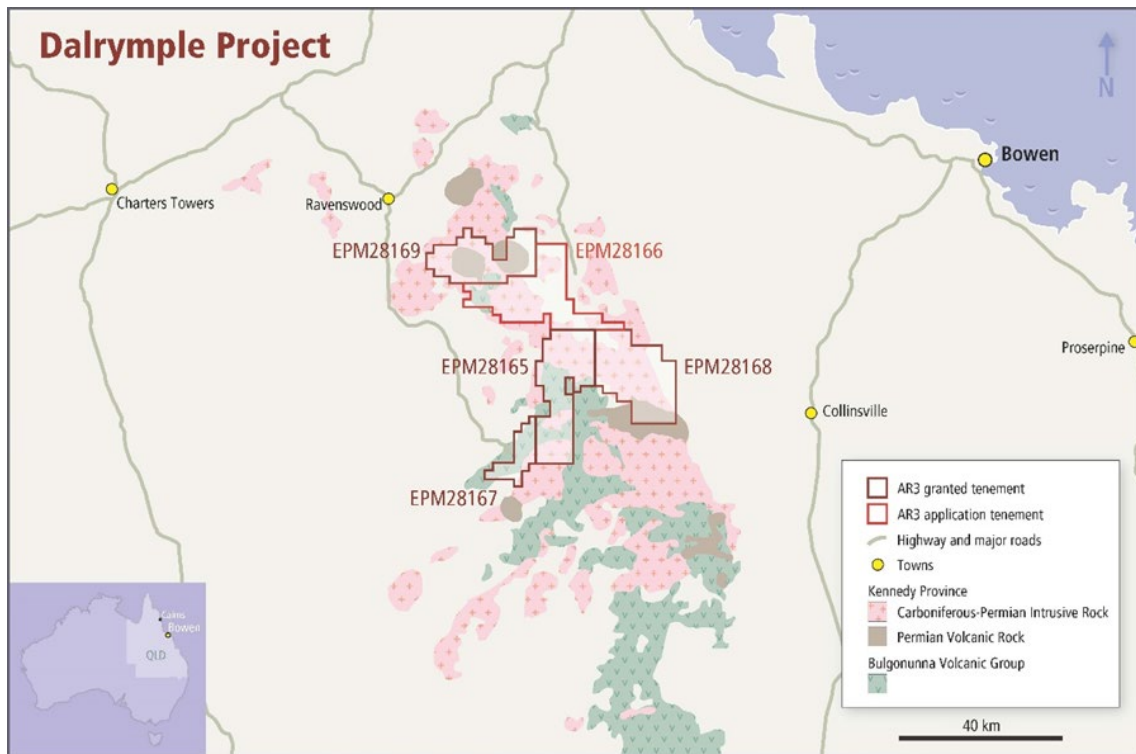


Figure 3– Dalrymple Project Location Plan



Figure 4 - Field sampling EPM28169

Significant changes to the state of affairs

Effective the close of the Company's Annual General Meeting on 8 November 2023, Mr Angus Barker assumed the role of Chairman, succeeding Professor Dudley Kingsnorth OAM who elected to step down from the position.

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 31 January 2024, Professor Dudley Kingsnorth OAM retired from the Board of Australian Rare Earths.

On 14 February 2024, the Company received \$771,251 from the ATO for a Research and Development rebate in relation to eligible activities undertaken during the FY23 financial year.

The Directors are not aware of any other matter or circumstance that has arisen since 31 December 2023 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.

Investor Information

On January 11, 2024, the Company announced the launch of a new interactive Investor Hub platform to provide shareholders with a more proactive way of communication and enquiry support. Investors can now access real-time updates from the company including: ASX Announcements, Reports, Presentations, Educational Material, CEO Interviews and Corporates Research, all in one centralised location.

The introduction of the Investor Hub Platform is complemented by the appointment of Tau Media as the company's new Investor and Media Relations consultant.

To sign up for the AR3 Investor Hub:

1. Visit investorhub.ar3.com.au/welcome
2. Follow the prompts to sign up for the Investor Hub account
3. Complete your profile

For more details on Investor Hub, please see ASX announcement on 11 January 2024.

Ask us questions on the Interim Report here: <https://investorhub.ar3.com.au/link/GyVzgy>

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



Angus Barker
Non-Executive Chairman

Dated this 1st day of March 2024

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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 2023 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.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



J L Humphrey
Partner – Audit & Assurance

Adelaide, 1 March 2024

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Statement of Profit or Loss and Other Comprehensive Income

(For the half-year ended 31 December 2023)

| CONSOLIDATED GROUP | | | |
|--|-------|---------------------|---------------------|
| | NOTES | 31 December 2023 | 31 December 2022 |
| | | \$ | \$ |
| REVENUE | | | |
| Other income | 3 | 262,966 | 35,830 |
| EXPENSES | | | |
| Depreciation | | (34,168) | (8,189) |
| Right-of-use asset amortisation | | (55,860) | (21,349) |
| Corporate consulting | | (181,921) | (267,829) |
| Exploration expenditure expensed | | (53,186) | (19,110) |
| Employee benefits expense | | (856,694) | (522,244) |
| Share based payments expense | 13 | (313,115) | (285,784) |
| Share based payments expense write back - forfeited options | 13 | - | 744,583 |
| Other expenses | 4 | (427,919) | (352,144) |
| LOSS BEFORE INCOME TAX EXPENSE | | (1,659,897) | (696,236) |
| Income tax benefit | | - | - |
| LOSS FOR THE PERIOD | | (1,659,897) | (696,236) |
| Other comprehensive income | | - | - |
| TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY | | (1,659,897) | (696,236) |
| EARNINGS PER SHARE | | Cents | Cents |
| Basic and diluted loss per share | | (1.24) | (0.62) |

The accompanying notes form part of the financial statements.

Statement of Financial Position

(As at 31 December 2023)

| CONSOLIDATED GROUP | | | |
|---|-------|---------------------|-------------------|
| | NOTES | 31 December 2023 | 30 June 2023 |
| | | \$ | \$ |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 9,873,678 | 14,981,232 |
| Trade and other receivables | 7 | 1,251,269 | 1,086,353 |
| Other current assets | | 154,785 | 57,801 |
| Total current assets | | 11,279,732 | 16,125,386 |
| NON-CURRENT ASSETS | | | |
| Restricted cash – bank guarantees for exploration bonds | | 174,301 | 148,801 |
| Exploration and evaluation expenditure | 8 | 12,479,116 | 10,172,163 |
| Property, plant and equipment | 9 | 394,239 | 291,724 |
| Right-of- use assets | 11 | 335,270 | 222,361 |
| Total non-current assets | | 13,382,926 | 10,835,049 |
| TOTAL ASSETS | | 24,662,658 | 26,960,435 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10 | 655,339 | 1,392,348 |
| Lease Liability | 11 | 134,674 | 55,559 |
| Employee benefits | | 61,018 | 448,770 |
| Total current liabilities | | 851,031 | 1,896,677 |
| NON-CURRENT LIABILITIES | | | |
| Lease Liability | 11 | 287,270 | 168,949 |
| Employee benefits | | 2,795 | 1,601 |
| Total non-current liabilities | | 290,065 | 170,550 |
| TOTAL LIABILITIES | | 1,141,096 | 2,067,227 |
| NET ASSETS | | 23,521,562 | 24,893,208 |
| EQUITY | | | |
| Issued capital | 12 | 30,550,539 | 30,575,403 |
| Reserves | 13 | 3,013,127 | 2,700,012 |
| Retained losses | | (10,042,104) | (8,382,207) |
| TOTAL EQUITY | | 23,521,562 | 24,893,208 |

The accompanying notes form part of the financial statements.

Statement of Changes in Equity

(For the half-year ended 31 December 2023)

| | 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 |
| | | | | |
| | Issued Capital \$ | Retained Losses \$ | Reserves \$ | Total \$ |
| BALANCE AT 1 JULY 2023 | 30,575,403 | (8,382,207) | 2,700,012 | 24,893,208 |
| Expense associated with unlisted option vesting during the period. | - | - | 313,115 | 313,115 |
| Transaction costs – placement | (24,864) | - | - | (24,864) |
| Transactions with owners | (24,864) | - | 313,115 | 288,251 |
| Total loss for the period | - | (1,659,897) | - | (1,659,897) |
| BALANCE AT 31 DECEMBER 2023 | 30,550,539 | (10,042,104) | 3,013,127 | 23,521,562 |

The accompanying notes form part of the financial statements.

Statement of Cash Flows

(For the half-year ended 31 December 2023)

| | CONSOLIDATED GROUP | |
|--|---------------------------|--------------------|
| | 31 December | 31 December |
| | 2023 | 2022 |
| CASH FLOW FROM OPERATING ACTIVITIES | \$ | \$ |
| Payments to suppliers and employees | (2,666,728) | (891,008) |
| Interest received | 272,973 | 35,731 |
| NET CASH USED IN OPERATING ACTIVITIES | (2,393,755) | (855,277) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for exploration expenditure | (2,559,982) | (2,819,885) |
| Payment for plant and equipment | (71,621) | (10,399) |
| Movement in restricted cash | (25,500) | - |
| NET CASH USED IN INVESTING ACTIVITIES | (2,657,103) | (2,830,284) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of lease liability | (31,832) | (23,439) |
| Payments for the costs of capital raising | (24,864) | - |
| NET CASH USED IN FINANCING ACTIVITIES | (56,696) | (23,439) |
| Net decrease in available cash held | (5,107,554) | (3,709,000) |
| Available cash at beginning of period | 14,981,232 | 12,615,020 |
| AVAILABLE CASH AT THE END OF THE PERIOD | 9,873,678 | 8,906,020 |

The accompanying notes form part of the financial statements.

Notes to the Financial Statements

(For the half-year ended 31 December 2023)

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 2023 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 2023, 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 2023 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 2023 | 31 December 2022 |
| | \$ | \$ |
| Interest received | 262,966 | 35,830 |
| | 262,966 | 35,830 |

NOTE 4 – OTHER EXPENSES

| | CONSOLIDATED GROUP | |
|--------------------------------------|---------------------|---------------------|
| | 31 December 2023 | 31 December 2022 |
| | \$ | \$ |
| Compliance | 45,259 | 67,988 |
| Legal, insurance and registry | 119,404 | 75,757 |
| Office, website & marketing expenses | 61,626 | 56,520 |
| Travel related expenses | 100,992 | 102,053 |
| Other expenses | 100,638 | 49,826 |
| | 427,919 | 352,144 |

NOTE 5 – CASH AND CASH EQUIVALENTS

| | CONSOLIDATED GROUP | |
|---|---------------------|-------------------|
| | 31 December 2023 | 30 June 2023 |
| | \$ | \$ |
| Cash at bank and cash on hand | 9,873,678 | 14,981,232 |
| TOTAL AVAILABLE CASH AT BANK AND ON HAND | 9,873,678 | 14,981,232 |

NOTE 6 – RESTRICTED CASH

| | CONSOLIDATED GROUP | |
|---|---------------------|-----------------|
| | 31 December 2023 | 30 June 2023 |
| | \$ | \$ |
| Bank guarantees in relation to rehabilitation obligations | 110,000 | 110,000 |
| Bank guarantees in relation to lease liabilities | 64,301 | 38,801 |
| | 174,301 | 148,801 |

Bank guarantees in relation to exploration rehabilitation obligations and are held by the South Australian Department for Energy and Mines for rehabilitation obligations on three South Australian tenements (\$90,000) and the Victorian Department of Jobs, Precincts and Regions for two Victorian tenement (\$20,000).

Bank guarantees relate to Lease guarantees provided as security for property leases for head office (\$38,801) and regional warehouse facilities (\$25,500).

NOTE 7 – TRADE AND OTHER RECEIVABLES

| | CONSOLIDATED GROUP | |
|---|-----------------------------|-------------------------|
| | 31 December 2023 | 30 June 2023 |
| | \$ | \$ |
| Research and development tax incentive - FY23 (lodged) ¹ | 771,251 | 771,251 |
| Research and development tax incentive - HY24 estimate | 264,125 | - |
| GST receivable | 173,821 | 263,023 |
| Accrued Interest | 41,922 | - |
| Other receivable | 150 | 52,079 |
| | 1,251,269 | 1,086,353 |

¹ FY23 R&D tax incentive received February 2024.

NOTE 8 – EXPLORATION AND EVALUATION EXPENDITURE

| | CONSOLIDATED GROUP | |
|---|-----------------------------|-------------------------|
| | 31 December 2023 | 30 June 2023 |
| | \$ | \$ |
| Costs carried forward in respect of areas of interest in: | | |
| Exploration and evaluation at cost | 12,479,116 | 10,172,163 |
| Movements in carrying amounts: | | |
| Balance at the beginning of the period | 10,172,163 | 5,155,043 |
| Amounts capitalised during the period | 2,571,078 | 6,293,880 |
| R&D Tax Incentive | (264,125) | (1,276,760) |
| Balance at the end of the period | 12,479,116 | 10,172,163 |

During the six-month period to 31 December 2023, \$12,168 of equipment depreciation was included in the amount capitalised as exploration and evaluation expenditure (31 December 2022: \$14,486).

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

| | CONSOLIDATED GROUP | |
|---|-----------------------------|-------------------------|
| | 31 December 2023 | 30 June 2023 |
| | \$ | \$ |
| Plant and Equipment at cost | 505,334 | 368,651 |
| Accumulated depreciation | (111,095) | (76,927) |
| | 394,239 | 291,724 |
| Movements in carrying amounts: | | |
| Balance at the beginning of the period | 291,724 | 221,186 |
| Additions | 136,683 | 116,793 |
| Depreciation | (34,168) | (46,255) |
| Balance at the end of the period | 394,239 | 291,724 |

NOTE 10 – TRADE AND OTHER PAYABLES

| | CONSOLIDATED GROUP | |
|------------------------------|-----------------------------|-------------------------|
| | 31 December 2023 | 30 June 2023 |
| | \$ | \$ |
| Trade payables | 414,568 | 994,130 |
| Other creditors and accruals | 240,771 | 398,218 |
| | 655,339 | 1,392,348 |

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

| | CONSOLIDATED GROUP | |
|---|-----------------------------|-------------------------|
| | 31 December 2023 | 30 June 2022 |
| | \$ | \$ |
| Lease Liabilities | | |
| Current | 134,674 | 55,559 |
| Non-current | 287,270 | 168,949 |
| | 421,944 | 224,508 |
| Right-of-use assets | | |
| Right-of-use assets – Office/Warehouse leases | 471,114 | 302,345 |
| Accumulated depreciation | (135,844) | (79,984) |
| | 335,270 | 222,361 |

The Group has lease contracts for commercial office space in Adelaide, commercial office/warehouse space and accommodation in Naracoorte in South Australia, and a car park lease in Adelaide. The Adelaide office space has a five year term (commenced 1 July 2023), with an option to extend for a further three years. The Naracoorte office/warehouse lease has a term of five years (commenced 1 September 2023), 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 2023 \$ | 30 June 2023 \$ |
|--|-----------------------------|------------------------------------|
| 154,165,962 (30 June 23: 154,165,962) fully paid ordinary shares | 30,550,539 | 30,575,403 |
| Six months ended 31 December 2023 | Number of Shares | 31 December 2023 \$ |
| (a) issued and paid up capital | | |
| Fully paid ordinary shares | 154,165,962 | 30,575,403 |
| Movements in fully paid shares | | |
| Balance as at 1 July 2023 | 154,165,962 | 30,575,403 |
| Costs of Share issue – May 2023 Issue | | (24,864) |
| Balance as at 31 December 2023 | 154,165,962 | 30,550,539 |

NOTE 13 – RESERVES

| | Six months to 31 December 2023 \$ | Year ended 30 June 2023 \$ |
|--|--|-------------------------------------|
| Share based payment reserve | 3,013,127 | 2,700,012 |
| Movement associated with Options during the period: | | |
| Opening Balance | 2,700,012 | 3,021,541 |
| Options issued | 313,115 | 423,054 |
| Options exercised | - | - |
| Forfeited/lapsed | - | (744,583) |
| Closing Balance | 3,013,127 | 2,700,012 |

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 2023 | Number of Options | 31 December 2023 \$ | Weighted average exercise price per option |
|---|-------------------|------------------------|--|
| Opening Balance - 1 July 2023 | 38,719,044 | 2,700,012 | \$0.55 |
| Granted | 6,308,333 | 313,115 | \$0.44 |
| Exercised | - | - | - |
| Forfeited/Lapsed | (9,058,697) | - | \$0.57 |
| Closing Balance as at 31 December 2023 | 35,968,680 | 3,013,127 | \$0.53 |

Weighted average remaining contractual life of Options at 31 December 2023 is 1.63 years (31 December 2022: 2.16 years)

Options granted during the period

Directors

On 27 November 2023, 3,700,000 Options, in aggregate, were issued to Directors, following Shareholder approval received at the Company's Annual General Meeting held on 8 November 2023. 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:

- 1,500,000 Options issued to Mr Barker, exercisable at \$0.50 each, expire on or before 26 November 2026 and vested immediately on the date of issue;
- 1,500,000 Options issued to Mr Barker, exercisable at \$0.37 each, expire on or before 26 November 2026 and vested immediately on the date of issue; and
- 700,000 Options issued to Mr Pobjoy, exercisable at \$0.435 each, expire on or before 26 November 2027 and are subject to service-based vesting conditions.

Other employees

- 1,108,333 Options issued to employees, exercisable at \$0.435 each, expire on or before 26 November 2027 and are subject to service-based vesting conditions; and
- 1,500,000 Options issued to an employee, exercisable at \$0.4739 each, expire on or before 20 December 2026 and are subject to service based vesting conditions.

NOTE 14 – SHARE BASED PAYMENTS.....continued

Details of the Options granted during the six-month period to 31 December 2023 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 Director | 8/11/2023 | 27/11/2023 | 1,500,000 | \$0.50 | 27/11/2023 | n/a | | 26/11/2026 |
| Non-Executive Director | 8/11/2023 | 27/11/2023 | 1,500,000 | \$0.37 | 27/11/2023 | n/a | | 26/11/2026 |
| Executive Director | 8/11/2023 | 27/11/2023 | 700,000 | \$0.435 | 27/11/2023 | 26/11/2024 | 26/11/2025 | 26/11/2027 |
| Employees | 27/11/2023 | 27/11/2023 | 1,108,333 | \$0.435 | 27/11/2023 | 26/11/2024 | 26/11/2025 | 26/11/2027 |
| Employee | 20/12/2023 | 21/12/2023 | 1,500,000 | \$0.4739 | 20/12/2024 | n/a | | 20/12/2026 |
| | | | 6,308,333 | | | | | |

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 | EXECUTIVE DIRECTOR OPTIONS | NON-EXECUTIVE DIRECTOR OPTIONS | NON-EXECUTIVE DIRECTOR OPTIONS | EMPLOYEE OPTIONS | EMPLOYEE OPTIONS |
|-----------------------------------|----------------------------|--------------------------------|--------------------------------|------------------|------------------|
| Exercise price (\$) | 0.435 | 0.50 | 0.37 | 0.435 | 0.4739 |
| Share price at date of grant (\$) | 0.20 | 0.20 | 0.20 | 0.16 | 0.14 |
| Historic volatility (%) | 67.9 | 67.9 | 67.9 | 67.9 | 67.9 |
| Risk free interest rate (%) | 4.24 | 4.16 | 4.16 | 4.27 | 3.67 |
| Expected life of Options (days) | 1,479 | 1,114 | 1,114 | 1,479 | 1,095 |

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 6,308,333 Options issued was \$327,988, 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 November 2025.

An amount of \$313,115 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 2022: \$285,784) 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, were exercised during the six-month period ended 31 December 2023 (31 December 2022: nil), or as at the date of this report.

Options lapsed/forfeited during the period

During the reporting period 9,058,697 Options, in aggregate, were forfeited in accordance with the terms in which they were issued, comprising:

- 9,058,697 Options exercisable at \$0.45 each, expiring on or before 13 December 2023, with a vesting date of 8 June 2022.

The options were issued for nil consideration as a free attaching option as part of a placement undertaken in May 2022.

NOTE 15 – CONTINGENT ASSETS, LIABILITIES & COMMITMENTS

The Company has no contingent assets, liabilities or commitments as at 31 December 2023 (31 December 2022: 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 31 January 2024, Professor Dudley Kingsnorth OAM retired from the Board of Directors of the Company.

On 14 February 2024, the Company received \$771,251 from the ATO for a Research and Development rebate in relation to eligible activities undertaken during the FY23 financial year.

The Directors are not aware of any other matter or circumstance that has arisen since 31 December 2023 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 12 to 23 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 2023 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.



Angus Barker
Independent Non-Executive Chairman

Dated this 1st day of March 2024

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 2023, 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 Group's financial position as at 31 December 2023 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.

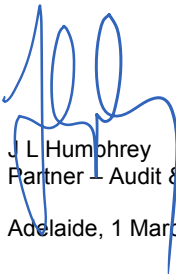
Auditor's responsibility

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 2023 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 2024

Corporate Directory

DIRECTORS

Angus Barker – Independent Non-Executive Chairman

Bryn Jones – Non-Executive Director

Pauline Carr – Independent Non-Executive

Professor Dudley Kingsnorth OAM – Independent Non-Executive Director (retired 31 January 2024)

Rick Pobjoy – Executive Director

COMPANY SECRETARY

Noel Whitcher

REGISTERED OFFICE

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ADELAIDE SA 5000

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ADELAIDE SA 5000

AUDITORS

Grant Thornton Audit Pty Ltd

Grant Thornton House,

Level 3, 170 Frome Street

ADELAIDE SA 5000

AUSTRALIAN SECURITIES EXCHANGE

The Company is listed on the Australian Securities Exchange

ASX CODE: AR3