29 September 2023

ANNUAL & SUSTAINABILITY REPORT 2023

Australian Rare Earths (ASX: AR3) is pleased to release its Annual and Sustainability Report for the financial year ended 30 June 2023.

Highlights

- Mineral Resource upgrade in March 2023 has confirmed Koppamurra as a globally significant resource of 101Mt @ 818ppm TREO and with a significant exploration target. This has since been updated to 186Mt @ 712 TREO and Contained TREO tonnage up 60% to 132,000 tonnes (ASX, 19 September 2023)
- Outstanding growth potential at Koppamurra – the defined Resource is < 5% of total acreage with resource growth potential
- First Australian ionic clay hosted rare earth resource to produce a Mixed Rare Earth Carbonate (MREC)
- Well supported Capital Raise in April / May 2023 raising $11m before costs, with $15m in cash at 30 June 2023
- Extensive regional drilling campaign completed in 2022/23 with ~30,000 meters drilled, confirming Koppamurra as a rare earth province
- Rehabilitation of trial pit area showing progress and providing learnings for further significant soil improvement opportunities

During the year the Company continued to build on the expertise and experience gained since its IPO in July 2021. The Company has successfully attracted additional mining talent, with Travis Beinke joining the Company as CEO in June 2023. Travis' extensive experience in the resources industry will be highly valuable as the Company continue its s drive to unlock the value of its world class Koppamurra rare earths project in South Australia.

As CEO Travis Beinke comments in the Annual Report: *"We are excited about what can be achieved over the next 12 months and the possibilities ahead. The team and I are energised to unlock value at our flagship Koppamurra project by progressing the project from the mineral resource definition phase into preliminary mine planning, environmental studies, continued community and landowner engagement together with development plans for a multi-generational Province".*

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

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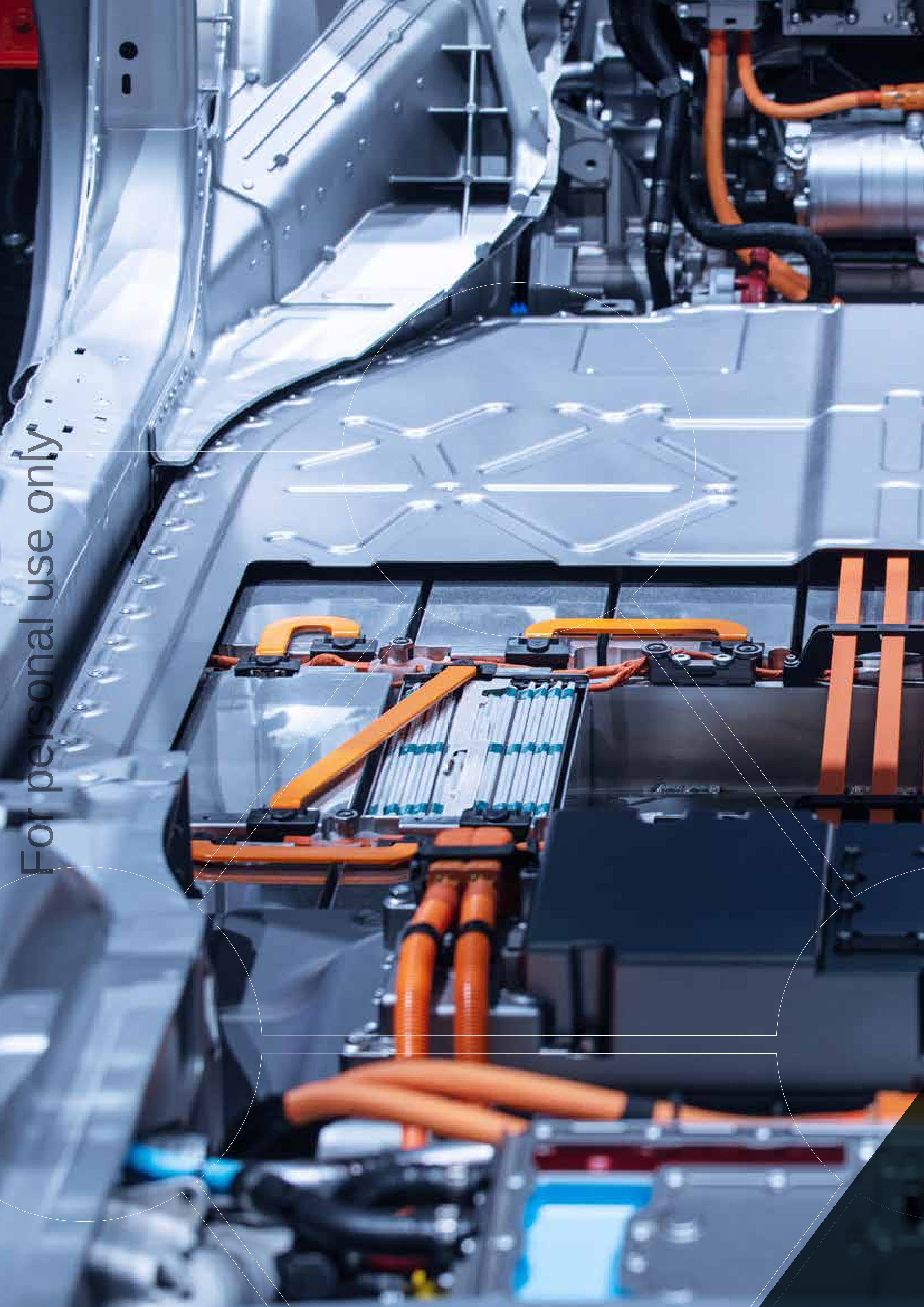
About Australian Rare Earths Limited

Australian Rare Earths is committed to the timely exploration and development of its 100% owned, flagship Koppamurra Project, located in the new Koppamurra rare earths Province in southeastern South Australia and western 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. In addition AR3 is actively reviewing other potential prospective areas which may also host ionic clay hosted rare earth deposits throughout Australia.

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.

AUSTRALIAN RARE EARTHS
Metals for our future

ANNUAL AND SUSTAINABILITY REPORT
2023



Australian Rare Earths Limited

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AUSTRALIAN RARE EARTHS

Metals for our future

CHAIRMAN'S LETTER

Dear Shareholders, it is close to three years ago (late 2020) that Rick Pobjoy and Bryn Jones, the founders of Australian Rare Earths ("AR3" or "The Company") approached me to join the Board of Directors of Tawel Exploration, the entity that is our company today.

I was excited by the combination of the four unique features of the Koppamurra. Namely, the project is a 'true' rare earth ionic clay deposit comparable with those in China; reasonable recovery of the rare earths is possible at ambient temperature; the clays are close to the surface offering the potential for low cost mining and, in many ways the most encouraging aspect were the excellent community relations put in place by Rick and Bryn.

All these considerations lead me to the conclusion that AR3 is uniquely placed to be the first non-Chinese sustainable supplier of non-Chinese terbium and dysprosium. Given the competency and commitment of the AR3 staff today my excitement is in no way diminished.

Over the past year there has been a growing recognition of the critical role rare earths will play in the global push for carbon neutrality. Coupled with the increasing demands by society and the original equipment manufacturers seeking secure and environmentally sustainable supply chains, 'from the mine to the showroom'; there is a growing recognition that the Company is at the forefront of the 'new' potential suppliers meeting the criteria for success.

Diversity in the supply of rare earths continues to be of major concern to end users; particularly those applications that are essential to reducing the global carbon footprint such as EVs and wind turbines.

Today, supply chains are dominated by sources that do not generate this trust, with little clarity on the measures in place that demonstrate environmental standards are applied fully 'from mine to showroom'. During the year I was honoured to provide an opening Keynote Presentation at the recent Standards Australia Critical Minerals Forum entitled "How standards can build trust for the Critical Materials Industry".

Commitment to high environmental standards and respect for human rights in Australia, along with the members of the International Council on Mining and Metals, are leading the way in setting global standards for supply chains.

In talking to the potential customers long term dependable supply is a key issue to continued negotiations on supply. Accordingly, the size and quality of the Koppamurra rare earth ionic clay deposit is essential to the signing of a supply agreement stretching out for 15-20 years.

The Company is working closely with Neo Performance Materials (NEO), a founding shareholder, in the negotiation of a transparent supply agreement from mine to magnet. NEO is providing oversight to our process development, a key element in the successful pilot-scale production of a Mixed Rare Earth Carbonate (MREC) containing all the rare earths needed to produce rare earth permanent magnets.

On the other hand the successful mine trial undertaken at Koppamurra by AR3 has given NEO comfort that a future mine at Koppamurra can be rehabilitated to the extent that the impact of the landscape is minimal.

In addition our strong relationship with the local communities demonstrates our commitment to human rights; a distinct differentiation from the mining of ionic clays in Asia, the only current source of the terbium and dysprosium required in electric vehicles.

Integral to the Koppamurra development strategy has been the ongoing test work being undertaken at the Australian Nuclear Science and Technology Organisation (ANSTO) to produce the MREC.

The results highlight not only the immensely valuable characteristics of the Koppamurra deposit but also the skill, expertise, and commitment of the AR3 exploration team lead by the Technical Director, Rick Pobjoy.

Australia is playing a leading role in the development of rare earth standards by the ISO, TO which I have contributed since the founding of ISO/TC 298 in 2016. Through this participation Australian Rare Earths is working alongside many of the world's leading rare earths scientists and engineers. This is a strategic opportunity that we will continue to contribute as an integral part of our commitment to demonstrable environmental practice at Koppamurra

The combination of an exceptional market outlook for rare earths, the growing resource inventory at our Koppamurra rare earths project, the recent strong metallurgical results and the support by the local community and the Federal and State Government Agencies underpin an extremely bright future for AR3.

Over the past year the hard work of the management team has been instrumental in the outstanding progress in identifying a multigenerational ionic clay hosted rare earths Resource. Your Company's success could be integral to the establishment of the first rare earths ionic clay mining and processing facility outside Asia.

I take this opportunity to welcome our CEO, Mr Travis Beinke who joined us in June 2023. Travis has hit the ground running and with his extensive experience in the resources industry will be key to the Company continuing to unlock value at our world class Koppamurra rare earths project in South Australia. I am confident that Travis's leadership of our first-class team will ensure that we continue to generate value as we advance Koppamurra.

On behalf of the Board of Directors I thank you for your support of the Company. You may rest assured that we are committed to the hard work required to enhance the value of your shareholding in AR3.

It is now 3 years since I had the privilege of joining the newly founded Australian Rare Earths team; during which time we have progressed from a possible rare earths entity of the future to a company with a plan to be an independent globally sustainable supplier of the rare earths required for rare earth permanent magnets.

With a view to the changing balance of skills required of the Company in the coming years I am stepping down as the Non-Executive Chairman with effect from the close of the Annual General Meeting. Subject to re-election, I will remain a Non-Executive Director to continue tocontribute my knowledge of the global rare earths industry.

Yours sincerely,

Professor Dudley J. Kingsnorth
Independent Non-Executive Chairman
29 September 2023

KOPPAMURRA PROJECT OVERVIEW

South Australia and Victoria

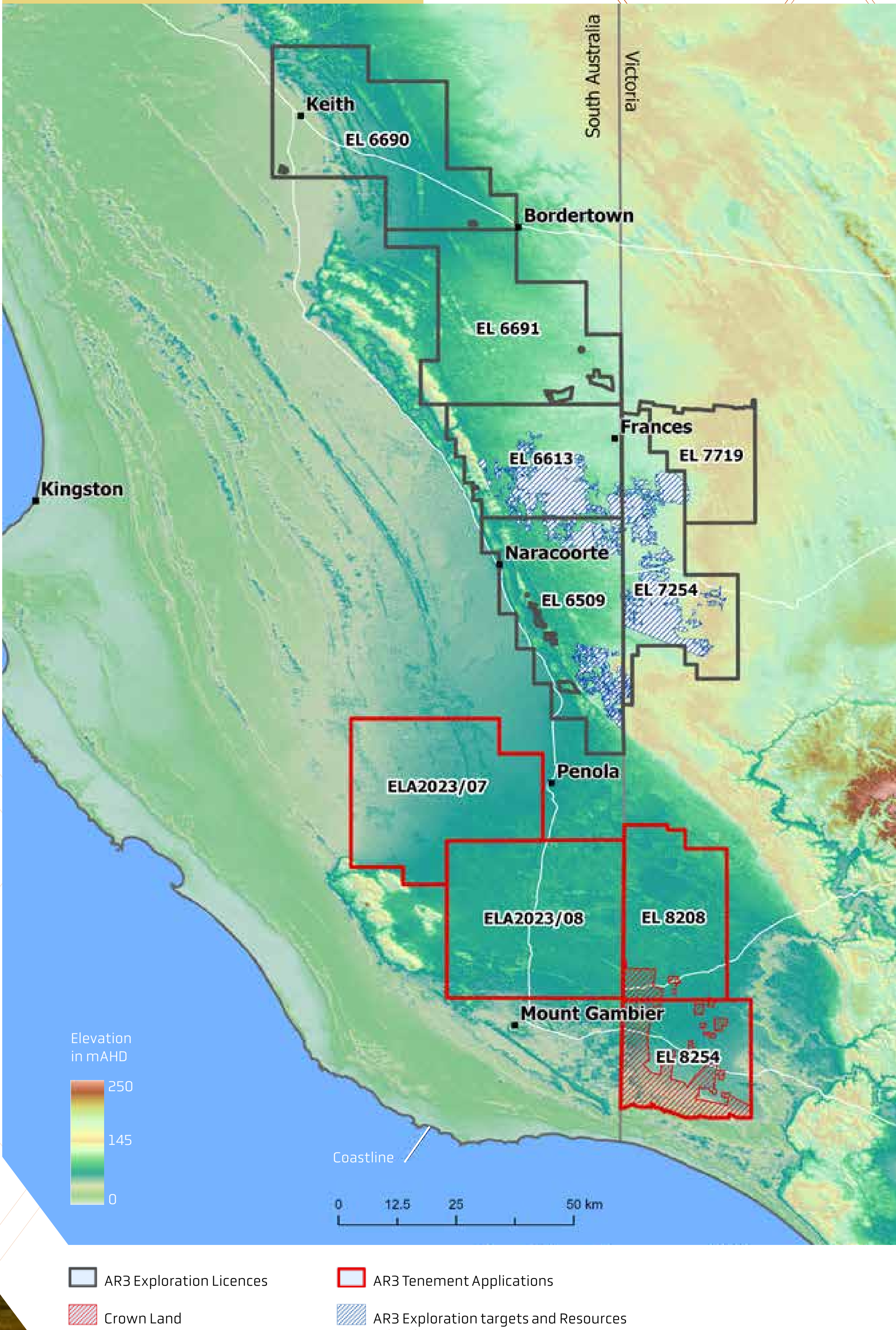
Australian Rare Earths' flagship Koppamurra Project is establishing an independent source of critical rare earths for a clean energy future – bringing diversity to global rare earths supply.

The Company is the registered holder of the granted South Australian tenements EL6509, EL6613, EL6690, EL6691, and Victorian tenements EL007254 and EL007719.

The company is the registered applicant for South Australian tenements ELA 2023/00007, ELA 2023/00008, and the Victorian tenement applications EL008208 and EL008254.

This granted tenure and tenure applications in South-Eastern South Australia and Western Victoria combine for ~6700km^2 of prospective tenure and forms the Company's flagship Koppamurra Project ("Koppamurra' or "the Project").

AR3 tenements



KOPPAMURRA PROJECT OVERVIEW

Koppamurra has a Substantial JORC Resource of 101Mt at 818ppm TREO (Total Rare Earth Oxide). The resource is open in all directions and the Project area more broadly has an (up to) 1.4bt exploration target. Our cornerstone asset, is a highly valuable potential source of critical rare earths in a Tier-1 location.

We are a 100%-owned, clay-hosted critical rare earths deposit located ~300km SE of Adelaide, with ~6,700 square kilometers of exploration tenure.

The mineralisation is consistent and shallow which facilitates rapid, low-cost exploration and potentially mining. It is a clay-hosted deposit, the same style that underpins China's massive rare earths industry.

This is best illustrated by the fact that clay hosted REE (Rare Earth Elements) resources in China amount to less than 1% of the total resources, but up to 35% of REE production comes from them.

The mineral resource at Koppamurra contains consistent magnet rare earth contents of ~25%. Greater than 60% of the defined resource is in the Indicated JORC Classification, and that Indicated portion has a higher average grade than the inferred resource.

Demand growth for EV's and wind turbines, key technologies in global decarbonisation efforts, require four key REE, the western world is seeking an independent supply chain of these elements, however, deposits containing all four REEs are rare.

The Koppamurra Project has all four key REEs including, importantly, the strategically important heavy rare earths Dysprosium (Dy) and Terbium (Tb) – it is those two rare earth elements that allow rare earth permanent magnets to operate at high temperatures in EV's and wind turbines, these technologies couldn't be applied in those applications without Dy and Tb.

We have immense growth potential at Koppamurra – the defined Resource is < 5% of total acreage and that resource growth potential has been demonstrated in our 1.4bt exploration target.

Metallurgical testing has confirmed the presence of recoverable light and highly sought after heavy rare earth elements from the Koppamurra Project.

As a first for an Australian ionic clay hosted rare earth resource, a Mixed Rare Earth Carbonate (MREC) was successfully produced from ~800kg of Koppamurra bulk sample using existing equipment and simple processes operating at ambient temperature and pressure at ANSTO Minerals.

Recently announced testwork has also shown a pathway to beneficiating the ore, allowing for lower processing costs.

We continue to actively engage with the local community, knowing their support is key to building a successful and sustainable operation. By becoming part of the community and engaging with them as often as possible about our activities and plans we are establishing broad acceptance of our Project in the region.

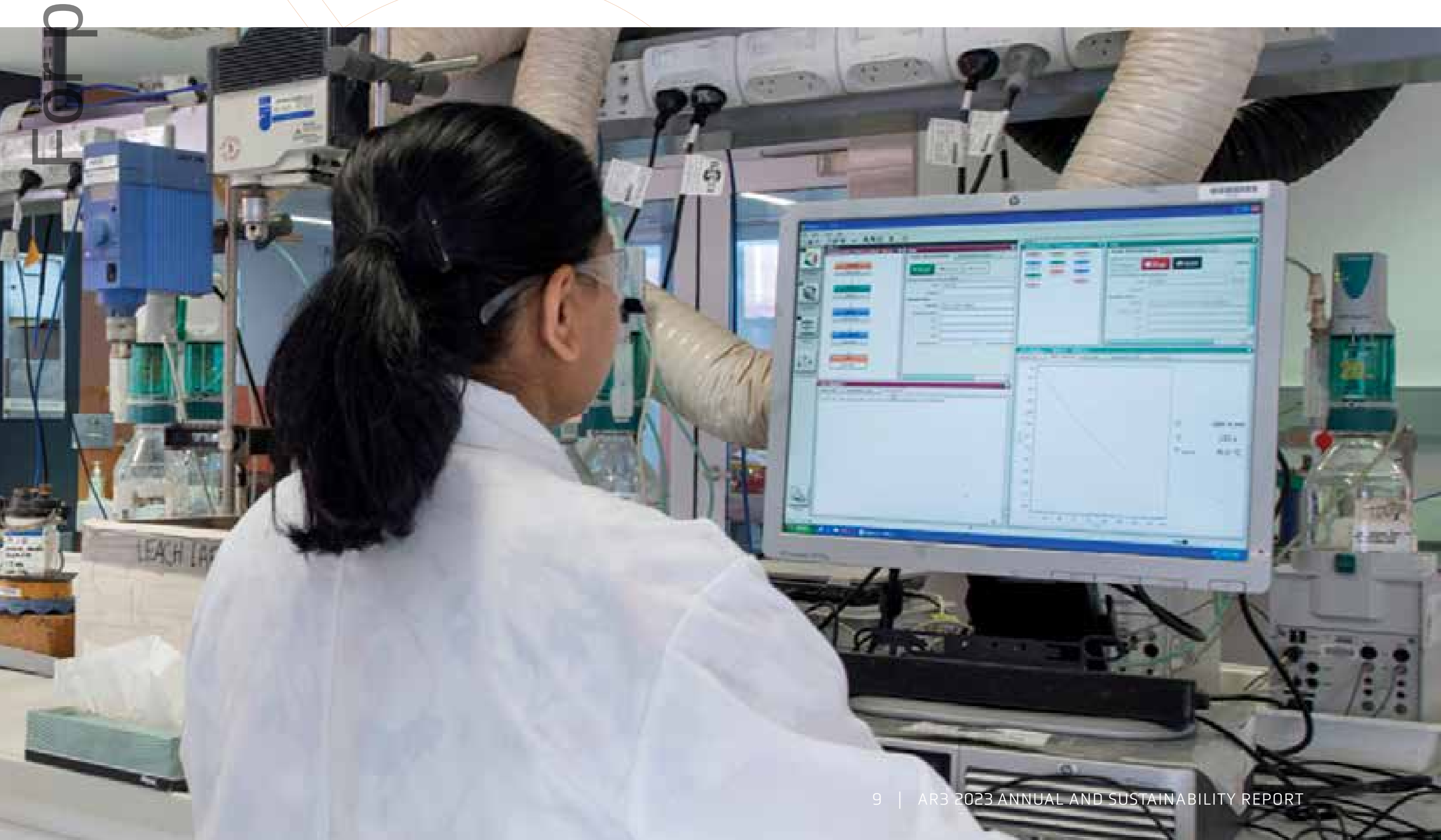
We are currently preparing the inputs for a Mine Lease application, as part of the sustainable development of this Project.

We have an MOU signed with NEO Performance Materials for a Joint Development and Offtake Agreement, NEO is one of the very few companies outside of China taking rare earth products downstream, and they have a wealth of experience in the industry that we will be able to tap to rapidly progress Koppamurra.

Our aim is to become a global supplier of added-value rare earth products, working alongside government, academia, community and landowners.

Key aspects of the Koppamurra Project are:

- **Large resource with exceptional potential for multi-generational growth**
- **Substantial market opportunity driven by global decarbonisation efforts**
- **Endowment of all four of the high value rare earth elements**
- **Critical rare earths Nd-Pr and Dy-Tb are essential ingredients in permanent magnets for EV's, wind turbines, robots and domestic appliances**
- **Tier-1 location with strong community, landowner and government support**
- **Demonstrated production of a mixed rare earth carbonate (MREC) at scale**
- **Project support through NEO Performance Materials MOU**
- **Strong demand growth supported by need for a sustainable independent supply chain**



PROJECT HIGHLIGHTS

First Koppamurra Mixed Rare Earth Carbonate produced

The successful pilot scale production of a Mixed Rare Earth Carbonate (MREC) containing all the rare earths needed to produce rare earth permanent magnets; essential for increasing the efficient use of the power the world generates.

As a first for an Australian ionic clay hosted rare earth resource, this achievement is being met with great interest by potential downstream customers, especially in light of an increasing awareness that the world currently lacks the sustainable diversity of rare earths supply required to meet the growing demand of a carbon-free global economy.

Highlights:

- **Mixed Rare Earth Carbonate (MREC) has been successfully produced from ~800kg of Koppamurra bulk sample using existing equipment and simple processes operating at ambient temperature and pressure at ANSTO Minerals**
- **This is an important milestone for the Koppamurra Project and a key step in AR3's journey to becoming a producer of rare earth products**
- **Demand for MREC with low levels of impurities from sustainable resources from Tier 1 jurisdictions is strong**
- **The initial MREC is being used for marketing purposes, particularly in further developing an offtake relationship with Neo Performance Materials ('NEO')**
- **In consultation with NEO further process optimisation and impurity removal testwork is underway to enhance the initial product characteristics.**

Main image:

Existing equipment at ANSTO, used in the production of a mixed rare earth carbonate from Koppamurra – at scale.

Above image:

Sample of the mixed rare earth carbonate (MREC) product from Koppamurra

The test work is leading to an increased understanding of the chemistry of rare earths recovery at Koppamurra, including improving rare earth recovery and the successful management of impurities in a MREC.

PROJECT HIGHLIGHTS

Metallurgical tests point to significantly lower processing costs

Breakthrough testwork shows that removing larger ore particles before processing increases head grade significantly for little reduction in total recovered rare earth.

Pivotal metallurgical test results highlight the potential to significantly reduce capital and production costs at its Koppamurra rare earths project. The tests demonstrated that the vast majority of the valuable rare earths occur in the smaller particles.

By separating the ore through simple beneficiation, the larger particles could be removed from the downstream process. This resulted in 90 per cent of the magnet rare earths being contained in 64 percent of the ore.

The results are considered transformational as they demonstrate the potential to reduce reagent consumption, simplify materials handling, reduce the volume of the leach vessels and therefore reduce capital and operating costs significantly.

Highlights:

- **Tests by industry experts ANSTO demonstrate that more than 90 per cent of the important magnetic rare earths can be captured in less than two thirds of the mass during primary processing when the maximum feed size is restricted to less than 75 microns.**
- **This means we could substantially reduce the amount of ore we process, while still maintaining 90 per cent of the valuable rare earths. The potential impact on processing costs and therefore the overall economics of the project and shareholder returns are extremely substantial.**

Competent Person's Statement

The information in this report that relates to metallurgical results is based on information compiled by Australian Rare Earths Limited and reviewed by Mr. Jon Weir who is the Technical Director – Metallurgy of Wallbridge Gilbert Aztec and a Member of the Australian Institute of Mining and Metallurgy (M AusIMM).

Mr. Weir has sufficient experience that is relevant to the metallurgical testing which was 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. Weir consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

Multi generational rare earth province

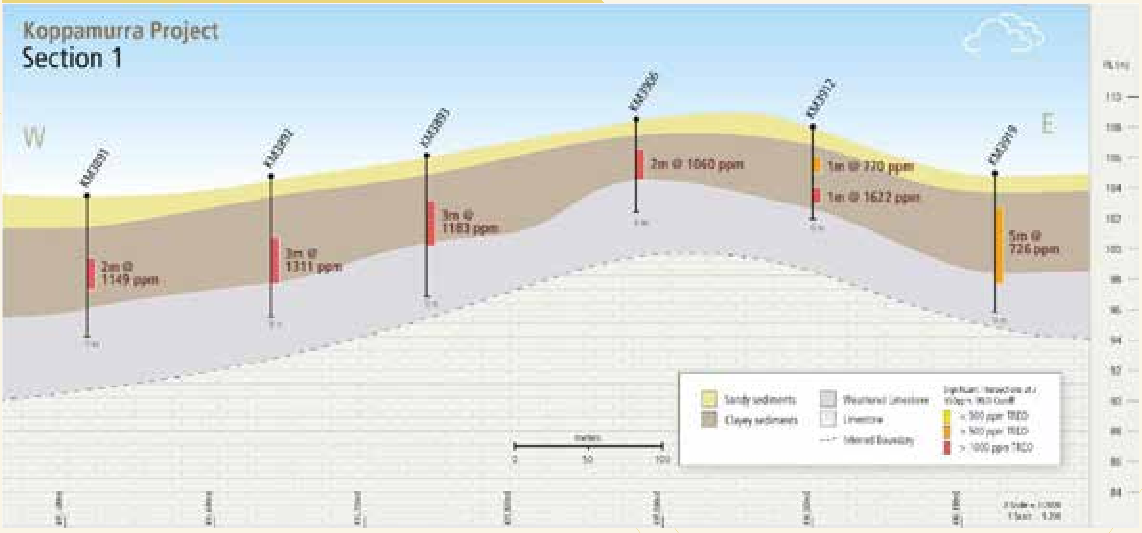
Drilling completed since 1 February 2023 on the extensions to the updated Mineral Resource Estimate (MRE) at Koppamurra (ASX: 3 April 2023) has included 698 drillholes for 7,363m with an average depth of just 10.5m.

Approximately 5,000 additional assays have been collected as part of this drill campaign, of which the final 2,000 are expected to be received shortly.

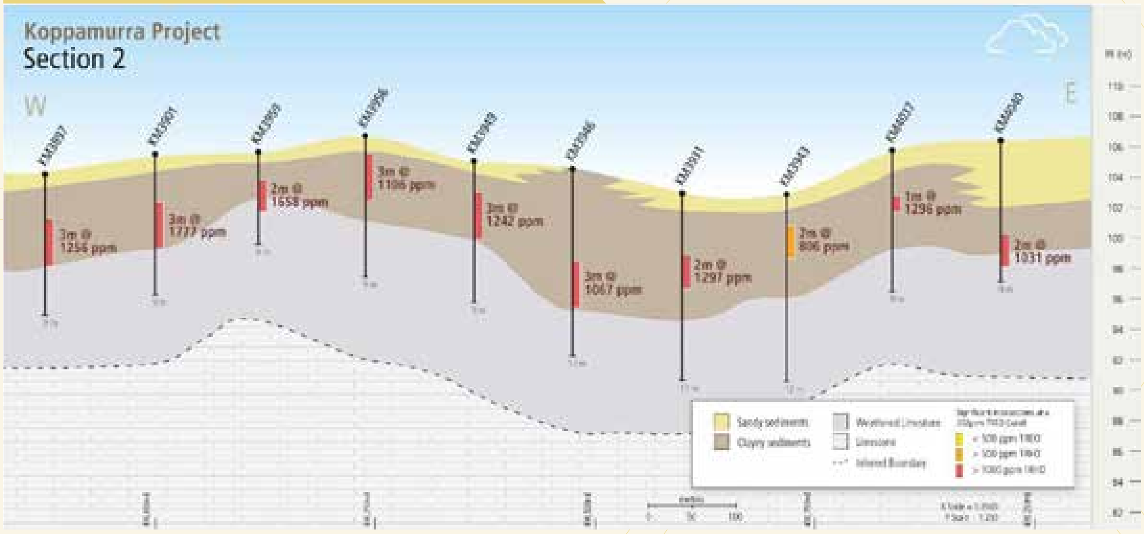
Once received these assays will provide a robust data set for a significant update to the current MRE scheduled for the next Quarter.

As announced (ASX: 10 May 2023) regional drilling also continues on resource definition of the Northern most Exploration Target and with road verge drilling planned to be conducted on areas in between the existing Exploration Target areas in an effort to both extend the Exploration Target and to begin establishing a MRE for the Frances region.

Section 1, Koppamurra Southern Resource Extension



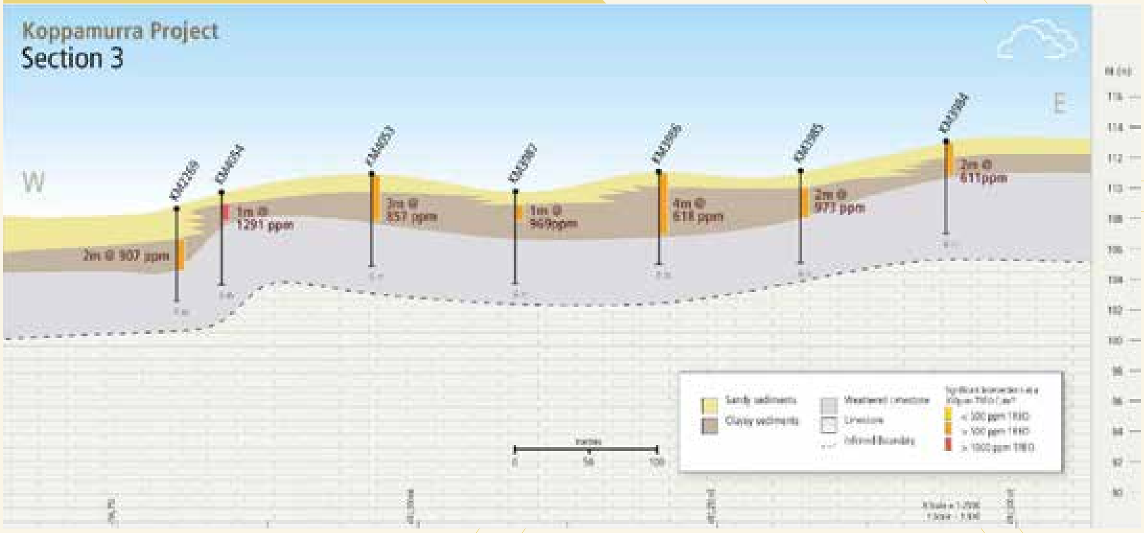
Section 1, Koppamurra Southern Resource Extension



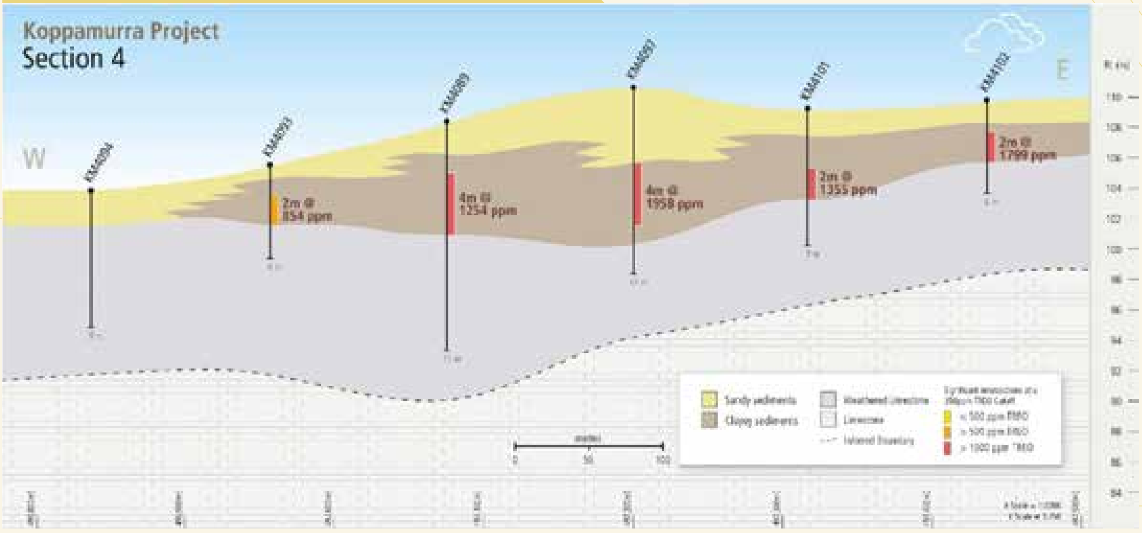
PROJECT HIGHLIGHTS

Multi generational rare earth province

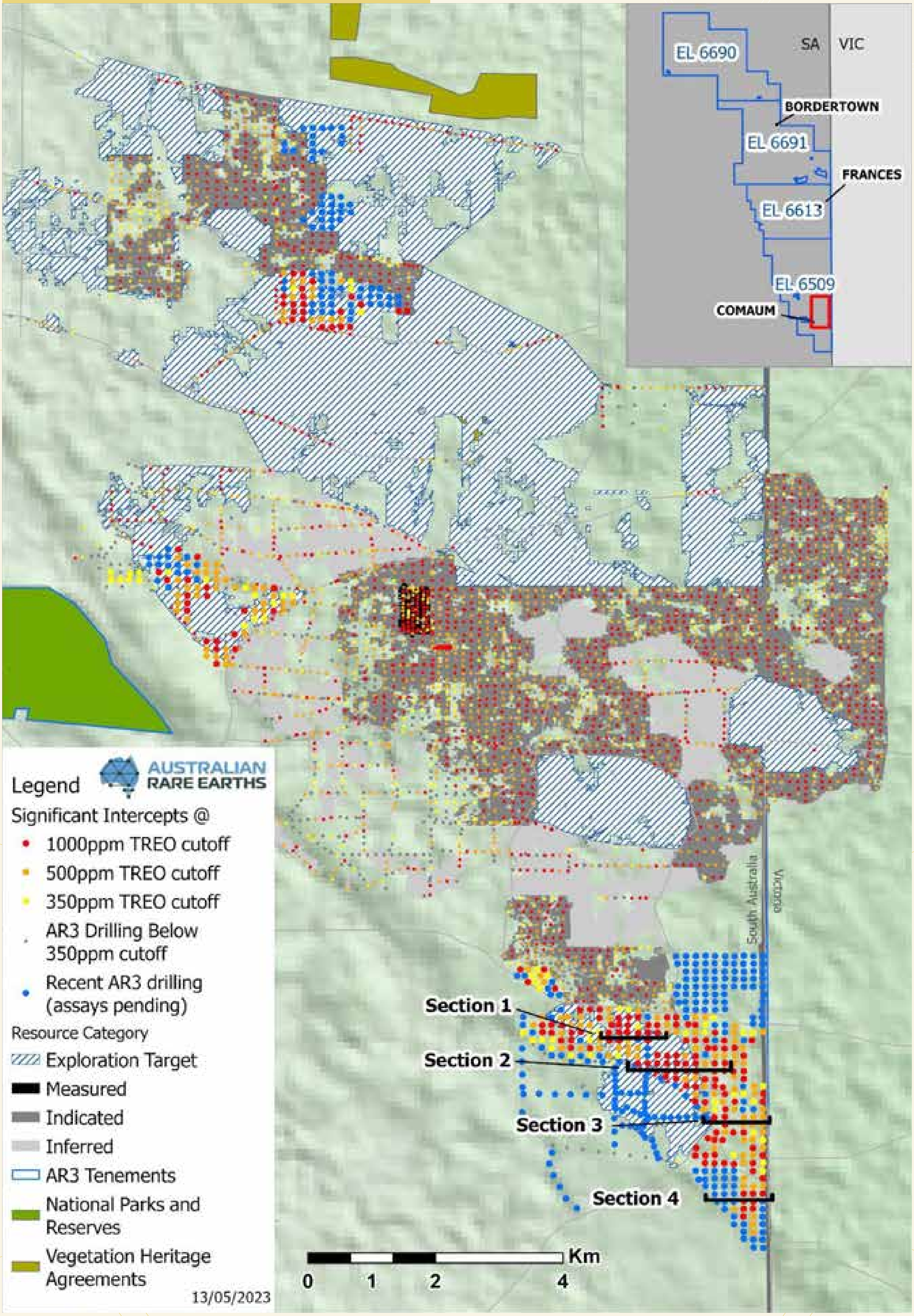
Section 3, Koppamurra Southern Resource Extension



Section 4, Koppamurra Southern Resource Extension



Drillhole and section location plan:
New drilling and Significant Intersection identified with larger circles than existing drilling and significant intersections overlaying the current resource outlines.



PROJECT HIGHLIGHTS

Trial pit rehabilitation

Work that commenced last year on the Koppamurra small-scale mining trial has finished and rehabilitation is complete.

The trial, supported by the State regulator, the landowner and implemented by local earth moving firm, Henschke Industries, was located over a portion of the Indicated Koppamurra Resource.

The Trial Pit has provided an opportunity for landowners, regulators, and community members to see first hand what a rare earth rich clay looks like and to learn about its potential mining and extraction at Koppamurra.

Immediately following the conclusion of the trial mining, rehabilitation of the area commenced. This was undertaken with the support of soil scientists and agronomists and will also demonstrate the potential for continuous reclamation and soil improvements for enhanced crop productivity post mining.

The trial has achieved the following:

- **Improved the understanding of the geological, mineralogical and structural nature of the clays, including the contact with the underlying limestone layer.**
- **Obtained information for mine planning, specifically with respect to fleet selection and selective removal methods of the clay layer to minimise dilution from the underlying limestone or other low concentrations of rare earth minerals.**
- **Enabled the collection of a 500 tonne bulk sample of rare earth oxide rich clay for future metallurgical pilot plant tests.**

May 2022 – Aerial view of trial mining pit

October 2022 – Aerial view of rehabilitation progress

August 2023 – Aerial view of rehabilitated trial mining pit

THE COMMUNITY AND AR3

Community Engagement

The exploration drilling programmes conducted by AR3 could not have taken place without the support of landowners and the broader community.

AR3 recognises the importance of continued proactive and transparent communication with landowners At Koppamurra we actively engage with the local community, knowing their support is key to building a successful and sustainable business.

With our now established a Naracoorte office/warehouse, which is managed by locally based Manager of Community and Land, Jacqui Owen, we are fostering an open and collaborative community relationship which underpins AR3's approach to engagement.

Sponsorships and Funding

Nurturing Our Local Partnerships

At Australian Rare Earths, our commitment to fostering vibrant and sustainable communities goes hand in hand with our dedication to responsible land management.

We understand that our operations impact the lives of those who call our region home, and we take our role as a responsible corporate citizen seriously.

Empowering Local Interests

Our support for local community special interest groups is a cornerstone of our community engagement efforts. From horse racing enthusiasts to sports clubs, scouts, and the arts, we recognise the unique passions and interests that make communities thrive.

Horses for Heritage

We proudly support the Lucindale Camp Draft and the Naracoorte Horse Racing Club, recognising the deep-rooted heritage of horses in the community. Our sponsorship helps preserve traditions, ensuring that generations to come can experience the excitement and grace of these magnificent animals.

Fuelling the Spirit of Sportsmanship

In partnership with local sports clubs, we champion teamwork, discipline, and physical fitness. We believe that sports play a crucial role in fostering a strong sense of community and a healthier, more active lifestyle.

Empowering Future Leaders

Our commitment to our local scout's club goes beyond financial support to enable improvements to the club rooms. We actively engage with the local scout troop, offering event catering opportunities, helping young scouts develop leadership skills that will serve them throughout their lives.

Investing in Education for Tomorrow

We believe that education is the key to a brighter future. That's why we're committed to investing in local educational initiatives.

By providing funding for the delivery of an educational resources into local schools, to support teacher development and ensure the inclusion of Critical Minerals on the curriculum, we empower the next generation, the future workforce, to pursue their dreams and contribute to the employment capacity of our community.

Celebrating Art and Culture

Culture enriches our lives, and we proudly support our local art gallery. Through our contributions, we ensure that the gallery remains a vibrant cultural hub, showcasing the talent of the communities artists and providing a space for artistic expression.

Australian Rare Earths recognise the importance of preserving and sharing works of art, and firmly believing in their power to inspire, uplift and unite communities.

It was our pleasure and privilege to contribute to the cultural enrichment of our community by sponsoring the Naracoorte Art Gallery, Ibis Rising Art Competition and funding the restoration of a wonderful Eduardo Cortes painting, the jewel in the crown of the Naracoorte Art Gallery Collection.

A Partnership for Progress

At Australian Rare Earths, we view our relationship with the local community as a partnership for progress. We are dedicated to making a positive impact by supporting the special interests and cultural institutions that make our community unique.

Together, we can build a stronger, more prosperous, and culturally rich future for all. As we reflect on the past year's achievements, we are proud of our continued collaboration with these special interest groups and our contributions to education and the arts.

We look forward to even more remarkable partnerships in the years ahead as we work hand in hand with our community to create a better tomorrow.

THE COMMUNITY AND AR3

Community Engagement

Empowering Voices: The Landholder Reference Group

At Australian Rare Earths, we recognise that our operations impact the communities in which we operate. We value the feedback, insights and concerns of our community members.

That's why we established the Koppamurra Landholder Reference Group, a dynamic platform that ensures every voice is heard and every perspective considered in shaping our future operations.

Community-Centric Decision-Making

The Landholder Reference Group represents our commitment to responsible and community-centric resource development.

We understand that our operations extend beyond mere exploration and mining; they influence the lives and livelihoods of the people who reside in our region.

With this in mind, we formed the group to foster transparent, open and inclusive dialogue with our community.

A Diverse Tapestry of Voices

Our Landholder Reference Group is a diverse assembly of individuals, each bringing a unique perspective to the table.

From representative landowners, croppers, graziers, forestry, winegrowers and environmental advocates to local council leaders and government agencies, the group reflects the rich tapestry of our community.

Facilitating Meaningful Dialogue

This platform serves as a bridge between our company and the community. We meet regularly to discuss a wide range of topics, from environmental sustainability and land use to safety measures and community development.

The group's input informs our decision-making processes, ensuring that our actions align with the best interests of the community.

Transparency and Accountability

Transparency and accountability are the cornerstones of our relationship with the Landholder Reference Group.

We share information, data and insights openly, allowing members to make informed contributions and hold us accountable for our commitments.

This commitment to transparency strengthens trust and mutual understanding.

Community-Driven Solutions

Through collaboration with the Landholder Reference Group, we hope to achieve meaningful progress towards a mining lease.

Together, we'll identify innovative solutions to minimise our environmental footprint, enhance safety measures and support local businesses.

By actively listening to the concerns and ideas of the community, we become a more responsible and community-minded company.

A Bright Future Together

As we look ahead, we're committed to continuing this constructive partnership with the Landholder Reference Group.

We believe that by working together, we can achieve a responsible rare earths mining operation that benefits not only our company but also the community and the environment for generations to come.

At Australian Rare Earths, we understand that our success is intricately linked with the well-being of our community. The Landholder Reference Group is a testament to our commitment to listening, learning and collaborating with the people who matter most—our community members.

Together, we'll navigate the future with integrity, transparency and a shared vision of prosperity.

AR3 Board members inspect the Koppamurra Trial Pit site

Rick Pobjoy presenting to KLRG members

MINERAL RESOURCES

Koppamurra Project – Mineral Resource Estimate

The Koppamurra Project Mineral Resource Estimate was completed by IHC Robbins Pty Ltd and reviewed by the competent person in this matter, Greg Jones, who has taken into consideration the drill hole spacing in plan view and downhole, as well the sample support within domains and the variography for these Koppamurra deposits for classification of the resource under the 2012 edition of the JORC code.

The deposit has been assigned JORC Classifications of Measured, Indicated and Inferred, and comprises a total Mineral Resource of 101 Mt @ 818 ppm from TREO as at March 2023 and is tabled here below.

The Mineral Resource statement is based on and fairly represents, information and supporting documentation prepared by the competent person.

JORC 2012 Compliant

KOPPAMURRA MINERAL ESTIMATE – MARCH 2023

			Magnet Rare Earths							
JORC	**Tonnes**	**TREO**	**Praseodymium**		**Neodymium**		**Terbium**		**Dysprosium**	
Category	Mt	ppm	ppm	% TREO	ppm	% TREO	ppm	% TREO	ppm	% TREO
Measured	1	894	40	4.4	148	16.5	3.9	0.4	22	2.5
Indicated	63	839	38	4.5	143	17.0	3.9	0.5	21	2.6
Inferred	38	782	35	4.5	133	17.0	3.6	0.5	20	2.6
Total	**101**	**818**	**37**	**4.5**	**139**	**17.0**	**3.8**	**0.5**	**21**	**2.6**

Note: Totals may not add up due to rounding

Estimates point to a rare earth mineral province

The Mineral Resource estimate update has been developed using results from the 13,400m drilling campaign conducted in the December quarter of 2022, when over 1,200 drill holes were completed and over 8,200 assays were completed to inform the March 2023 update.

Koppamurra is one of only very few advanced ionic clay-hosted rare earth deposits located outside of China or Myanmar. The Project it is now clearly emerging as one of both scale and quality.

Highlights:

- **JORC Mineral Resource estimate for the Koppamurra clay-hosted rare earths project, increases by 25% to 101 million tonnes at 818ppm TREO (total rare earth oxide).**
- **The combined Exploration Target at Frances and Dovetail has been expanded, over the areas currently drilled, with a range of 330 million to 1.4 billion tonnes, an increase of up to 536% on the upper range of the Exploration Target.**

Koppamurra Exploration Target Estimate

The interpretation revealed the potential for a regional expansion of the existing Exploration Target of 90 Mt to 220 Mt. The Exploration Target has been expanded to 330 Mt to 1,400 Mt, a fivefold increase of up to 536%.

KOPPAMURRA EXPLORATION TARGET – MARCH 2023

Exploration Target	Tonnes	TREO	Magnet Rare Earths							
			Praseodymium		Neodymium		Terbium		Dysprosium	
	Mt	ppm	ppm	% TREO	ppm	% TREO	ppm	% TREO	ppm	% TREO
ET – Frances Region	260-1,200	530-760	20 -30	3.8 - 3.9	90-140	17-18	2-4	0.4 – 0.5	14-20	2.6 – 2.6
ET – Dovetail Region	70-200	620-880	30-40	4.5-4.8	100-160	16-18	3-4	0.5 –0.5	16-20	2.3–2.6
Total	**330-1,400**	**540-780**	**20-40**	**3.7-5.1**	**100-140**	**17-18**	**3-4**	**0.5-0.5**	**14-20**	**2.6-2.6**

The potential quantity and grade of the Exploration Target is conceptual in nature, as there has been insufficient exploration undertaken to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource.

Sampling and sub-sampling techniques

1m aircore sample intervals were homogenised within the cyclone and the rotary splitter was set to an approximate 20% split producing around 1.5kg sample for each metre interval.

The 1.5kg sample was collected in a pre-numbered calico bag and the 80% portion was collected in plastic UV stabilised bags labelled with hole identity and interval. The 1.5kg sample collected in the calico bag was logged by the geologist onsite.

The logged samples were placed in polyweave bags and sent to Naracoorte base at the end of each day. The polyweave bags were then placed on pallets and dispatched to the assay laboratory in Bulka Bags.

Drilling techniques

RC aircore drilling methods were used obtain samples from the drilling programmes. The RC aircore method uses hollow rods containing an inner tube which sits inside the hollow outer rod barrel.

The drill cuttings are removed by injection of compressed air into the hole via the annular area between the inner tube and the drill rod.

The cuttings are then blown back to surface up the inner tube where they pass through the sample separating system (cyclone, with a rotary splitter) and are collected.

MINERAL RESOURCES

Estimation methodology

The JORC Mineral Resource Classification for the Koppamurra project deposit was supported by drill hole spacing, geological continuity and variography of TREO, TREO-CeO2 and CREO of the target mineralised domain Zone 3.

The classification of Indicated and Inferred Mineral Resources was supported by all the criteria noted above. A significant Exploration Target has also been defined which can be used to determine areas of significant prospectivity for future drill programmes.

As a Competent Person, IHC Mining Geological Services Manager Greg Jones considers that the results of the Mineral Resource estimate appropriately reflects a reasonable view of the deposit categorisation and Reasonable Prospects of Eventual Economic Extraction (RPEEE).

Cut-off grades, including basis for the selected Cut-off Grade

The selection of the TREO-CeO2 cut-off grade used for reporting was based on the experience of the Competent Person and given the early stage of the Koppamurra project.

This cut-off grade was selected based on a peer review of publicly available information from more advanced projects with comparable mineralisation styles (i.e., clay-hosted rare earth mineralisation) and comparable conceptual processing methods.

Material above this cut-off generates a head feed grade of over 700 ppm, and in the opinion of the Competent Person meets the conditions for reporting of a Mineral Resource with reasonable prospects of eventual economic extraction.

Mining and metallurgical methods / material modifying factors

No specific mining or metallurgical methods or parameters were incorporated into the modelling process. Representative material from the current drilling programme will be utilised in ongoing metallurgical testwork.compressed air into the hole via the annular area between the inner tube and the drill rod.

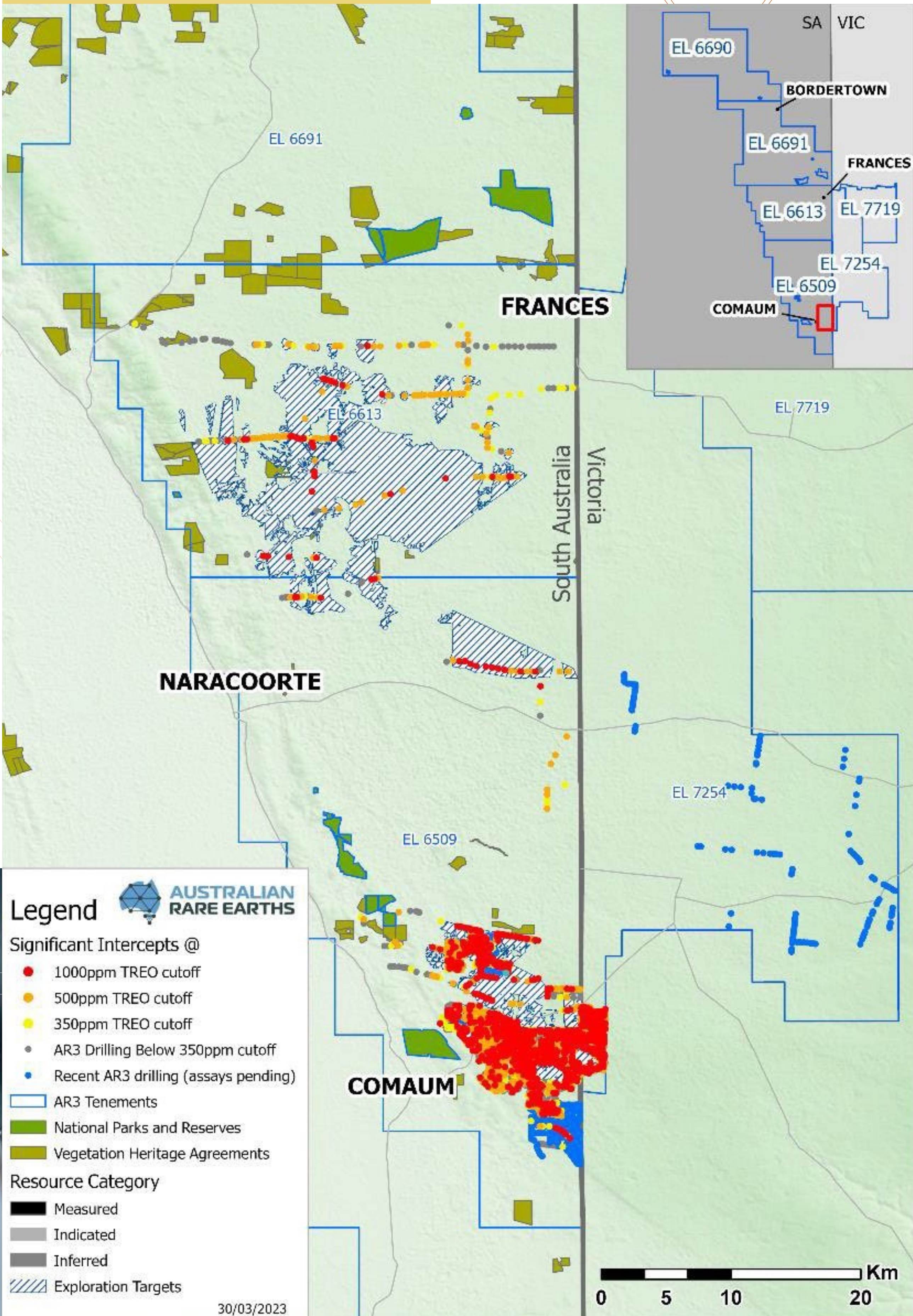
Competent Person's Statement

The information in this report which relates to Mineral Resources for the Koppamurra rare earth deposit is based upon and fairly represents information compiled by Mr Greg Jones who is a Fellow of the Australasian Institute of Mining and Metallurgy.

Mr Jones is a full-time employee of IHC Mining and has sufficient experience relevant to the style of mineralisation, the type of deposit under consideration and to the activity which he is undertaking 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 Jones consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Wider Koppamurra project area – including significant Frances area Exploration Target



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Tenement Interests

All granted tenement interests and tenement applications held at 30 June 2023 are 100% held by Australian Rare Earths and its related body corporates.

Project	Tenement	Name	Location	Status	Date Granted	Interest
Koppamurra	EL6509	Naracoorte	SA	Granted	15/09/2020	100%
	EL6613	Francis	SA	Granted	07/07/2021	100%
	EL6690	Keith	SA	Granted	03/11/2021	100%
	EL6691	Bordertown	SA	Granted	03/11/2021	100%
	EL7254	Apsley	VIC	Granted	29/04/2021	100%
	EL7719	Minimay	VIC	Granted	10/08/2021	100%
	ELA00007	Penola	SA	Application		100%
	ELA00008	Mt Gambier	SA	Application		100%
	EL008208	Glenelg	VIC	Application		100%
	EL008254	Dartmoor	VIC	Application		100%
Massie Creek	EPM27952	Massie Creek	QLD	Granted	10/03/2022	100%
Dalrymple	EPM28168	Mt Wickham[1]	QLD	Application		100%
	EPM28169	Stones Creek	QLD	Granted	12/9/2022	100%
	EPM28165	Riverside[2]	QLD	Application		100%
	EPM28166	Dalbeg	QLD	Application		100%
	EPM28167	Burdekin	QLD	Application		100%

[1] EMP28168 Mt Wickham tenement was granted subsequent to year end on 4 July 2023.
[2] EPM28165 Riverside tenement was granted subsequent to year end on 4 July 2023.


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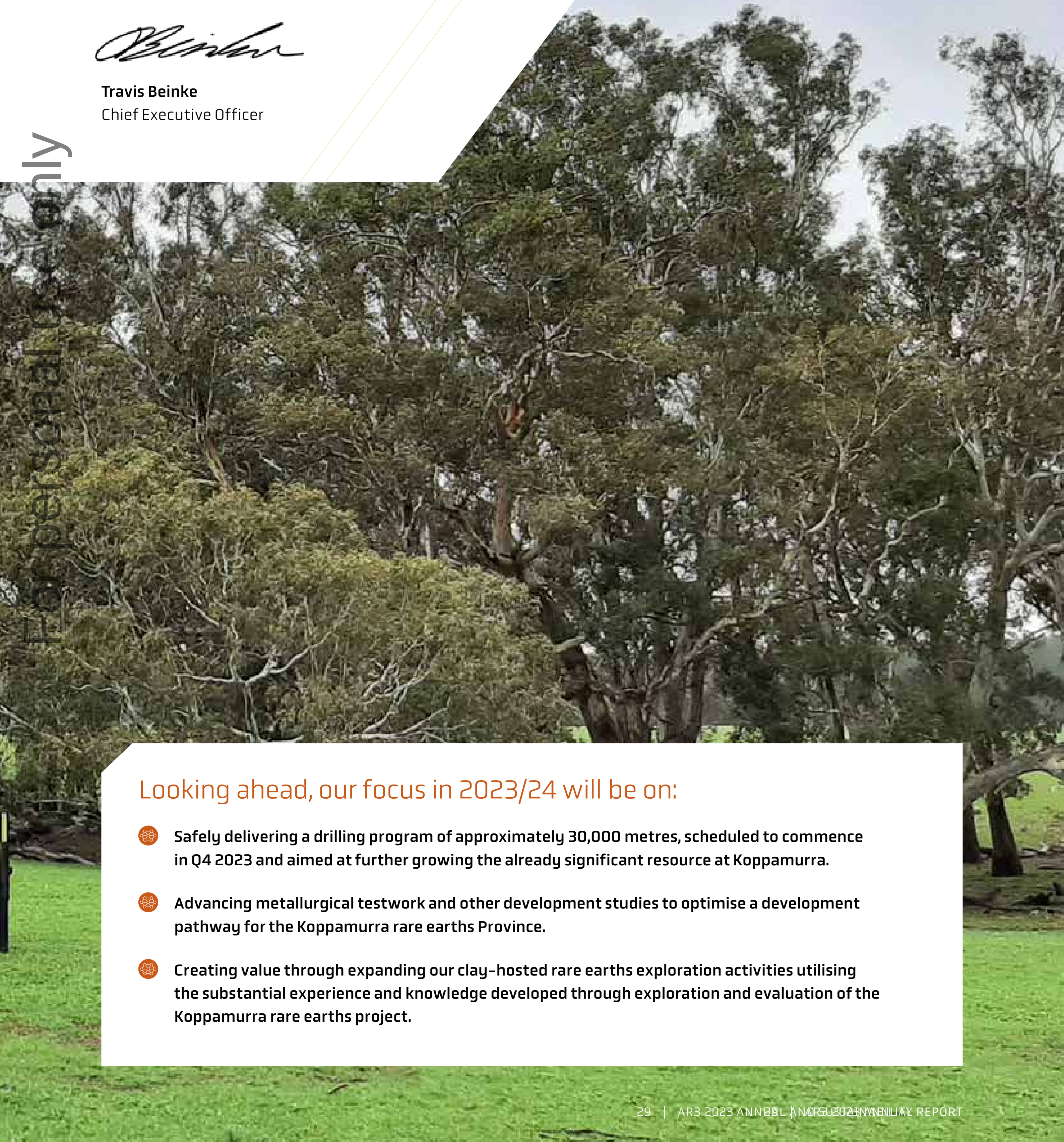
OUTLOOK FROM THE CEO

I have been truly impressed by the work done by the AR3 team over the last two years and thank all our stakeholders whom I have met since commencing as CEO in June 2023.

We are excited about what can be achieved over the next 12 months and the possibilities ahead. The team and I are energised to unlock value at our flagship Koppamurra project by progressing the project from the mineral resource definition phase into preliminary mine planning, environmental studies, continued community and landowner engagement and development plans for a multi-generational Province.

We are focused on delivering production at a time when there is a substantial demand for new, sustainable supply of critical rare earths to support global electrification efforts.

Travis Beinke
Chief Executive Officer



Looking ahead, our focus in 2023/24 will be on:

- **Safely delivering a drilling program of approximately 30,000 metres, scheduled to commence in Q4 2023 and aimed at further growing the already significant resource at Koppamurra.**
- **Advancing metallurgical testwork and other development studies to optimise a development pathway for the Koppamurra rare earths Province.**
- **Creating value through expanding our clay-hosted rare earths exploration activities utilising the substantial experience and knowledge developed through exploration and evaluation of the Koppamurra rare earths project.**

SUSTAINABILITY REPORT

Australian Rare Earths (AR3) continues to support the global transition towards a low carbon economy by working towards developing a new sustainable supply of critical rare earths.

As the world's transition towards a low-carbon economy accelerates, so does the demand for responsibly supplied rare earth elements, critical in the production of Rare Earth Permanent Magnets (REPMs) used in applications such as electric vehicles, wind turbines and robots.

The use of REPMs in the drives of domestic appliances is receiving increasing awareness as a means by which we can make more use of power we generate.

Embedded within this increase in demand, comes higher expectations from the global community that sustainable mining production is positioned at the forefront of the global permanent magnet supply chains.

At AR3, our core values form the basis of our approach to sustainability. Inherent in our strategy is the way we engage with local communities to build trust and respect, how we plan and design our activities to minimize our environmental impact and the controls we put in place to ensure strong governance and accountability across all our operations.

Sustainability directs the decisions we make as a company and empowers our employees.

These values represent who we are and how we work — each one of us, everywhere, every day.

Our Sustainability Report builds on our inaugural environmental, social, community and governance framework developed in 2021 and represents our non-financial progress over the past 24 months.

Importantly, this report demonstrates our purpose. Through transparency, it provides confidence in our ability to attract existing and new generations of customers and employees while giving us the license to grow sustainably over the long-term; building robust supply chains to responsibly power a cleaner tomorrow.

SUSTAINABILITY

Sustainability Foundation Pillars

AR3 understands that exploring and developing mineral resources in a sustainable way is essential to our operating and financial success. We are committed to integrating and promoting sustainability into all facets of our business.

For us, that means, building the foundations of trust, respect and acceptance through:

- minimising our environmental footprint
- providing a safe, respectful and inclusive workplace to our people and contractors
- building prosperity within the local communities where we operate
- operating strong governance frameworks to maintain accountability and uphold company values.

To ensure our key sustainability pillars adequately inform our thinking in addressing society's most important challenges, AR3 has framed its key stakeholder impact and focus areas within each pillar against the **World Economic Forum's Stakeholder Capitalism Metrics** and the **United Nations (UN) 17 Global Sustainable Development Goals (SDGs)**.

Key Sustainability Pillars

Environment
(minimising our footprint)

FOCUS AREAS
- Climate Change – Greenhouse Gas Emissions
- Freshwater availability – Water Consumption
- Nature Loss – Land Use

Social
(our people)

FOCUS AREAS
- Health and Safety
- Diversity and Inclusion

Community
(building prosperity)

FOCUS AREAS
- Economic Contribution
- Research and Development Expenditure
- Total Taxes Paid
- Sponsorship

Governance
(accountability and stewardship)

FOCUS AREAS
- Setting Purpose to Create Value for all Stakeholders
- Governance Body Composition
- Ethical Behaviours
- Risk and Opportunity Oversight

Sustainability Guiding Principles

The World Economic Forum's (WEF) Stakeholder Capitalism Metrics provide AR3 with a solid foundation to build not only capacity, but also our capability towards structuring coherent sustainability reporting.

These metrics are collated from existing voluntary standards and standard setting bodies, including the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI) and the Task Force on Climate-Related Financial Disclosures (TCFD).

Ultimately, the Stakeholder Capitalism Metrics provide AR3 with a market leading set of business critical metrics, reflecting our vision to become a global leader as a key player in the independent supply chain of rare earths for use in permanent magnets.

Whilst our business activities touch upon many of the SDGs, AR3 is focusing its efforts on those SDGs which closely align with our Company goals and where AR3 can have a positive influence. Continuing to review these goals and building alignment will ensure we maintain a steely focus on playing our part in providing an impactful contribution to the sustainable development of not only our business, but the economy, society and the planet over the next ten years.

Importantly, whilst the WEF Stakeholder Capitalism Metrics provide AR3 with a set of global sustainability metrics to measure performance, the Board has also adopted the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations – 4th Edition" to ensure compliance and a level of consistency with ASX reporting requirements.

The Board continually monitors and reviews its policies, charters and procedures with a view to ensuring alignment with the sustainability reporting metrics and compliance with the ASX Recommendations to the extent deemed appropriate for the size and stage of AR3's development status.

As a Company, we recognise these issues may change over time, reflecting changes in our business, our external operating environment and the expectations of our stakeholders.

As such, we see sustainability as a journey, requiring ongoing stakeholder engagement to inform and adjust our approach to business to meet society's needs.

Building stakeholder capitalism; through the creation of long term value not only for shareholders but also for customers, suppliers, employees, communities, and others.

SUSTAINABILITY PILLARS >> FOCUS AREAS

SUSTAINABILITY PILLARS >> FOCUS AREAS

Environment – Minimising our footprint

Part of AR3's purpose is to unlock those materials critical to producing cleaner and more affordable energy technologies so as to provide a more sustainable future for the planet.

To support this purpose, AR3 continues to seek new and innovative ways to investigate and process these materials in a safe and environmentally responsible manner. We believe environmental protection and stewardship are the keys to ensuring the long term viability of our business, including maintaining the necessary support from our host communities and governments.

Climate change – greenhouse gas emissions

AR3 recognises that the effects of climate change pose considerable near and long term challenges for society and have the potential to impact our own operational and financial performance.

According to the latest Intergovernmental Panel on Climate Change (IPCC), Working Group (III) report issued in 2022, it is now considered theoretically feasible to halve global emissions by 2030. This will involve a substantial reduction in fossil fuel use, widespread electrification, improved energy efficiency, and use of alternative fuels (such as hydrogen).

Inherent within widespread electrification, the development of rare earth minerals critical for permanent magnet technologies will play an important and growing role to enable the transition to the more efficient application of renewable energy.

AR3 not only recognises the importance of its role in developing critical minerals for future low carbon technologies, but also acknowledges its responsibility to reduce its own carbon footprint as it demonstrates a leadership position in the evolution of a new permanent magnet supply chains.

Consequently, AR3 continues to explore new ways to abate its carbon footprint across all its emissions generated through exploration and administrative activities.

Freshwater availability – water consumption

At AR3, we value the landscapes and land uses in theregions in which we operate and understand the importance of the security and protection that water resources play in communities.

We continue to focus on ensuring our activities will not impact the region's precious water resources, not only now but for the future. We work closely with government regulatory agencies and landholders to ensure we maintain this focus.

Freshwater availability – water consumption

The low impact nature of clay hosted rare earth mineral exploration requires no disturbance of native vegetation.

Similarly, unlike other rare earth deposits, extraction of clay hosted rare earths has a lower impact than other forms of rare earth mineral mining and does not produce any radioactive waste materials.

The progressive rehabilitation process allows for the rapid restoration of the land to its former use.

Social – Our people

Health and safety

Our business objectives should never be allowed to compromise safety.

The Company will never compromise safety. Whilst all operations involve risk, we aim to achieve the ultimate goal of zero harm to all employees and contractors, landholders and local community members either directly or indirectly associated with our operations.

Our safety metrics are based upon Total Recordable Injury Frequency Rates (TRIFR) which refers to the frequency of recordable work-related injuries or illness for each one million hours worked and Lost Time Injury Frequency Rates (LTIFR) which is the rate of injuries which directly lead to lost productivity time and is measured for each one million hours worked.

Importantly, we use behavioral based measures to proactively identify safety hazards (such as safety toolbox meetings and safety observations) and adapt our work practices pursuant to these observations to ensure we continually build a safer workplace.

Diversity and inclusion

AR3 seeks to be an employer of choice, a place where people want to work because it is meaningful, offers purpose, and one where an individual contribution is acknowledged as part of a team effort.

We recognise the importance of diversity of culture, age, race, gender, and sexual orientation and aim to include the best talent to support our workforce. A multitude of perspectives and diversity of thought has a direct and positive impact on productivity and creativity.

In addition, as an equal opportunity employer, AR3 is committed to ensure that our labour practices are gender neutral and nondiscriminatory. Discriminatory practices, harassment and bullying are not tolerated, and any reported instances are formally investigated with appropriate disciplinary action taken.

This is reflected with the implementation of our Code of Conduct Policy across the Company, reinforcing our belief that equality and inclusion are core to our culture.

SUSTAINABILITY PILLARS >> FOCUS AREAS

Community – Building prosperity

Economic contribution

As our operations are based in regional communities, it is a priority for us to be a welcome member of these communities.

We contribute to the communities where we operate by employing local people, providing compensation to local landholders, and purchasing local goods and services wherever possible.

We are proud of the valuable contribution we make to the communities where we operate. The economic contribution we make is an important part of this.

Research and development expenditure

AR3 is actively involved in rare earth mineral research with the University of Adelaide, the University of Toronto and the Australian Nuclear Science and Technology Organisation (ANSTO) which have world leading expertise in the processing of critical and strategic metals.

We believe there is an important role to be played as a leading resources company to contribute to global research efforts in the development of globally critical rare earth minerals.

Total taxes paid

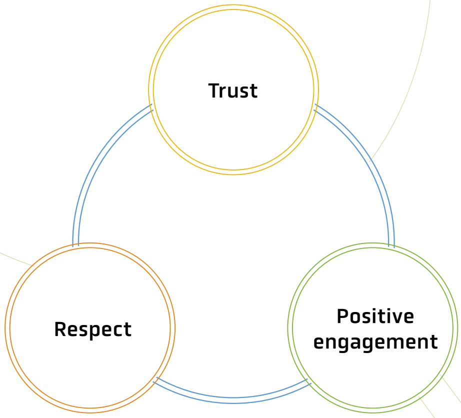
AR3 understands the important roles companies play in the provision of revenue sources for governments.

Whilst we are currently in an exploration phase and are not yet generating revenue, the economic contributions made from AR3 to governments to date include payroll tax, goods and services tax (10%), stamp duties and permit fees.

Sponsorship

AR3 values the rich social tapestry of regional communities and the important roles community groups play in keeping alive the social interaction across often remote areas.

To provide support to the important role these local community groups play AR3 has created a sponsorship fund, to support causes and projects that make a meaningful and positive local community impact.



AR3's goal is to contribute to organisations and projects aimed at making a meaningful and positive local community impact.

It is proposed that priority be given to causes in three main categories:

1. **Rural Health and Wellbeing –** to improve community participation and the quality of life for people living and working in the area;
2. **STEM in local schools –** with particular focus on Rare Earths; and the
3. **Environmental protection –** of native flora and fauna in close proximity to AR3's areas of operation.

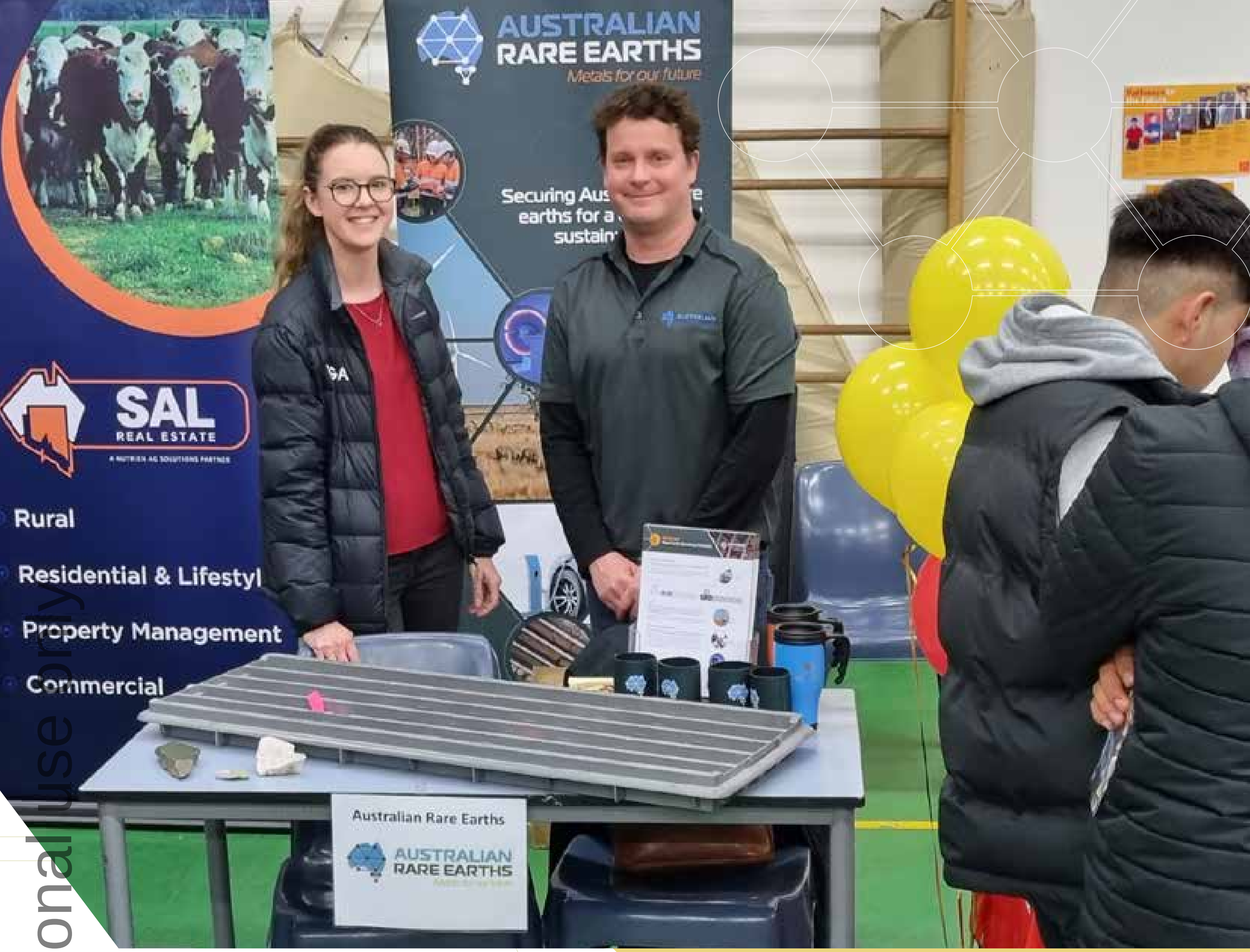


Photo: AR3 attending local Pathway to Pay Packet career night

Case study – STEM in schools

AR3 is committed to supporting local schools develop the inclusion of rare earth critical minerals into the Science Technology, Engineering, and Mathematics (STEM) curriculum.

Recently local Year 11 chemistry students attended a fieldtrip to AR3's core warehouse in Naracoorte to develop their awareness of critical rare earths for their Science and Human Endeavours Research Projects.

AR3 hosted a professional development workshop for Naracoorte High School's science teachers at the Naracoorte core warehouse to grow their understanding and increase their confidence in teaching the origin of critical rare earth elements and the important role they play in decarbonising a future renewable energy economy.

AR3 is now partnering with Teacher Earth Science Education Programme (TESEP), a teach-the-teachers, national not for profit organisation, as part of their ongoing commitment to integrating critical minerals into the STEM curriculum.

The TESEP and AR3 partnership consists of:

1. **Sponsorship funds to**
   - develop teacher training programs, to support the inclusion of critical rare earths in the STEM curriculum
   - provide teaching resources, including 'rock kits' for participating schools
2. **In-kind participation**
   - AR3 attending school visits, Rocks Expo days, career nights (Pathway to a Pay Packet)
   - High school student group visits to AR3's field sites and core warehouse
   - High school student work experience placements
   - AR3 hosting of teacher professional development through Critical Minerals & Energy, Earth & Environmental Science workshops

SUSTAINABILITY PILLARS >> FOCUS AREAS

Governance – Establishing accountability and stewardship

Governance – Our goal is to create value for all shareholders

The Board plays a pivotal role in not only providing governance and oversight, but also has an active strategic role in the co-creation with management of the Company's strategic purpose and vision, leveraging their collective global experience in developing rare earth resources.

This approach helps define AR3's long term objectives, action programs and financial resource allocation priorities.

Governance body composition

AR3 has an established Board of Directors who oversee and guide the Company's business strategy and monitor the identification and management of risks that impact the realisation of the Company's strategic goals.

Details of the Board's composition is detailed in the Directors Report.

Risk and opportunity oversight

AR3's Board of Directors provide a risk oversight role, undertaking reviews of operational strategy and programs.

The Board evaluates and discusses with members of management whether the risk management processes designed and implemented are adequate in identifying, assessing, managing, and mitigating material risks facing the Company, including financial, operational and sustainability risks.

The Board as a whole is responsible for risk oversight at the Company, with reviews of certain areas being conducted by its standing Audit & Risk Committee. Committee charters define the roles and responsibilities of each committee within the Company's governance framework.

Our Corporate Governance Guidelines along with the charters of our principal Board committees provide the framework for the governance of our Company and reflect the Board's commitment to monitor the effectiveness of policy and decision making at both the Board and management levels.

Stakeholder Engagement

AR3 believes effective stakeholder engagement is founded on transparency and meaningful dialogue, engendering trust and respect to garner acceptance.

Our primary goal is to foster mutual understanding as well as trusting and respectful connections with our stakeholder groups.

We have a broad range of stakeholders, including landholders, shareholders, employees, contractors, host communities, customers and suppliers, regulators and policymakers, local governments and industry organisations.

We recognise that the interests and concerns of our stakeholders can change over time. To assist in our understanding of the changing needs and expectations, we believe that ongoing and proactive engagement is imperative. We maintain an ongoing, constructive, and proactive shareholder and non-financial stakeholder engagement program. This dialogue helps us better understand our stakeholders' perspectives on the topics that matter most to them.

These engagements are also an opportunity to share information about our strategy, practices and performance. Responsibility for engaging with stakeholder groups is widely shared across the Company and we engage through numerous channels, with dedicated local interactions lead by the Manager of Community and Land who is based in AR3's Regional Office located in Naracoorte which is close to the Koppamurra Project.

At the corporate level, the Company engages with organisations ranging from shareholders, various financial institutions, governmental institutions, industry groups, and universities.

The onset of the COVID-19 pandemic shifted many of our corporate interactions to virtual engagements. In many instances, the virtual setting eliminated physical barriers to meetings and allowed for greater reach and participation from our interstate and international stakeholders.

It is our view that effective stakeholder engagement plays a critical role in helping to reduce sustainability related risks and enables AR3 to deliver positive value to our stakeholders and more broadly an enhanced contribution to society.

Ethical Behaviour

AR3's Code of Conduct Policy outlines our values-based expectations as to how we should conduct our business.

An important foundation in achieving this is empowering our employees and contractors to have the courage and commitment to do what is right, not what is easy.

The Code of Conduct makes it clear that we do not offer, pay or accept bribes, no matter where we operate, the situation or who is involved. This position is further supported by our employment standards which require employees, core contractors and associated persons acting for, or on behalf, of the Company to not commit, authorise or be involved in bribery, corruption, fraud or other economic crimes.

Our Board Audit & Risk Committee, is designed to provide oversight of a range of business activities, including ensuring that the conduct of our business is undertaken in an ethical manner, in conformance with our Code of Conduct and true to our integrity values of Trust, Respect, Positive Engagement and Acceptance.

We continuously evolve our monitoring and prevention program so that it mirrors the risk profile of our key exploration assets and business activities as well as enabling targeted intervention and awareness to prevent issues from occurring.


MENNEKES

DIRECTORS' REPORT

Your Directors present this report on Australian Rare Earths Limited and its consolidated entities ('Company', 'Group', 'AR3' or 'Australian Rare Earths'), for the year ended 30 June 2023.

Directors

The following Directors were in office at any time during or since the end of the financial period as indicated:

Dudley Kingsnorth
Non-Executive Chairman
(Independent Director)

Bryn Jones
Non-Executive Director
(Non-Independent Director)

Pauline Carr
Non-Executive Director
(Independent Director)

Angus Barker
Non-Executive Director
Appointed 2 March 2023
(Independent Director)

Rick Pobjoy
Technical Director
(Non-Independent Director)

Don Hyma
Former Managing Director
Resigned as a director on 19 August 2022.
(Non-Independent Director)

Company Secretary

The following person held the position of Company Secretary during the financial year and as at the date of this report:

Noel Whitcher
Appointed 1 February 2023

Damien Connor
Resigned as Company Secretary on 31 March 2023.

Principal activities

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

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

There was no significant change in the nature of this activity during the year.

DIRECTORS' REPORT

Information on continuing Directors and Management

Professor Dudley Kingsnorth

Independent Non-Executive Chairman

B.Met (Hons), M.Sc, FAICD, FAusIMM

Dudley Kingsnorth is a Metallurgist with over 50 years' experience in operations, project development and marketing.

Professor Kingsnorth is an internationally recognised independent expert on the rare earths industry, providing advice to producers, end users and government entities.

Professor Kingsnorth was a former Project Manager for the Mt Weld Rare Earths Project.

Professor Kingsnorth is a Fellow of the Australian Institute of Company Directors.

Interest in Shares and Options:

2,297,001 fully paid ordinary shares and 2,866,667 unlisted options.

Special Responsibilities:

Chairman. Member, Audit & Risk Management Committee. Member, Remuneration & Nominations Committee.

Directorships of other ASX Listed entities in the last 3 years:

Boss Energy Limited (ASX: BOE)

Bryn Jones

Non-Executive Director

BAppSc (Chem), MMinEng, FAusIMM

Bryn Jones is an Industrial Chemist with extensive evaluation, development and operational experience in the minerals industry across various commodities.

Mr Jones specialises in development of extractive metallurgical solutions for economic development. Mr Jones was the former technical (exec) director and now non-executive director, of Boss Energy Ltd (ASX: BOE).

Mr Jones is also a non-executive director of DevEx Resources Ltd (ASX: DEV) and is the Managing Director of unlisted public company entX Limited..

Interest in Shares and Options:

15,834,048 fully paid ordinary shares and 4,024,074 unlisted options.

Special Responsibilities:

Member, Remuneration & Nominations Committee.

Directorships of other ASX Listed entities in the last 3 years:

Boss Energy Limited (ASX: BOE) and of DevEx Resources Ltd (ASX: DEV)

Rick Pobjoy

Technical Director
(Acting Managing Director from
19 August 2022 – 19 June 2023)
BSc, MAusIMM

Rick Pobjoy is a Geologist with over 25 years' experience in the mining and minerals exploration industry.

Mr Pobjoy has extensive experience in the definition, development and production from sedimentary hosted deposits across a number of commodities.

Mr Pobjoy has recent experience in managing the geological evaluation of mineral deposits in the Murray Basin.

Interest in Shares and Options:

14,220,000 fully paid ordinary shares and 7,466,667 unlisted options

Special Responsibilities:

Nil.

Directorships of other ASX Listed entities in the last 3 years:

Nil.

Angus Barker

Independent Non-Executive Director
M.Phil, B.Com (Hons), GAICD

Angus Barker has been a trusted adviser to corporations and governments for decades.

Angus has over 20 years' experience as a mergers and acquisitions and capital markets adviser, working with global investment banks in Hong Kong, Australia and the United Kingdom.

Angus served for eight years in senior roles advising Australian Government Ministers in relation to policy matters including Trade & Investment and Superannuation & Financial Services.

Interest in Shares and Options:

2,700,000 fully paid ordinary shares and 666,667 unlisted options

Special Responsibilities:

Member, Audit & Risk Committee

Directorships of other ASX Listed entities in the last 3 years:

WAM Capital (ASX: WAM).

Information on continuing Directors and Management

Pauline Carr

Independent Non-Executive Director
BEc, MBA, FAICD, FGIA, FCG (CS CGP)

Originally an accountant, Pauline Carr is a professional non-executive Director with extensive commercial, management, compliance, and governance expertise as well as over 35 years experience in the resources industry with both Australian and international listed companies.

Pauline has extensive board committee experience in both audit and risk as well as people and remuneration committees.

She is also Chancellor of the University of South Australia and Chairman of National Pharmacies.

Interest in Shares and Options:

94,445 fully paid ordinary shares and 1,114,815 unlisted options.

Special Responsibilities:

Chair, Audit & Risk Management Committee. Chair, Remuneration & Nominations Committee.

Directorships of other ASX Listed entities in the last 3 years:

Highfield Resources Limited (ASX: HFR)

Travis Beinke

Chief Executive Officer
CPA, B.Com.

Travis Beinke is a highly experienced executive with more than 20 years' experience in the resources sector with both Australian and international listed companies.

Travis has a broad range of strategic, commercial, finance and business development skills, particularly in exploration and growth projects.

Travis has spent the last 5 years with OZ Minerals, initially holding the role of Group Manager Commercial, prior to leading the company's engagement with equity markets.

Noel Whitcher
Chief Financial Officer
Company Secretary
CA, MBA, GCertHRM, B.Com.

Noel Whitcher is an experienced Company Secretary and CFO, with over 20 years' finance and accounting experience including 10 years in the mining and mineral exploration industry.

Mr Whitcher is a member of the Institute of Chartered Accountants of Australia (Chartered Accountant), holds an MBA, and post graduate qualifications in Human Resources and a Bachelor of Commerce.

Mr Whitcher has been providing Company Secretary and CFO services to several ASX Listed and unlisted entities since 2018.

Meetings of Directors

The number of meetings of the Company's Board of Directors (Board) and each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each Director were as follows:

Director	Board of Directors		Audit & Risk Management Committee		Remuneration & Nomination Committee	
	A	B	A	B	A	B
Professor Dudley Kingsnorth	16	16	4	4	4	4
Bryn Jones	16	15	4	3	4	4
Pauline Carr	16	16	4	4	4	4
Rick Pobjoy	16	16	2	2	4	4
Angus Barker [1]	4	4	1	1	1	1
Don Hyma [2]	1	1	–	–	1	1

[1] *Appointed on 2 March 2023.*
[2] *Resigned as a director on 19 August 2022, following the Company's termination of his executive services agreement.*

Angus Barker, Don Hyma and Rick Pobjoy attended Audit & Risk Management Committee and sections of the Remuneration & Nominations Committee Meetings by invitation.

Where:

Column A is the number of meetings the Director was entitled or invited to attend

Column B is the number of meetings the Director attended

Directors also held additional informal discussions on a regular basis throughout the year. As at the date of this report, the Company has not formed a separate Governance Committee, as these matters are handled by the Board as a whole.

Operating and Financial Review

Highlights:

- **Mineral Resource upgrade has confirmed Koppamurra as a globally significant resource, 101Mt @ 818ppm TREO and with a greater than 1bt exploration target.**
- **Immense growth potential at Koppamurra – the defined Resource is < 5% of total acreage and that resource growth potential has been demonstrated in our 1.4bt exploration target.**
- **First Australian ionic clay hosted rare earth resource to produce, a Mixed Rare Earth Carbonate (MREC).**
- **Well supported Capital Raise in April / May raising $11m before costs.**
- **Extensive regional drilling campaign completed in 2022/23 with over 30,000 meters drilled, confirming Koppamurra as rare earth province.**

Strategy

The Group's primary focus is on its 100%-owned Koppamurra Project (Koppamurra), a regional scale ionic clay rare earth opportunity located in South Australia and Victoria containing a high value REE assemblage with low radioactivity.

To date the Company has already had significant exploration success through the discovery of the Red Tail and Yellow Tail deposits, including the declaration of a maiden Mineral Resource the grade of which is comparable with those found in southern China, currently the major source of heavy rare earths.

Following a successful listing on the ASX in June 2021, the Group's focus has been on extensive exploration drilling at Koppamurra to establish mineral resources across the project area. In parallel activities to develop processing methodologies for the current resources and prepare the environmental, social and community cases for potential development of these resources have been underway.

The global push for carbon neutrality through the adoption of Electric Vehicles (EVs) and renewable energy (particularly wind turbine) installations is driving global demand for the combination of rare earths with which Koppamurra is endowed.

In a global market dominated by China the major world economies are actively supporting the development of independent supply chains to ensure that the global population will continue to have unrestricted access to the materials that drive future economies.

The Company's business strategy centres on the following key elements:

- the conduct of exploration on the Project and, if warranted, the development of mining operations
- the active pursuit of other opportunities, both in Australia and overseas, with the aim of creating value for the Company's shareholders.

The initial focus for the Company will be to explore and develop its flagship Koppamurra Project, with the aim of creating value for the Company's current and future shareholders.

The majority of the Company's planned expenditure over the next year will be applied to increasing the confidence of known prospect areas as well as identifying additional clay hosted rare earth mineralisation within the Koppamurra Rare Earth province through drilling, assay, and ground based geophysical surveys. This includes to define additional resources as well as regional assessments of the prospectivity of the wider exploration tenure.

The Company seeks to identify additional mineral resources in geographically separate and distinct areas, and to conduct process testwork, and studies to further establish the feasibility of the production of rare earth concentrates from clay lithologies at the Koppamurra Project.

DIRECTORS' REPORT

Summary of financial performance

The net loss of the Group for the year ended 30 June 2023 was $2,418,701 (30 June 2022: $5,371,085) primarily due to employee benefits of $1,472,398 (30 June 2022 $1,290,179), use of corporate consultants $475,933 (30 June 2022 $396,692) and other expenses $839,390 (30 June 2022 $525,231).

The reduction in net loss is primarily as compared to the prior year is largely due to the reduction in share based payments to KMP with expenses for the year ended 30 June 2023 being $288,224 ($2,908,824).

During the year ended 30 June 2023 the Group's net available cash position increased by $2,366,212 from $12,615,020 (1 July 2022) to $14,981,232 (30 June 2023) with no debt.

During the year, the Group received inflows of $11,121,893 (before costs) from the issue of 24,489,333 fully paid ordinary shares (Shares) at $0.45 per share associated with a share placement in May 2023. In addition, $505,509 was received from the ATO in relation to R&D activities undertaken during the year ended 30 June 2022.

These inflows were largely offset by outflows relating to capitalised exploration & evaluation expenditure of $5,727,882, capital raise costs of $709,917, and operating cash outflows for payments to other suppliers and employees of $2,703,666.

Dividends

No dividends were declared or paid during the financial year. No recommendation for payment of dividends has been made to the date of this report.

Changes in Equity

Shares

The number of fully paid ordinary shares (Shares) on issue increased from 129,498,220 (1 July 2022) to 154,165,962 (30 June 2023) during the year as a result of the following events:

- On 18 April 2023, 178,409 fully paid ordinary shares were issued to shareholders following the exercise of Options.
- On 1 May 2023, 23,595,441 fully paid ordinary shares were issued pursuant to a share placement to institutional and professional investors, raising $10,617,948 (before costs).
- On 27 June 2023, 893,892 fully paid ordinary shares were issued to Directors and Officers of the Company following shareholder approval. The shares were pursuant to a share placement to institutional and professional investors raising completed in May 2023. The Directors and Officers placement raised $402,251 (before costs).

Refer to Note 18 for further details regarding the Shares issued during the year.

Unlisted Options

The number of unlisted options (Options) on issue increased from 30,434,306 (1 July 2022) to 38,719,044 (30 June 2023) during the year as a result of the following events:

- On 8 July 2022, 500,000 Options were issued to an employee of the Company. The Options are exercisable at $0.57 each, expire on or before 4 July 2025 and are subject to time-based vesting conditions.
- On 26 August 2022, 4,000,000 Options issued to a former Director were forfeited in accordance with the terms in which they were issued.
- On 2 December 2022, 2,900,000 Options, in aggregate, were issued to Directors and the Company Secretary. Shareholder approval for the issue of Options to Directors was received at the Company's Annual General Meeting held on 24 November 2022. The 2,900,000 Options issued comprise as follows:
  - 1,750,000 Options exercisable at $0.50 each, expiring on or before 2 December 2025, and vested immediately on the date of issue;
  - 1,150,000 Options exercisable at $0.50 each, expiring on or before 2 December 2026, and are subject to time-based vesting conditions.
- On 2 December 2022, a further 400,000 Options were issued to an employee of the Company. The Options are exercisable at $0.50 each, expire on or before 2 December 2026 and are subject to time-based vesting conditions.
- On 1 March 2023, 500,000 Options were issued to a Director of the Company. The Options are exercisable at $0.47 each, expire on or before 28 February 2026 and vested immediately on the date of issue. The Options were issued pursuant to Listing Rule 10.12 exception 12.

- On 18 April 2023, 178,409 Options were exercised in accordance with the terms in which they were issued.
- On 1 May 2023, 7,865,182 Options were issued to participants of the April share placement. Placement participants were issued one free attaching Option for every two Shares subscribed for in the share placement. The Options are exercisable at $0.57 each, expire on 1 May 2025 and vested immediately on the date of issue.
- On 27 June 2023, 297,965 Options, in aggregate, were issued to Directors and the Company Secretary. Shareholder approval for the issue of Options to Directors was received at the General Meeting held on 22 June 2023. The Options were issued one free attaching Option for every two Shares subscribed for in the April share placement. The Options are exercisable at $0.57 each, expire on 1 May 2025 and vested immediately on the date of issue.

Refer to Note 18 and 21 for further details regarding the Options issued during the year.

Factors and Risks affecting Future Performance

The following describes some of the external factors and business risks that could have a material impact on the Company's ability to deliver its strategy:

Access to funding

If the Company incurs unexpected costs or is unable to generate sufficient income, further funding may be required to fund its operations and the Company may become reliant on capital raisings to fund its future operations.

Therefore, the Company's ability to continue to develop its flagship Koppamurra Project business is contingent upon the Company's ability to source timely access to additional funding as it is required.

Mineral Exploration

Notwithstanding the experience, knowledge and careful evaluation a company brings to an exploration project there is no assurance that recoverable mineral resources will be identified.

Even if identified, other factors such as technical difficulties, geological conditions, adverse changes in government policy or legislation or lack of access to sufficient funding may mean that the resource is not economically recoverable or may otherwise preclude the Company from successfully developing and mining the resource.

Tenure and Access

Mining and exploration tenements are subject to periodic renewal. There is no guarantee that current or future tenements or future applications for production tenements will be approved or that current exploration tenement applications will be granted.

Tenements are subject to numerous State-specific legislation conditions. The renewal of the term of a granted tenement (and grant of tenement applications) is subject to the discretion of the relevant Minister.

The imposition of new conditions either during the term of a tenement or upon renewal, or the inability to meet those conditions may adversely affect the operations, financial position and/or performance of the Company.

Land Access

There is a substantial level of regulation and restriction on the ability of exploration and mining companies to have access to land in Australia.

Negotiations with Native Title and/or land owners/occupiers are generally required before the Company can access land for exploration or mining activities. Inability to access, or delays experienced in accessing, the land may impact on the Company's activities.

Commodity and Currency Price Volatility

The Company is exposed to adverse global demand for rare earths and/or adverse commodity price movements. This could affect the Company's ability to raise funds to advance its projects.

Any significant and/or sustained fluctuation in exchange rates or commodity prices could have a materially adverse effect on the Company's operations and its financial position.

Factors and Risks affecting Future Performance

Global Supply and Consumption

China is the dominant supplier and consumer of rare earths which is delegated to six State Owned Enterprises (SOEs). Accordingly, actions by the Chinese government with respect to the control and management of their domestic rare earths industry could have a material impact on the global rare earths market.

Commercialisation and contractual risk

The Company's potential future earnings, profitability and growth are likely to be dependent on the Company being able to successfully develop its Koppamurra Project and implement some or all of its commercialisation plans.

The ability for the Company to do so is further dependent upon a number of factors, including matters which may be beyond the control of the Company. The Company may not be successful in securing identified customers or market opportunities. In the course of development of the Company's Koppamurra Project, the Company is likely to become party to various contracts, including but not limited to, contracts relating to infrastructure access, mineral processing and customer product supply arrangements.

Whilst the Company will have various contractual rights in the event of noncompliance by a contracting party, no assurance can be given that all contracts to which the Company is a party will be fully performed by all contracting parties. Additionally, no assurance can be given that if the contracting party does not comply with any contractual provisions, that the Company will be successful in securing compliance.

Significant changes to the state of affairs

Executive Director changes

Mr Hyma resigned as a Director of the Company, following the Company's termination of Mr Hyma's executive services agreement.

Mr Pobjoy was appointed Acting Managing Director on 19 August 2022, continuing in this position until 19 June 2023.

Following the appointment of Mr Beinke on 19 June 2023 to the position of Chief Executive Officer, Mr Pobjoy returned to his position as Technical Director.

There have been no further significant changes to the state of affairs of the Company during the year ended 30 June 2023 or as at the date of this report.

Likely developments and expected results of operations

Information on likely developments in the operations of the Company and the expected results of operations have been detailed elsewhere within the Directors' Report.

Environmental regulation

The Company is subject to significant environmental laws and regulations under the laws of the Commonwealth and/or State.

The Company is currently engaged in exploration activities which are governed by conditions or recommendations imposed through the granting of a licence or permit to explore.

Compliance with these laws and regulations is regarded as a minimum standard for the Company to achieve.

No notice of any breach has been received and to the best of the Directors' knowledge no breach of any environmental regulations has occurred during the financial year or up to the date of this Annual Report.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Remuneration Report (audited)

The Directors of Australian Rare Earths Limited present the Remuneration Report in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

A. Principles used to determine the nature and amounts of remuneration

The Board established a Remuneration and Nomination Committee ("the Committee") in March 2022. The Committee is comprised solely of Non-executive Directors, the majority of whom are independent, and it is chaired by an independent Non-executive Director who is not the Chairman of the Board.

The principal purpose of the Committee is to assist the Board fulfil its governance and oversight responsibilities in relation AR3's remuneration practices so that they:

- Align rewards to the creation of value for shareholders;
- Facilitate excellence by attracting, motivating and retaining talent;
- Fairly and responsibly reward employees having regard to the attainment of individual and Company stretch targets as well as industry remuneration norms; and
- Comply with applicable regulatory obligations.

In addition, the Committee oversees selected nomination activities within AR3 to ensure selected individuals are best able to discharge their responsibilities as Directors having regard to the law and excellence in governance standards. A copy of the Committee's Charter and detailed responsibilities can be viewed on the Company's website.

The Committee and the Board recognises that the Company's performance and success will depend on its ability to attract and retain suitably qualified and experienced people in a competitive remuneration and skills market. At the same time, remuneration practices must take account of the nature and size of the organisation and its current state of development. The Company's team of employees is supplemented with specialist technical and business consultants and field teams for operational programs on an as needed basis.

The Company aims to have a performance and reward system appropriate to its stage of development so as to enable it to attract, motivate and retain a range of talent and expertise in line with its strategic plan.

During the year the Remuneration & Nomination Committee undertook work to advance the Company's remuneration framework and incentive plans and formulated the following suite of incentives and which will commence from 1 July 2023.

i. A Short Term Incentive (STI) – key management may receive a cash award at the conclusion of each 12 month performance period subject to the achievement of pre-determined stretch performance goals and targets for the 12 month period; and

ii. Long Time Incentive (LTI) – key management may receive an annual grant of performance rights which may vest after three years subject the attainment of performance hurdles aligned to Company growth measures. The performance hurdles are to include relative Total Shareholder Return as well as strategic project milestones. LTI hurdles are to be assessed after three years by the Committee with the subsequent vesting and award of any LTI performance rights occurring in three equal annual instalments post vesting. Participants must be current employees of the Company as at the vesting date of each tranche in order to receive the vested options.

During the year the Committee also reviewed non-executive Directors' fees and determined that the quantum of Board fees be adjusted so that they were more aligned to the market and reflective of Director responsibilities and workload.

The key management personnel of the Company are the Board of Directors and Executive officers.

Note 6 lists the respective names and roles of the Company's key management personnel.

The Company's Policy for determining the nature and amount of remuneration for the Company's key management personnel is presently as follows:

- All key management personnel are remunerated based on services provided by each person. Key management personnel paid via payroll receive the superannuation guarantee contribution in accordance with legislation which was 10.5% during the reporting period (and subsequently increased to 11% from 1 July 2023) subject to the maximum contribution limit (as applicable). No other retirement benefits are received by other key management personnel.
- The Remuneration & Nomination Committee, annually reviews and makes recommendation to the Board on the packages of executive Directors, other key management personnel and direct reports to the CEO by reference to the Group's performance, individual performance, comparable information from industry sectors and other listed companies of similar size in analogous industries. As a policy the Company aims to remunerate its employees at the 50th percentile of its comparator group.
- The Board, via recommendation from the Remuneration & Nomination Committee, may exercise discretion in

A. Principles used to determine the nature and amounts of remuneration

- The Board, via recommendation from the Remuneration & Nomination Committee, may exercise discretion in relation to approving salary adjustments, incentives, bonuses and the issue of options and/or performance rights. This is designed to attract high calibre key management personnel and reward them for performance that results in long-term growth in shareholder wealth.
- The Company has an Employee Option Plan and a Performance Rights Plan, which Directors and other key management personnel are eligible and entitled to participate.
- The Board policy is to remunerate non-executive Directors at market rates for comparable companies for their time, commitment and responsibilities. The Remuneration & Nomination Committee reviews non-executive Director remuneration annually taking into consideration benchmarking data, market practice, duties and accountability and makes recommendations to the Board accordingly.

  Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non- executive Directors is subject to approval by shareholders at the Annual General Meeting (currently $500,000). Fees for non-executive Directors are not linked to the performance of the Company.

  To align Directors' interests with shareholder interests, Board members are encouraged to hold shares in the Company. Executive directors are able to participate in employee equity plans, which may exist from time to time.

  Each member of the executive team signed a formal contract at the time of their appointment covering a range of matters including duties, rights, responsibilities, incentive entitlement and any entitlements on termination. The agreement sets out their specific duties.

Use of remuneration consultants

The sourcing, commissioning and engagement of remuneration consultants in matters relating to or potentially impacting Key Management Personnel remuneration is undertaken by the Remuneration & Nomination Committee and consultants report their findings directly to the Committee. The Company has sourced benchmarking data from external sources during the year. The Company did not engage the services of a remuneration consultant during the year.

Performance based remuneration

Performance based remuneration is tailored to increase goal congruence between shareholders and executive key management personnel. This is facilitated through the issue of options and/or performance rights to encourage the alignment of personal and shareholder interests.

During the reporting period 3,400,000 unlisted options (Options), in aggregate, were issued as remuneration to the Company's Key Management Personnel. Details are shown in Note 21.

During the reporting period and as at the date of this report no performance-based options have been exercised.

Executives of the Company have performance based short term and long-term incentive entitlements as part of their respective executive services agreements with the Company. These are discussed further at item C – Employment Contracts of Directors and other Key Management Personnel, within this Remuneration Report.

Voting and comments made at the Company's 2022 Annual General Meeting

The Company received 94.25% 'for' votes on its Remuneration Report for the financial year ending 30 June 2022. The Company received no specific feedback on its Remuneration Report at the 2022 Annual General Meeting.

Consequences of performance on shareholder wealth

In considering the Company's performance and benefits for shareholder wealth, the Board has regard to relevant ASX indices as well as the current and prior year share price performance of the Company.

Item	30 June 2023	30 June 2022	1 July 2021 (first day of official quotation on ASX)	IPO
Share price ($)	$0.31	$0.375	$0.550	$0.30

B. Details of Remuneration

Details of the nature and amount of each element of the remuneration of each key management personnel (KMP) of the Company are shown in the table below:

Directors and other Key Management Personnel

		SHORT TERM BENEFITS			POST EMPLOYMENT BENEFITS		SHARE-BASED PAYMENTS			
Employee	Year	Salary and Fees $	Fees $	STI Award $	Super-annuation $	Termination Benefits $	Shares $	Unlisted Options [2] $	Total $	Perfor-mance based %
NON-EXECUTIVE DIRECTORS										
Professor Dudley Kingsnorth [1] Non-executive Chairman	2023	–	92,500	–	9,712	–	–	86,489	188,701	–%
	2022	–	60,000	–	6,000	–	–	193,846	259,846	–%
Bryn Jones [1] Non-executive Director	2023	–	52,500	–	5,512	–	–	57,659	115,671	–%
	2022	–	40,000	–	4,000	–	–	–	44,000	–%
Pauline Carr [1,3] Non-executive Director	2023	–	73,206	–	–	–	–	57,659	130,865	–%
	2022	–	38,958	–	–	–	–	232,615	271,573	–%
Angus Barker [1,4] Non-executive Director	2023	–	21,667	–	2,275	–	–	24,665	48,607	–%
	2022	–	–	–	–	–	–	–	–	–%
EXECUTIVE DIRECTORS										
Rick Pobjoy [1,5] Executive (Technical) Director and Acting Managing Director	2023	288,804	–	245,615	25,293	–	–	42,348	602,060	40.8%
	2022	287,239	–	177,500	28,724	–	–	1,243,933	1,737,396	10.2%
Don Hyma [6,10] Former Managing Director	2023	62,833	–	–	6,323	180,000	–	–	249,156	–%
	2022	267,143	–	194,400	17,676	–	300,000	744,584	1,523,803	12.8%
OTHER KEY MANAGEMENT PERSONNEL										
Travis Beinke [7] CEO	2023	15,696	–	–	–	–	–	–	15,696	–%
	2022	–	–	–	–	–	–	–	–	–%
Noel Whitcher [8] Company Secretary/CFO	2023	104,894	–	40,000	10,938	–	–	–	155,832	25.7%
	2022	–	–	–	–	–	–	–	–	–%
Damien Connor [9] Company Secretary/CFO	2023	–	146,005	–	–		–	19,404	165,409	–%
	2022	–	217,875	25,000	–		–	193,846	436,721	5.7%
2023 TOTAL	**2023**	**472,227**	**385,878**	**285,615**	**60,053**	**180,000**	**-**	**288,224**	**1,671,997**	
2022 TOTAL	**2022**	**554,382**	**356,833**	**396,900**	**56,400**	**-**	**300,000**	**2,608,824**	**4,273,339**	

1 On 24 November 2022 Shareholders approved the issue of 2,400,000 Options to Directors at the Company's AGM. A further 400,000 Options were issued to then Company Secretary, Mr Damien Connor and in March 2023 500,000 Options were issued to Mr Barker prior to joining the Board of Directors.

2 Expense recognised for unlisted options issued during the year ended 30 June 2023. Refer Note 21 for further details relating to share-based payments expense.

Share based payments are non-cash remuneration. The value is an estimate based on statistical calculations of the probability that the share price increases above the exercise price (which was calculated at a 45% premium at the grant date). In order to realise the potential value of any options awarded which are in the money, the option holder must first exercise the options by paying the exercise price in cash and can only realise any potential financial gain by selling the resultant shares. The sale of any shares must be in accordance with the Company's share trading policy.

3 Ms Carr was appointed 15 October 2021.
4. Mr Beinke was appointed CEO of the Company on 19 June 2023.
5 Short-term incentive, approved by the Board, related to achievement of stretch KPIs for the year ended 30 June 2023, pursuant to Mr Pobjoy's employment contract.
6 Mr Hyma was appointed 5 October 2021 and resigned as a director on 19 August 2022, following the Company's termination of his executive services agreement. Mr Hyma was paid a termination benefit equivalent to 6 months base salary of $180,000.
7 Mr Beinke was appointed CEO of the Company on 19 June 2023.
8 Mr Whitcher was appointed CFO and Company Secretary on 1 February 2023. Short-term incentive, approved by the Board, related to achievement of stretch KPIs for the year ended 30 June 2023, pursuant to Mr Whitcher's employment contract.
9 Mr Connor resigned as CFO and Company Secretary on 31 March 2023.
10 In line with the terms of Mr Hyma's employment contract, options issued to Mr Hyma were forfeited following the Company's termination of his employment contract.

Key Performance Indicators for Short Term Incentive

Key Performance Indicators ("KPIs") are aligned to reflect corporate and strategic objectives. KPIs are reviewed by the Company's Remuneration and Nomination Committee and approved by the Board. The KPIs of the CEO and the senior executives reporting directly to him are also reviewed by the Committee and approved by the Board.

Details of the Acting Managing Director's STI KPIs and the payout outcomes for the FY23 year are shown below:

KPI CATEGORY	FY23 OBJECTIVE	% WEIGHTING	FY23 STI RESULT
Operational	Delivery of Resource upgrade, flowsheet development and mine lease application	35%	29.8%
Contracts	Offtake agreements covering stage 1 production	15%	7.5%
Financial	Achievement of budget for milestone delivery	15%	15.0%
Strategic	Securing downstream capacity ~50% of stage 1 capacity	15%	7.5%
Safety, Health, Environment and Community	No LTIs or environmental incidents or non-compliances. Maintenance of social licence, effective community engagement and utilization of local workforce	20%	20.0%
Board Discretion	In recognition of additional investor relations activity and in also continuing to undertake the Technical Director role while Acting Managing Director.		5.2%
TOTAL		**100%**	**85%**

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C. Employment Contracts of Directors and Other Key Management Personnel

Remuneration and other terms of employment for the Directors and other Key Management Personnel are formalised in either contracts of employment or service agreements. The main provisions of the agreements relating to remuneration are set out below:

Rick Pobjoy

Executive (Technical) Director to 19 August 2022 and Acting Managing Director from 19 August 2022 until 19 June 2023 resuming his role as Executive (Technical) Director since 19 June 2023.

The terms under which Mr Pobjoy was employed during the year ended 30 June 2023 and subsequent to that date are detailed in the table below.

UNIT OF MEASURE	Salaried employee
BASE REMUNERATION	For the period 1 July 2022 until 18 August 2022 $250,000 p.a base salary plus superannuation (equivalent to the minimum rate prescribed by Federal superannuation guarantee legislation, being the MEB (maximum superannuation contribution cap)) For the period from 19 August 2022 to 30 June 2023 $295,000 p.a base salary plus superannuation (equivalent to the minimum rate prescribed by Federal superannuation guarantee legislation, being the MEB (maximum superannuation contribution cap))
SHORT TERM INCENTIVE (STI) FOR FY23 STI Options	Up to 100% of base salary (pro-rated for the period of time Mr Pobjoy holds the position of Acting Managing Director), to be paid in subject to satisfaction of Board agreed KPIs for the year ended 30 June 2023. Any STI achieved, to be paid to Mr Pobjoy, is at the absolute discretion of the Board (excluding Mr Pobjoy) in either cash, unlisted options, or a combination of both cash and unlisted options.
LONG TERM INCENTIVE (LTI) LTI Incentive Options	Mr Pobjoy is eligible to participate in the Company's LTI Plan from 1 July 2023. His LTI will be subject to the attainment of long term Company strategic goals and relative total shareholder return. Under the LTI Mr Pobjoy will be eligible to receive AR3 stock instruments at the discretion of the Board. Vesting of LTI awards is over three years. LTI hurdles are to be assessed after three years by the Committee with the subsequent vesting and award of any LTI performance rights occurring in three equal annual instalments post vesting. Participants must be current employee of the Company as at the vesting date of each tranche in order to receive the vested options.
TERM OF AGREEMENT	Indefinite. Mr Pobjoy's contract is subject to termination with or without cause by either party.
NOTICE PERIOD	Three months. Mr Pobjoy's contract is subject to termination with or without cause.

Don Hyma
Managing Director (employment ceased 19 August 2022).

Mr Hyma was appointed as the Company's Managing Director on 5 October 2021 pursuant to an executive services agreement. The terms under which Mr Hyma was employed during the year ended 30 June 2023 are detailed in the table below.

UNIT OF MEASURE	Salaried employee
BASE REMUNERATION	$360,000 p.a base salary plus superannuation (equivalent to the minimum rate prescribed by Federal superannuation guarantee legislation, being the MEB (maximum superannuation contribution cap)).
TERM OF AGREEMENT	Indefinite.
NOTICE PERIOD	1 month
TERMINATION BENEFITS	Entitled to a payment of up to 6 months of base salary.

Travis Beinke
Chief Executive Officer – CEO (employment commenced 19 June 2023)

The terms under which Mr Beinke was employed during the year ended 30 June 2023 and subsequent to that date are detailed in the table below.

UNIT OF MEASURE	Salaried employee
BASE REMUNERATION	$375,000 p.a base salary plus statutory superannuation.
SIGN-ON OPTIONS	1,500,000 unlisted unvested options in the Company will be issued to Mr Beinke (or his nominee) as a sign on incentive at an exercise price of 145% of the 5 day VWAP of the Company's share price for the 5 trading days up to and including 14 June 2023. The issue of sign-on options is subject to the successful conclusion of the employment probationary period. They will vest 12 months after their acceptance and expire three years from their vesting date
SHORT TERM INCENTIVE (STI)	Mr Beinke will be eligible to participate in the Company's annual STI Plan with effect from the commencement of the 2023/24 financial year at a level of up to 50% of his TFR. Payment of the STI at the conclusion of the financial year is subject to the attainment of Board approved stretch milestones and personal KPIs. The form of the STI payout is at the Board's discretion and may be made in cash or equity instruments in the Company or a combination of both.
LONG TERM INCENTIVE (LTI)	Mr Beinke will be eligible to participate in the Company's LTI Plan with effect from the commencement of the 2023/24 financial year. His LTI will be subject to the attainment of long term Company strategic goals and relative total shareholder return as well as the receipt of any requisite shareholder approvals. Under his LTI Mr Beinke will be eligible to receive up to 100% of his TFR annually in AR3 stock instruments at the discretion of the Board. Vesting of LTI awards is over three years.
TERM OF AGREEMENT	Indefinite. Mr Beinke's contract is subject to termination with or without cause by either party.
NOTICE PERIOD	3 months
TERMINATION BENEFITS	Entitled to a payment of up to 3 months of base salary.

Noel Whitcher

Company Secretary & Chief Financial Officer (commenced 1 February 2023)

The terms under which Mr Whitcher was employed during the year ended 30 June 2023 and subsequent to that date are detailed in the table below.

UNIT OF MEASURE	Salaried employee
BASE REMUNERATION	$250,000 p.a base salary plus statutory superannuation.
SHORT TERM INCENTIVE (STI)	Mr Whitcher is eligible to participate in the Company's annual STI Plan. Payment of the STI at the conclusion of the financial year is subject to the attainment of Board approved stretch milestones and personal KPIs. The form of the STI payout is at the Board's discretion and may be made in cash or equity instruments in the Company or a combination of both.
LONG TERM INCENTIVE (LTI)	Mr Whitcher is eligible to participate in the Company's LTI Plan. His LTI will be subject to the attainment of long term Company strategic goals and relative shareholder return. Under his LTI Mr Whitcher will be eligible to receive AR3 stock instruments at the discretion of the Board. Vesting of LTI awards is over three years.
TERM OF AGREEMENT	Indefinite. Mr Whitcher's contract is subject to termination with or without cause by either party.
NOTICE PERIOD	3 months
TERMINATION BENEFITS	Entitled to a payment of up to 3 months of base salary.

Damien Connor

Company Secretary & Chief Financial Officer (ceased employment 31 March 2023)

The terms under which Mr Whitcher was employed during the year ended 30 June 2023 and subsequent to that date are detailed in the table below.

UNIT OF MEASURE	Hourly rate contract
BASE REMUNERATION	Variable
TERM OF AGREEMENT	As required
NOTICE PERIOD	Three months. Contract is subject to termination with or without cause by either party.
TERMINATION BENEFITS	None.

D. Share Based Remuneration

OPTIONS

All options are unlisted and refer to a right to subscribe for one fully paid ordinary share in the Company, under the terms of the option.

The Group has an Employee Option Plan. under which the Company, through the Board, may offer Options to eligible persons on such terms that the Board considers appropriate, including any performance or other vesting hurdles that may apply.

Details of options convertible to ordinary shares in the Company that were granted as remuneration to each KMP during the year are set out below:

2023 OPTIONS	NUMBER GRANTED	GRANT DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE [1]		VESTING DATE	EXPIRY DATE
GRANTED TO				$/option	Full value($) [2]		
D. Kingsnorth [3]	750,000	24/11/2022	$0.50	$0.115	$86,489	Vest on issue date	2/12/2025
P. Carr [3]	500,000	24/11/2022	$0.50	$0.115	$57,659	Vest on issue date	2/12/2025
B. Jones [3]	500,000	24/11/2022	$0.50	$0.115	$57,659	Vest on issue date	2/12/2025
A. Barker	500,000	28/2/2023	$0.47	$0.114	$56,859	Vest on issue date	28/2/2026
R. Pobjoy [3]	750,000	24/11/2022	$0.50	$0.157	$117,972	Vest over 3 years	2/12/2026
D Connor	400,000	2/12/2022	$0.50	$0.145	$58,213	Vest over 3 years	2/12/2026
	3,400,000				**$434,851**		

1 The fair value of Options at grant date is determined using a Black Scholes option pricing model as disclosed in the notes to the financial statements.

2 The fair value of the Options at the date of grant was $493,064 and is being expensed to the Statement of Profit or Loss and Other Comprehensive Income over the vesting periods applicable to the Options. Accordingly, an amount of ($289,335) has been expensed to the Statement of Profit or Loss and Other Comprehensive Income under share-based payments expense for the year ended 30 June 2023.

3 Options were issued following shareholder approval at the Company's Annual General Meeting held on 24 November 2022.

Details of Options convertible to ordinary shares in the Company that were granted as remuneration to each KMP during the prior year ended 30 June 2022 are set out below:

2022 OPTIONS	NUMBER GRANTED	GRANT DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE [1]		VESTING DATE	EXPIRY DATE
GRANTED TO				$/option	Full value($)		
D. Kingsnorth	500,000	26/11/2021	$1.44	$0.387	$193,847	Vest on issue date	1/12/2024
P. Carr	600,000	26/11/2021	$1.44	$0.387	$232,616	Vest on issue date	1/12/2024
D. Hyma [2]	2,000,000	26/11/2021	$1.46	$0.384	$768,294	5 October 2022	1/12/2024
	2,000,000	26/11/2021	$1.95	$0.336	$672,940	5 October 2023	1/12/2025
R. Pobjoy	2,000,000	26/11/2021	$0.60	$0.622	$1,243,934	Vest on issue date	29/7/2025
D Connor	500,000	26/11/2021	$1.44	$0.387	$193,847	Vest on issue date	1/12/2024
	7,600,000				**$3,305,478**		

1 The fair value of Options at grant date is determined using a Black Scholes option pricing model as disclosed in the notes to the financial statements.

2 The 4,000,000 options issued to Mr Hyma were forfeited, unexercised, in accordance with the terms on which they were issued, following the Company's termination of Mr Hyma's executive services agreement on 19 August 2022 and his cessation as a Director of the Company on that date.

SHARES

Year ended 30 June 2023

The Company did not issue any shares as remuneration during the year ended 30 June 2023.

Year ended 30 June 2022

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 executive services 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 year ended 30 June 2022.

Details of fully paid ordinary shares in the Company that were issued as remuneration to each KMP during the year are set out below:

ISSUED TO	NUMBER ISSUED	ISSUE DATE	FAIR VALUE	
			$/Share	Full value($)
D. Hyma	308,261	03/12/2021	$0.9732	$300,000
	308,261			**$300,000**

E. Incentive Payments Included in Remuneration

Details of the short-term incentive cash payments awarded as remuneration to each key management personnel, the percentage of the available STI that was payable in the financial year, and the percentage that was forfeited because the person did not meet the performance criteria is set out below.

EMPLOYEE	INCLUDED IN REMUNERATION ($)	PERCENTAGE VESTED DURING THE YEAR	PERCENTAGE FORFEITED DURING THE YEAR
Rick Pobjoy [1] Chief Executive Officer	$245,615 (including statutory superannuation)	85.04%	14.96%
Noel Whitcher [2] Company Secretary/ CFO	$40,000 (including statutory superannuation)	76.26%	23.73%

1 Mr Pobjoy's executive services agreement provided for a short-term incentive of up to 100% of his base salary for the year ended 30 June 2023, determined with reference to the attainment of stretch performance targets relating to resource development, land access and agreements, exploration and safety.

2 Mr Whitcher was awarded a short-term incentive of up to 50% of his base salary for the year ended 30 June 2023, determined with reference to the attainment of stretch performance targets relating to resource development, financial management and safety. Mr Whitcher's STI Bonus award was issued on a pro rata basis as his employment commenced 1 February 2023.

No other key management personnel were awarded short-term incentive cash payments as remuneration during the year ended 30 June 2023.

F. Other Information

Option Holdings of Key Management Personnel as at 30 June 2023

The number of options over ordinary shares in of Australian Rare Earths Limited held, directly, indirectly, or beneficially, by each specified Director and key management personnel, including their personally related entities as at reporting date, is as follows:

2023 KEY MANAGEMENT PERSONNEL	HELD AT 1 JULY 2022	GRANTED AS COMPENSATION	PLACEMENT	FORFEITED	HELD AT DATE CEASED TO BE KMP	HELD AT 30 JUNE 2023	VESTED AND EXERCISABLE AT 30 JUNE 2023
D. Kingsnorth [1,4]	2,100,000	750,000	16,667	–	–	2,866,667	2,866,667
B Jones [1,4]	3,450,000	500,000	74,074	–	–	4,024,074	4,024,074
P. Carr [1,4]	600,000	500,000	14,815	–	–	1,114,815	1,114,815
A. Barker [3,4]	–	500.000	166,667			666,667	666,667
D Hyma [2]	4,000,000	–	–	4,000,000	–	–	–
R Pobjoy [1,4]	6,700,000	750,000	16,667	–	–	7,466,667	6,966,667
N. Whitcher [4]	–	–	9,075		–	9,075	9,075
D Connor [1]	750,000	400,000	–	–	(1,150,000)	–	–
Total	**17,600,000**	**3,400,000**	**297,965**	**4,000,000**	**(1,150,000)**	**16,147,965**	**15,647,965**

1 2,900,000 Options were granted to KMP following shareholder approval at the Company's Annual General Meeting held on 24 November 2022. Options were issued for nil consideration on 2 December 2022 and are governed by the terms and conditions of the Company's Employee Option Plan. The 2,900,000 Options issued comprised:

- 1,750,000 Options are exercisable at $0.50 each, expiring on 2 December 2025, and vest on the date of issue.
- 1,150,000 Options are exercisable at $0.50 each, expire on or before 2 December 2026 and vest in three equal tranches on the anniversary of issue.

2 Mr Hyma was appointed 5 October 2021 and resigned as a director on 19 August 2022, following the Company's termination of his executive services agreement. The 4,000,000 options issued to Mr Hyma were forfeited, unexercised, in accordance with the terms on which they were issued, following the Company's termination of Mr Hyma's executive services agreement on 19 August 2022 and his cessation as a Director of the Company on that date.

3 Mr Barker received 500,000 options prior to his appointment as Non-Executive Director on 2 March 2023. The Options were issued for Nil consideration and are exercisable at $0.47 each, expiring on or before 28 February 2026 and vest on the date of issue.

4 297,965 Options were issued to KMP following shareholder approval at the Company's General Meeting held on 22 June 2023. Options were issued for nil consideration as part of share placement conducted by the Company in April 2023.

Share Holdings of Key Management Personnel as at 30 June 2023

The number of ordinary shares of Australian Rare Earths Limited held, directly, indirectly, or beneficially, by each Director and key management personnel, including their personally related entities as at reporting date:

2023 KEY MANAGEMENT PERSONNEL	HELD AT 1 JULY 2022	ISSUED AS COMPENSATION	ON MARKET PURCHASE/ (SALE)	OTHER MOVEMENT DURING THE YEAR	HELD AT 30 JUNE 2023
D. Kingsnorth	2,147,001	–	150,000	-	2,297,001
B. Jones	15,386,825	–	447,223	–	15,834,048
P. Carr	10,000	–	84,445	–	94,445
A. Barker	–	–	2,700,000	–	2,700,000
R. Pobjoy	14,070,000	–	150,000	–	14,220,000
D. Hyma[1]	308,261	–	–	(308,261)	–
N. Whitcher	–	–	27,224	–	27,224
D. Connor [2]	466,667	–	–	(466,667)	–
Total	**32,388,754**	**-**	**3,558,892**	**(774,928)**	**35,172,718**

1 Mr Hyma ceased to be a KMP on 19 August 2022.
2 Mr Connor ceased to be a KMP on 31 March 2023.

Transactions with Key Management Personnel

Transactions with Key Management Personnel and related parties as discussed below are made on normal commercial terms and conditions and at market rates.

Amounts paid to Director related entities:

RELATED PARTY	RELATIONSHIP TO KMP	SERVICES PROVIDED	2023 $	2022 $
entX Limited	A business which Mr Jones is Managing Director	Serviced corporate office lease	$136,119	$129,479

There were no further transactions with entities associated with Key Management Personnel.

END OF AUDITED REMUNERATION REPORT

Unissued Shares Under Option

Unissued ordinary shares of Australian Rare Earths Limited under option at the date of this report are:

ISSUED TO	ISSUE DATE	GRANT DATE	NUMBER OF OPTIONS GRANTED	OPTION EXERCISE PRICE	EXPIRY DATE
DIRECTORS	10/02/2021	25/01/2021	6,000,000	$0.30	25/01/2025
DIRECTORS	10/02/2021	25/01/2021	3,750,000	$0.45	29/06/2024
COMPANY SECRETARY	12/03/2021	25/01/2021	250,000	$0.45	29/06/2024
CONSULTANT	23/04/2021	16/04/2021	180,000	$0.45	29/06/2024
BROKER	16/06/2021	11/06/2021	2,417,200	$0.45	29/06/2024
DIRECTORS & COMPANY SECRETARY	1/12/2021	26/11/2021	1,600,000	$1.44	1/12/2024
DIRECTOR	1/12/2021	26/11/2021	2,000,000	$0.60	29/7/2025
EMPLOYEE	20/5/2022	9/5/2022	1,000,000	$1.05	9/5/2025
PLACEMENT OPTIONS	8/6/2022	8/6/2022	9,058,697	$0.57	13/12/2023
EMPLOYEE	8/7/2022	8/7/2022	500,000	$0.5743	4/7/2025
DIRECTOR	2/12/2022	24/11/2022	1,750,000	$0.50	2/12/2025
DIRECTORS & COMPANY SECRETARY	2/12/2022	24/11/2022	1,150,000	$0.50	2/12/2026
EMPLOYEE	2/12/2022	24/11/2022	400,000	$0.50	2/12/2026
DIRECTOR	1/3/2023	1/3/2023	500,000	$0.47	28/2/2026
PLACEMENT OPTIONS	9/5/2023	1/5/2023	7,865,182	$0.57	9/05/2025
DIRECTORS & COMPANY SECRETARY	27/6/2023	22/6/2023	297,965	$0.57	9/05/2025
			38,719,044		

All unlisted options are unlisted and exercisable into fully paid ordinary shares in the Company on a one for one basis. These options do not entitle the holders to participate in any share issue of the Company or any other body corporate.

Events subsequent to the end of reporting date

The Directors are not aware of any other matter or circumstance that has arisen since 30 June 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 financial years.

Indemnity and insurance of officers

As at the date of this report, the Company has indemnified the directors and officers of the company for costs incurred, in their capacity as a director or officers, for which they may be held personally liable, except where there is a lack of good faith.

During financial period ended 30 June 2023, the Company has paid a premium in respect of a contract to insure the directors and officers of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Non-audit services

Details of the amounts paid or payable to the auditor for services provided during the financial year by the auditor are outlined in Note 7 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 7 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Corporate Governance

The Board has adopted the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations – 4th Edition" (ASX Recommendations). The Board continually monitors and reviews its existing and required policies, charters, and procedures with a view to ensuring its compliance with the ASX Recommendations to the extent deemed appropriate for the size of the Company and its development status.

A summary of the Company's ongoing corporate governance practices is set out annually in the Company's Corporate Governance Statement and can be found on the Company's website at https://ar3.com.au/corporate-governance/

Auditor's Declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 69 and forms part of the Director's Report for the financial period ended 30 June 2023.

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

Dudley J. Kingsnorth
Non-Executive Chairman

Dated this 29th day of September 2023

Grant Thornton

Grant Thornton Audit Pty Ltd
Grant Thornton House
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170 Frome Street
Adelaide SA 5000
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Adelaide SA 5001

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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 audit of Australian Rare Earths Limited for the year ended 30 June 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 audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 29 September 2023

www.grantthornton.com.au
ACN-130 913 594

Australian Rare Earths Limited

FINANCIAL REPORT

For the year ended 30 June 2023

Statement of Profit or Loss and Other Comprehensive Income

(For the year ended 30 June 2023)

	NOTES	30 JUNE 2023 $	30 JUNE 2022 $
REVENUE			
Other income	3	195,673	71,342
EXPENSES			
Employee benefits expense		(1,472,398)	(1,290,179)
Share based payments expense	21	(423,054)	(2,960,879)
Share based payments forfeited	21	744,583	–
Corporate consulting expenses		(475,933)	(396,692)
Exploration expenditure expensed		(87,331)	(225,698)
Amortisation – leases		(43,447)	(36,063)
Depreciation		(17,404)	(7,685)
Other expenses	4	(839,390)	(525,231)
LOSS BEFORE INCOME TAX EXPENSE		**(2,418,701)**	**(5,371,085)**
Income tax benefit		–	–
LOSS FOR THE YEAR		**(2,418,701)**	**(5,371,085)**
LOSS ATTRIBUTED TO MEMBERS OF THE PARENT ENTITY		**(2,418,701)**	**(5,371,085)**
Other comprehensive income		–	–
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		**(2,418,701)**	**(5,371,085)**
EARNINGS PER SHARE		Cents	Cents
Basic loss per share	19	(1.81)	(4.80)

The accompanying notes form part of the financial statements.

Statement of Financial Position

(As at 30 June 2023)

	NOTES	30 JUNE 2023 $	30 JUNE 2022 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	14,981,232	12,615,020
Trade and other receivables	10	1,086,353	279,162
Other assets		57,801	53,364
Total current assets		16,125,386	12,947,546
NON-CURRENT ASSETS			
Other financial assets – bank guarantees	9	148,801	100,000
Property, plant and equipment	14	291,724	221,186
Right of use asset – office lease	17	222,361	56,433
Exploration and evaluation expenditure	12	10,172,163	5,155,043
Total non-current assets		10,835,049	5,532,662
TOTAL ASSETS		**26,960,435**	**18,480,208**
CURRENT LIABILITIES			
Trade and other payables	15	1,392,348	742,358
Lease liability	17	55,559	44,145
Employee benefits	16	448,770	453,744
Total current liabilities		1,896,677	1,240,247
NON-CURRENT LIABILITIES			
Lease liability	17	168,949	18,082
Employee benefits	16	1,601	418
Total non-current liabilities		170,550	18,500
TOTAL LIABILITIES		2,067,227	1,258,747
NET ASSETS		**24,893,208**	**17,221,461**
EQUITY			
Issued capital	18	30,575,403	20,163,426
Share based payment reserve	21	2,700,012	3,021,541
Retained losses		(8,382,207)	(5,963,506)
TOTAL EQUITY		**24,893,208**	**17,221,461**

The accompanying notes form part of the financial statements.

Statement of Changes in Equity

(For the year ended 30 June 2023)

	ISSUED CAPITAL $	RETAINED LOSSES $	SHARE BASED PAYMENT RESERVE $	TOTAL $
BALANCE AT 1 JULY 2021	12,204,685	(592,421)	360,662	11,972,926
Shares issued during the year	8,458,653	–	–	8,458,653
Share issue costs	(499,912)	–	–	(499,912)
Fair value of options vested during the year	–	–	2,660,879	2,660,879
Transactions with owners	7,958,741	–	2,660,879	10,619,620
Total comprehensive loss for the year	–	(5,371,085)	–	(5,371,085)
BALANCE AT 30 JUNE 2022	**20,163,426**	**(5,963,506)**	**3,021,541**	**17,221,461**

	ISSUED CAPITAL $	RETAINED LOSSES $	SHARE BASED PAYMENT RESERVE $	TOTAL $
BALANCE AT 1 JULY 2022	20,163,426	(5,963,506)	3,021,541	17,221,461
Shares issued – seed funding	11,073,954	–	–	11,073,954
Shares issued – IPO	(661,977)	–	–	(661,977)
Shares issued – in lieu of fees to Key Management Personnel	–	–	423,054	423,054
Fair value of options vested during the year	–	–	(744,583)	(744,583)
Transactions with owners	10,411,977	–	(321,529)	10,090,448
Total comprehensive loss for the year	–	(2,418,701)	–	(2,418,701)
BALANCE AT 30 JUNE 2023	**30,575,403**	**(8,382,207)**	**2,700,012**	**24,893,208**

The accompanying notes form part of the financial statements.

Statement of Cash Flows

(For the year ended 30 June 2023)

	NOTES	30 JUNE 2023 $	30 JUNE 2022 $
CASH FLOW FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(2,752,467)	(1,762,096)
Interest received		142,238	4,528
Proceeds from Research and development tax concession		505,509	66,700
NET CASH USED IN OPERATING ACTIVITIES	22	**(2,104,720)**	**(1,690,868)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration expenditure	12	(5,727,882)	(4,147,908)
Payments for property, plant and equipment	14	(116,793)	(251,381)
Transfer to other financial assets – bank guarantees	9	(48,801)	(90,000)
NET CASH USED IN INVESTING ACTIVITIES		**(5,893,476)**	**(4,489,289)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		11,121,893	8,128,653
Share issue costs		(709,917)	(1,384,562)
Repayment of lease liability		(47,568)	(30,269)
NET CASH PROVIDED BY FINANCING ACTIVITIES		**10,364,408**	**6,713,822**
Net increase in available cash held		2,366,212	533,665
Available cash at beginning of year		12,615,020	12,081,355
AVAILABLE CASH AT THE END OF THE YEAR	8	**14,981,232**	**12,615,020**

The accompanying notes form part of the financial statements.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial report is a general-purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Australian Rare Earths Limited is a for profit entity for the purposes of preparing the financial statements. The financial report has been presented in Australian dollars.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

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.

Principles of Consolidation

The parent entity controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. A list of controlled entities is contained in Note 11 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included/(excluded) from the date control was obtained/(ceased).

All inter-group balances and transactions between entities in the consolidated group, including any recognised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with those adopted by the parent entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

For personal use only

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest

All expenditure incurred before the exploration for and evaluation of mineral resources, such as expenditures incurred before the Company has obtained the legal rights to explore a specific area, has been expensed.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year/period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Leases

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.

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.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result, and that outflow can be reliably measured.

Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled wholly within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for these benefits. Those cashflows are discounted using market yields on high quality corporation bonds with terms to maturity that match the expected timing of cashflows.

Share-based Payments

Equity-settled transactions

The Company provides benefits to employees (including directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The Company currently provides benefits under an Employee Option Plan and a Performance Rights Plan.

The cost of these equity-settled transactions with employees and directors is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

i) the extent to which the vesting period has expired; and

ii) the number of awards that, in the opinion of the directors, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

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Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Income Tax

The income tax expense/(benefit) for the year comprises current income tax expense/(benefit) and deferred tax expense/(benefit).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities/(assets) are therefore measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses. Current and deferred income tax expense/(income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset recognised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation

Australian Rare Earths Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. The Group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 17 December 2020.

Revenue and other income

Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Government subsidies and Grants

The Group's projects at times may be supported by grants received from the federal, state and local governments. Government grants including Research and Development Tax incentives received in relation to exploration activities is recognised as a reduction in the carrying value of the exploration and evaluation asset or income if the expenditure relating to the grant is expensed.

Government grants are assistance by government in the form of transfers off resources to the company in return for past or future compliance with certain conditions relating to the operating activities of the Company. Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and the grant will be received.

NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation of the current financial year.

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key estimates

(i) Impairment

The Company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using fair value less cost of disposal calculations which incorporate various key assumptions. No impairment expense was recognised for the year ended 30 June 2023 (30 June 2022: Nil).

(ii) Exploration and evaluation expenditure

The Company capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage that permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded.

The financial report was authorised for issue on 29 September 2023 by the Board of Directors.

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 INCOME

	30 JUNE 2023 $	30 JUNE 2022 $
Interest received	195,537	4,642
Miscellaneous income	136	66,700
Total other income	**195,673**	**71,342**

NOTE 4 – OTHER EXPENSES

	30 JUNE 2023 $	30 JUNE 2022 $
Compliance	167,749	161,653
Legal, insurance and registry	172,882	158,074
Office and website expenses	128,237	111,519
Travel and Airfares	254,637	44,479
Other expenses	115,885	49,506
Total other expenses	**839,390**	**525,231**

NOTE 5 – INCOME TAX BENEFIT / (LOSS)

	30 JUNE 2023 $	30 JUNE 2022 $
a) The components of income tax benefit comprise:		
Current income tax expense / (benefit)	–	–
b) The prima facie tax on loss from before income tax is reconciled to the income tax as follows:	(2,418,701)	(5,371,085)
Net loss from continuing operations	30%	30%
Income tax rate	(725,610)	(1,611,325)
Prima facie tax benefit on loss from activities before income tax	311,953	667,719
Non-deductible expenses	413,657	943,606
Tax effect of temporary differences not brought to account as they do not meet the recognition criteria	–	–
Deferred tax asset not realised as recognition criteria not met	–	–
Income tax attributable to operating loss		
c) Unused tax losses for which no deferred tax asset has been recognised at 30% (2022: 30%)	1,365,412	760,736

NOTE 6 – KEY MANAGEMENT PERSONNEL COMPENSATION

a) Names and positions held of consolidated entity key management personnel in office at any time during the financial year are:

Dudley Kingsnorth	Non-Executive Chairman (Independent Director)	
Bryn Jones	Non-Executive Director (Non-Independent Director)	
Pauline Carr	Non-Executive Director (Independent Director)	
Angus Barker	Non-Executive Director (Independent Director)	Appointed 2 March 2023
Rick Pobjoy	Technical Director (Non-Independent Director)	
Don Hyma	Managing Director (Non-Independent Director)	Resigned as a director on 19 August 2022.
Noel Whitcher	Chief Financial Officer (Company Secretary)	Appointed 1 February 2023.
Damien Connor		Resigned as Company Secretary on 31 March 2023.

Other than the Directors and officers of the Company listed above, there are no additional key management personnel.

b) Key Management Personnel Compensation

Refer to the Remuneration Report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP).

The aggregate remuneration of KMP of the Group during the year is as follows:

	30 JUNE 2023 $	**30 JUNE 2022 $**
Short term benefits	1,143,720	1,308,115
Post employment benefit	60,053	56,400
Termination benefits	180,000	-
Share based payments	288,224	2,908,824
	1,671,997	**4,273,339**

NOTE 7 – AUDITOR REMUNERATION

Total fees paid or payable for services provided by Grant Thornton Audit Pty Ltd and its related practices were as follows:

	30 JUNE 2023 $	30 JUNE 2022 $
Audit Services		
Audit and review of Financial Reports	75,000	51,500
Other Services		
Tax compliance and advisory services	5,060	4,600
	80,060	**56,100**

NOTE 8 – CASH AND CASH EQUIVALENTS

	30 JUNE 2023 $	30 JUNE 2022 $
Available cash at bank and on hand	14,981,232	12,595,020
Short term Bank deposits	–	20,000
	14,981,232	**12,615,020**

Short term bank deposits are at call with 30 days' notice. The Group's exposure to interest rate risk is summarised at Note 25.

NOTE 9 – OTHER FINANCIAL ASSETS - BANK GUARANTEES

	30 JUNE 2023 $	30 JUNE 2022 $
Bank guarantees in relation to rehabilitation obligations	110,000	100,000
Bank guarantees in relation to lease obligations	38,801	–
	148,801	**100,000**

Bank guarantees are held 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 ($90,000) and the Victorian Department of Jobs, Precincts and Regions for two Victorian tenement ($20,000).

A Bank guarantee is held in relation to the lease of the office at level 10, 111 Gawler Place, Adelaide, SA ($38,801).

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NOTE 10 – TRADE AND OTHER RECEIVABLES

	30 JUNE 2023 $	30 JUNE 2022 $
Research and development tax receivable	771,251	–
GST receivable	263,023	216,596
Other receivables	52,079	62,566
	1,086,353	**279,162**

NOTE 11– INVESTMENT IN CONTROLLED ENTITIES

		PERCENTAGE OWNED	
	COUNTRY OF INCORPORATION	30 JUNE 2023 %	30 JUNE 2022 %
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	Australia	100	100

NOTE 12 – EXPLORATION AND EVALUATION EXPENDITURE

	30 JUNE 2023 $	30 JUNE 2022 $
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation at cost	10,172,163	5,155,043
Movements in carrying amounts:		
Balance at the beginning of the year	5,155,043	940,265
Amounts capitalised during the year	6,293,880	4,281,478
FY22 R&D tax incentives received	(505,509)	(66,700)
FY23 R&D tax incentives as receivable	(771,251)	–
Balance at the end of the year	**10,172,163**	**5,155,043**

During the year ended 30 June 2023, $28,850 of equipment depreciation was included in the amount capitalised as exploration and evaluation expenditure (30 June 2022: 22,987).

NOTE 13 – TENEMENT INTERESTS

All tenement interests are 100% owned by the Group. Tenement interests held by the Company as at 30 June 2023 are as follows:

EXPLORATION LICENCES

TENEMENT	GRANT DATE	LOCATION	COMMODITY	PROJECT	JURISDICTION	2023 CARRYING VALUE $	2022 CARRYING VALUE $
EL6509	15 Sept 2020	Naracoorte	Rare earths	Koppamurra	SA	7,965,730	3,936,344
EL6613	7 Jul 2021	Frances	Rare earths	Koppamurra	SA	654,960	544,160
EL6690	3 Nov 2021	Keith	Rare earths	Koppamurra	SA	87,524	23,784
EL6691	3 Nov 2021	Bordertown	Rare earths	Koppamurra	SA	88,064	33,413
EL007254	29 Apr 2021	Apsley	Rare earths	Koppamurra	VIC	1,097,175	564,137
EL007719	29 Aug 2022	Minimay	Rare earths	Koppamurra	VIC	52,520	–
EPM27952	10 Mar 2022	Massie Creek	Rare earths	Massie Creek	QLD	201,382	53,205
EPM28169	19 Dec 2022	Stones Creek	Rare earths	Dalrymple	QLD	24,808	–
						10,172,163	**5,155,043**

EXPLORATION LICENCE APPLICATIONS

APPLICATION NO.	APPLICATION DATE	LOCATION	COMMODITY	PROJECT	JURISDICTION
ELA00007	13 Feb 2023	Penola	Rare earths	Koppamurra	SA
ELA00008	13 Feb 2023	Mt Gambier	Rare earths	Koppamurra	SA
EL008208	14 Feb 2023	Glenelg	Rare earths	Koppamurra	VIC
EL008254	19 May 2023	Dartmoore	Rare earths	Koppamurra	VIC
EPM28165	3 Dec 2021	Riverside	Rare earths	Dalrymple	QLD
EPM28166	3 Dec 2021	Dalbeg	Rare earths	Dalrymple	QLD
EPM28167	3 Dec 2021	Burdekin Dam	Rare earths	Dalrymple	QLD
EPM28168	3 Dec 2021	Mt_Wickham	Rare earths	Dalrymple	QLD

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NOTE 14 – PROPERTY, PLANT AND EQUIPMENT

	30 JUNE 2023 $	30 JUNE 2022 $
Plant and Equipment at cost	368,651	251,858
Accumulated depreciation	(76,927)	(30,672)
	291,724	**221,186**
Movements in carrying amounts:		
Balance at the beginning of the period	221,186	478
Additions	116,793	251,381
Depreciation	(46,255)	(30,673)
Balance at the end of the period	**291,724**	**221,186**

NOTE 15 – TRADE AND OTHER PAYABLES

	30 JUNE 2023 $	30 JUNE 2022 $
Trade payables	994,130	623,004
Other creditors and accruals	398,218	119,354
	1,392,348	**742,358**

NOTE 16 – EMPLOYEE BENEFITS

	30 JUNE 2023 $	30 JUNE 2022 $
Current		
Employee leave entitlements	58,155	37,644
Accrued bonus payments	390,615	416,100
	448,770	**453,744**
Non-current		
Employee leave entitlements	1,601	418
	450,371	**454,162**

NOTE 17 – RIGHT OF USE ASSETS AND LEASE LIABILITIES

	30 JUNE 2023 $	30 JUNE 2022 $
Right of use assets		
Right of use assets – Office/Warehouse leases	302,345	92,496
Accumulated depreciation	(79,984)	(36,063)
	222,361	**56,433**
Reconciliation of right of use carrying amounts at beginning and end of		
Carrying amount at beginning of period	56,433	–
Additions	209,849	92,496
Depreciation	(43,921)	(36,063)
Carrying amount at end of period	**222,361**	**56,433**
Lease Liabilities		
Current	55,559	44,145
Non-current	168,949	18,082
	224,508	**62,227**
Reconciliation of right of use carrying amounts at beginning and end of		
Carrying amount at beginning of period	62,227	–
Additions	209,849	92,496
Accretion of interest	87	122
Payments	(47,656)	(30,391)
Carrying amount at end of period	**224,508**	**62,227**

During the year the Group entered lease contract for commercial office and accommodation in Adelaide, South Australia. This lease is for a term of 5 years with the option to extend for a further three years.

NOTE 18 – ISSUED CAPITAL

	30 JUNE 2023 $	30 JUNE 2022 $
154,165,962 (30 June 22: 129,498,220) fully paid ordinary shares	30,575,403	20,163,426

a) Shares on issue: 30 JUNE 2023	NUMBER OF SHARES	$
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 2022	129,498,220	20,163,426
Shares issued – Options exercise	178,409	101,693
Shares issued – Placement	24,489,333	10,972,261
Costs of shares issued	–	(661,977)
Balance as at 30 June 2023	**154,165,962**	**30,575,403**

a) Shares on issue: 30 JUNE 2022	NUMBER OF SHARES	$
Issued and paid up capital		
Fully paid ordinary shares	129,498,220	12,504,685
Movements in fully paid shares		
Balance as at 1 July 2021	110,680,000	12,204,685
Shares issued – Managing Director (3 December 2021) [1]	308,261	300,000
Shares issued – third party (landowner) (9 March 2022)	35,748	30,000
Shares issued – placement (8 June 2022)	18,474,211	8,128,653
Costs of shares issued	–	(499,912)
Balance as at 30 June 2022	**129,498,220**	**20,163,426**

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

NOTE 18 – ISSUED CAPITAL CONTINUED

b) Options on issue

Details of the unlisted options (Options) outstanding as at the end of the year are set out below:

ISSUED TO	ISSUE DATE	GRANT DATE	NUMBER OF OPTIONS GRANTED	OPTION EXERCISE PRICE	EXPIRY DATE	30 JUNE 2023	30 JUNE 2022
DIRECTOR	10/02/2021	25/01/2021	6,000,000	$0.30	25/01/2025	6,000,000	6,000,000
DIRECTOR	10/02/2021	25/01/2021	3,750,000	$0.45	29/06/2024	3,750,000	3,750,000
CO. SECRETARY	12/03/2021	25/01/2021	250,000	$0.45	29/06/2024	250,000	250,000
CONSULTANT	23/04/2021	16/04/2021	180,000	$0.45	29/06/2024	180,000	180,000
BROKER	16/06/2021	11/06/2021	2,417,200	$0.45	29/06/2024	2,417,200	2,417,200
DIRECTOR & CO. SECRETARY	01/12/2021	26/11/2021	1,600,000	$1.44	01/12/2024	1,600,000	1,600,000
DIRECTOR	01/12/2021	26/11/2021	2,000,000	$1.46	01/12/2024	–	2,000,000
DIRECTOR	01/12/2021	26/11/2021	2,000,000	$1.95	01/12/2025	–	2,000,000
DIRECTOR	01/12/2021	26/11/2021	2,000,000	$0.60	29/07/2025	2,000,000	2,000,000
EMPLOYEE	20/05/2022	09/05/2022	1,000,000	$1.02	09/05/2025	1,000,000	1,000,000
PLACEMENT	08/06/2022	08/06/2022	9,237,106	$0.57	13/12/2023	9,058,697	9,237,106
EMPLOYEE	8/07/2022	8/07/2022	500,000	$0.57	4/07/2025	500,000	–
DIRECTOR	1/03/2023	1/03/2023	500,000	$0.47	28/02/2026	500,000	–
DIRECTOR	2/12/2022	2/12/2022	1,750,000	$0.50	2/12/2025	1,750,000	–
DIRECTOR & CO. SECRETARY	2/12/2022	2/12/2022	1,150,000	$0.50	2/12/2026	1,150,000	–
EMPLOYEE	2/12/2022	2/12/2022	400,000	$0.50	2/12/2026	400,000	–
PLACEMENT	9/05/2023	9/05/2023	7,865,182	$0.57	9/05/2025	7,865,182	–
DIRECTOR & CO. SECRETARY	27/06/2023	27/06/2023	297,965	$0.57	9/05/2025	297,965	–
			42,897,453			**38,719,044**	**30,434,306**

All Options are unlisted and are exercisable into fully paid ordinary shares in the Company on a one for one basis.

NOTE 18 – ISSUED CAPITAL CONTINUED

Options granted during the year

Employee Options

On 8 July 2022, 500,000 Options were granted to an employee pursuant to their employment agreement with the Company. The Options were issued at no cost to the recipient and vest 1/3rd on 8 July 2022, 1/3rd on 8 July 2023 and 1/3rd on 8 July 2024.

On 2 December 2022, 400,000 Options were granted to an employee pursuant to their employment agreement with the Company. The Options were issued at no cost to the recipient and vest 1/3rd on 2 December 2022, 1/3rd on 2 December 2023 and 1/3rd on 2 December 2024.

Director and Company Secretary Options

On 2 December 2022, 2,900,000 Options, in aggregate, were issued to Directors and the Company Secretary, following shareholder approval of the Director Options at the Company's Annual General Meeting held on 26 November 2022.

On 1 March 2023, 500,000 Options, issued to a Director. The Options were issued at no cost to the recipient, vested on issue, with an expiry of three years. The Options were issued with reliance on Listing Rule 10.12 exception 12.

On 27 June 2023, 297,965 Options, in aggregate, were issued to Directors and the Company Secretary, following shareholder approval of the Director Options at the Company's General Meeting held on 22 June 2023.

Placement Options

On 9 May 2023, 7,865,182 Options were granted as part of a share placement to institutional and professional investors. Placement subscribers were granted one (1) free attaching option for every two (2) shares subscribed for under the placement.

Options exercised, lapsed or forfeited during the year

Mr Hyma resigned as a director on 19 August 2022, following the Company's termination of his executive services agreement. The 4,000,000 Options, in aggregate, issued to Mr Hyma during the year, forfeited unexercised, subsequent to 30 June 2022, in accordance with the terms on which they were issued.

On 18 April 2023, 178,409 Options were exercised.

See Note 21 for further details regarding movements in Options issued as remuneration during the year.

c) Capital Management

Management effectively manages the Group's capital and capital structure by assessing the Group's financial risks through regular monitoring of budgets and forecast cashflows. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business, including through the issue of shares. The Group's capital is shown as issued capital in the statement of financial position.

The Group is not subject to any external capital restrictions.

NOTE 19 – LOSS PER SHARE

	30 JUNE 2023 $	30 JUNE 2022 $
Reconciliation of earnings to Statement of Profit or Loss and other Comprehensive Income		
Loss for year used to calculate basic EPS	(2,418,701)	(5,371,085)
	NUMBER	**NUMBER**
a) Weighted average number of shares outstanding during the year used in calculation of basic EPS	133,419,951	111,981,092
b) In accordance with AASB 133 "Earnings per Share" as potential ordinary shares may only result in a situation where their conversion results in decrease on profit per share or increase in loss per share, no dilutive effect has been taken into account.		

NOTE 20 – SHARE BASED PAYMENT RESERVE

	30 JUNE 2023 $	30 JUNE 2022 $
Share based payment reserve	2,700,012	3,021,541
Movement associated with Options during the year:		
Opening Balance	3,021,541	360,662
Issued	423,054	2,660,879
Forfeited	(744,583)	–
Closing Balance	**2,700,012**	**3,021,541**

The share based payments reserve is used to recognise the fair value of options.

An amount of $423,054 was expensed to the statement of profit or loss and other comprehensive income for the year ended 30 June 2023 in respect of unlisted options issued to Directors, Company Secretary, other employees and third party service providers (30 June 2022: $2,660,879 expensed). An amount of ($744,583) was recognised in the statement of profit or loss and other comprehensive income for the year ended 30 June 2023 in respect of unlisted options forfeited during the period (30 June 2022: None).

Refer Note 21 for further details regarding the fair value of Options issued as remuneration during the year.

NOTE 21 – SHARE BASED PAYMENTS

UNLISTED OPTIONS

30 JUNE 2023

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

	NUMBER OF OPTIONS	30 JUNE 2023 $	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Opening Balance – 1 July 2022	21,197,200	3,021,541	$0.76
Granted as remuneration	4,300,000	423,054	$0.51
Exercised	–	–	–
Forfeited	(4,000,000)	(744,583)	$1.71
Closing Balance as at 30 June 2023	**21,497,200**	**2,700,012**	**$1.04**

Weighted average remaining contractual life of Options at 30 June 2023 is 1.77 years (30 June 2022: 2.42 years)

Options granted during the year

Director and Company Secretary Options

During the year the Company issued 3,400,000 unlisted options (Options), in aggregate, to Directors and the Company Secretary. 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:

Directors

- 500,000 Options issued to Ms Carr, exercisable at $0.50 each and expiring on 2 December 2025, and vest on the date of issue.
- 500,000 Options issued to Mr Jones, exercisable at $0.50 each and expiring on 2 December 2025, and vest on the date of issue.
- 750,000 Options issued to Mr Kingsnorth, exercisable at $0.50 each and expiring on 2 December 2025, and vest on the date of issue.
- 750,000 Options issued to Mr Pobjoy, exercisable at $0.50 each The Options vest 1/3rd on 2 December 2023, 1/3rd on 2 December 2024 and 1/3rd on 2 December 2025.
- 500,000 Options issued to Mr Barker, exercisable at $0.47 each and expiring on 28 February 2025, and vest on the date of issue.

Company Secretary

- 400,000 Options issued to Mr Connor, exercisable at $0.50 each expire on or before 2 December 2026 and are subject to time-based vesting conditions. The Options vest 1/3rd on 2 December 2023, 1/3rd on 2 December 2024 and 1/3rd on 2 December 2025.

The total fair value at the grant date for the 3,400,000 Options issued was $402,657 and this amount is being expensed to the Statement of Profit or Loss and Other Comprehensive Income under 'share based payments expense' over the respective vesting periods applicable to the Options, which vary from immediately to December 2025. An amount of $289,332 has been included in the Statement of Profit or Loss and Other Comprehensive Income under 'share based payments expense' for the year ended 30 June 2023.

Employee Options

On 8 July 2022, 500,000 Options were granted to an employee pursuant to their employment agreement with the Company. The Options were issued at no cost to the recipient. The Options are exercisable at $0.57 each and expire on 4 July 2025. The Options vest 1/3rd on 4 July 2022, 1/3rd on 4 July 2023 and 1/3rd on 4 July 2024.

On 2 December 2022, a further 400,000 Options were issued to an employee of the Company. The Options are exercisable at $0.50 each, expire on or before 2 December 2026 and are subject to time-based vesting conditions. The Options vest 1/3rd on 2 December 2023, 1/3rd on 2 December 2024 and 1/3rd on 2 December 2025.

The total fair value at the grant date for the 900,000 Options issued was $124,680 and this amount is being expensed to the Statement of Profit or Loss and Other Comprehensive Income under 'share based payments expense' over the vesting period to 2 December 2025 as detailed above. An amount of $75,522 has been included in the Statement of Profit or Loss and Other Comprehensive Income under 'share based payments expense' for the year ended 30 June 2023.

NOTE 21 – SHARE BASED PAYMENTS CONTINUED

Details of the Options granted as remuneration during the year ended 30 June 2023 are set out below:

ISSUED TO	GRANT DATE	ISSUE DATE	NUMBER OF OPTIONS GRANTED	OPTION EXERCISE PRICE	1ST VESTING DATE	2ND VESTING DATE	3RD VESTING DATE	EXPIRY DATE
DIRECTOR	24/11/2022	02/12/2022	750,000	$0.50	02/12/2022	02/12/2023	02/12/2023	02/12/2026
DIRECTOR	24/11/2022	02/12/2022	1,750,000	$0.50	02/12/2022	-	-	01/12/2024
DIRECTOR	01/03/2023	01/03/2023	500,000	$0.47	02/03/2023	-	-	28/02/2025
CO. SECRETARY	01/12/2022	02/12/2022	400,000	$0.50	02/12/2022	02/12/2023	02/12/2023	02/12/2026
EMPLOYEE	24/11/2022	02/12/2022	400,000	$0.50	02/12/2022	02/12/2023	02/12/2023	02/12/2026
EMPLOYEE	04/07/2022	08/07/2022	500,000	$0.57	04/07/2022	04/07/2023	04/07/2024	04/07/2025
			4,300,000					

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	DIRECTORS OPTIONS	DIRECTOR OPTIONS	DIRECTOR OPTIONS	CO. SEC OPTIONS	EMPLOYEE OPTIONS	EMPLOYEE OPTIONS
Exercise price ($)	$0.50	$0.50	$0.47	$0.50	$0.50	$0.57
Share price at date of grant	$0.355	$0.355	$0.185	$0.34	$0.34	$0.40
Historic volatility (%)	66.8%	60.1%	73.4%	66.4%	66.4%	62.4%
Risk free interest rate (%)	3.34%	3.24%	3.42%	3.21%	3.21%	2.98%
Expected life of Options	1,469	1,104	1,095	1,462	1,462	1,096

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

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

Options exercised during the year

No Options issued as remuneration or as payment for services provided to the Company, have been exercised during year ended 30 June 2023 or as at the date of this report.

Options lapsed/forfeited during the year

On 19 August 2022 4,000,000 Options, in aggregate, issued to Mr Hyma during the year, lapsed unexercised, in accordance with the terms on which they were issued.

NOTE 21 – SHARE BASED PAYMENTS CONTINUED

SHARES

30 JUNE 2023

Shares issued during the year

No Shares were issued as remuneration or as payment for services provided to the Company during year ended 30 June 2023 or as at the date of this report.

NOTE 22 – CASH FLOW INFORMATION

RECONCILIATION OF CASH FLOWS FROM OPERATIONS WITH LOSS AFTER INCOME TAX	30 JUNE 2023 $	30 JUNE 2022 $
Loss after income tax	(2,418,701)	(5,371,085)
Depreciation (net of capitalised depreciation)	17,404	7,685
Amortisation – leased assets	43,447	36,063
Exploration expenditure expensed	–	225,698
Share based payments expense	(321,529)	2,960,879
Changes in assets and liabilities:		
– Increase in trade and other receivables	(79,121)	(151,601)
– Increase in trade and other payables	649,990	147,331
– Increase in employee entitlements	3,790	454,162
Net cash used in operating activities	**(2,104,720)**	**(1,690,868)**

NOTE 23 – CONTINGENT ASSETS, LIABILITIES & COMMITMENTS

a) Expenditure Commitments

Capital commitments relating to tenements

The Group is required to meet minimum expenditure requirements of various Australian Government bodies. These obligations are subject to renegotiation, may be farmed out or may be relinquished and have not been provided for in the financial statements. The Company expects to meet or exceed the tenement expenditure commitments (if it has not already done so) for all of its granted exploration licences.

	30 JUNE 2023 $	30 JUNE 2022 $
Exploration expenditure commitments		
Expenditure Commitment	745,020	1,280,795

Other than the commitments disclosed above, the Group does not have any further commitments at 30 June 2023 (30 June 2022: Nil).

b) Contingent Assets/Liabilities

Contingent assets

The Group did not have any contingent assets as at 30 June 2023 (30 June 2022: Nil).

Contingent Liabilities

Royalty Deed

The Company entered into a Royalty Deed dated 7 January 2021 with RAB Royalties Pty Ltd (RAB), a related entity of Directors Bryn Jones and Rickie Pobjoy (Royalty Deed), by which the Company has agreed to pay to RAB, a 0.5% net smelter return royalty (GST exclusive) in respect of the sale of minerals produced from South Australian EL6509 and EL6691 and Victorian EL007254, and any tenure which may be granted in lieu of those tenements (Royalty Tenements), commencing on the fifth anniversary of the date of commencement of the extraction and recovery of minerals from a Royalty Tenement which are capable of being sold or otherwise disposed of.

Bank Guarantees

The Company has in place unconditional bank guarantees from the Commonwealth Bank of Australia for amounts totaling $110,000, in respect of rehabilitation bonds required as part of the licence conditions associated with the granting of two South Australian tenements ($90,000) and two Victorian tenements ($20,000). The bank guarantees are cash backed by term deposits of the same value.

The Company has in place an unconditional bank guarantee from the Commonwealth Bank of Australia for an amount totaling $38,801, in respect of a lease guarantee for L10, 111 Gawler Place, Adelaide, SA. The bank guarantee is cash backed by a term deposit of the same value. (refer Note 9).

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NOTE 24 – RELATED PARTY TRANSACTIONS

a) Subsidiaries

Interests in subsidiaries are disclosed in Note 11.

b) Key Management Personnel

Disclosures relating to Key Management personnel are set out in Note 6 and the Remuneration Report contained within the Directors' Report.

c) Other transactions with related parties

The Company has an agreement for the lease of serviced corporate office space with entX Limited with expenditure for the year ended 30 June 2023 of $136,119 ($129,479). As disclosed in the KMP note, Mr Jones is Managing Director of entX Limited.

Refer to Note 23 b) above for disclosure of a Royalty Deed between the Company and RAB Royalties Pty Ltd, an entity related to Mr Jones and Mr Pobjoy.

Other than transactions with related parties shown above and detailed in Note 6 and the Remuneration Report, there were no other related party transactions entered into during the year ended 30 June 2023.

NOTE 25 – FINANCIAL INSTRUMENTS

a) Financial Risk Management Policies

The Company's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payables and loans to and from subsidiaries.

b) Interest Rate Risk

Interest rate risk is managed with a mixture of fixed and floating rate cash deposits. It is the policy of the group to keep surplus cash in high yielding deposits.

i) Treasury Risk Management

The Board meets on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The Board's overall risk management strategy seeks to assist the Company in meeting its financial targets, whilst minimizing potential adverse effects on financial performance.

ii) Financial Risk Exposure and Management

The main risk the group is exposed to through its financial instruments is interest rate risk.

c) Sensitivity Analysis

Interest Rate and Price Risk

The Company has performed a sensitivity analysis relating to its exposure to interest rate risk and price risk at reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

NOTE 25 – FINANCIAL INSTRUMENTS CONTINUED

Interest Rate Sensitivity Analysis

At 30 June 2023, the effect on loss and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2023 $	2022 $
Change in loss		
– Increase in interest rates by 2%	2,400	2,400
– Decrease in interest rates by 2%	(2,400)	(2,400)
Change in equity		
– Increase in interest rates by 2%	2,400	2,400
– Decrease in interest rates by 2%	(2,400)	(2,400)

d) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalent and noninterest bearing monetary financial assets and financial liabilities of the consolidated entity approximate their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based on discounting future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The balances are not materially different from those disclosed in the balance sheet of the consolidated entity.

e) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets, is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the balance sheet and notes to the financial statements.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

f) Liquidity risk

Vigilant liquidity risk management requires the Company to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The Company manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Trade payables are generally payable on 30-day terms.

Remaining contractual maturities

The following tables detail the Company's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

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NOTE 25 — FINANCIAL INSTRUMENTS CONTINUED

CONSOLIDATED - 2023	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $
Non-interest bearing					
Trade and other payables		1,392,348	–	–	–
Interest-bearing - variable					
Lease liability	4.1%	55,559	43,232	137,882	–
Total		**1,447,907**	**43,232**	**137,882**	–

CONSOLIDATED - 2022	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $
Non-interest bearing					
Trade and other payables		1,158,458	–	–	–
Interest-bearing - variable					
Lease liability	4.1%	48,117	12,429	1,757	–
Total		**1,206,575**	**12,429**	**1,757**	–

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

g) Market risk

Foreign currency risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company does not currently operate internationally and is not materially exposed to foreign exchange risk arising from various currency exposures.

Price risk

The Company is not exposed to any significant price risk.

NOTE 26 — EVENTS SUBSEQUENT TO REPORTING DATE

The Directors are not aware of any further matter or circumstance that has arisen since 30 June 2023 that has significantly affected, or may significantly affect Australian Rare Earths Limited's operations, the results of those operations, or the Australian Rare Earths Limited's state of affairs in future financial years.

NOTE 27 – AUSTRALIAN RARE EARTHS LIMITED PARENT COMPANY INFORMATION

PARENT ENTITY	30 JUNE 2023 $	30 JUNE 2022 $
ASSETS		
Current assets	15,986,123	12,735,665
Non-current assets	457,540	1,497,835
Intercompany loans	8,637,536	3,008,178
Investments in subsidiaries	4	4
TOTAL ASSETS	**25,081,203**	**17,241,682**
LIABILITIES		
Current liabilities	807,806	801,099
Non-current liabilities	170,550	18,082
TOTAL LIABILITIES	**978,356**	**819,181**
EQUITY		
Issued capital	30,575,403	20,163,426
Share based payments reserve	2,700,012	3,021,541
Retained losses	(9,172,568)	(6,762,466)
TOTAL EQUITY	**24,102,847**	**16,422,501**
FINANCIAL PERFORMANCE		
Loss for the year	(2,410,102)	(6,170,045)
Other comprehensive income	–	–
TOTAL LOSS	**(2,410,102)**	**(6,170,045)**

Guarantees in relation to relation to the debts of subsidiaries

Australian Rare Earths Limited has not entered into a deed of cross guarantee with its wholly-owned subsidiaries RDBD Developments Pty Ltd, QRDBD Developments Pty Ltd and WRDBD Developments Pty Ltd. Formal loan agreements exists between Australian Rare Earths Limited and each of its wholly-owned subsidiaries.

Contingent assets, liabilities and commitments

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

Other than those previously disclosed at Note 23, the Company has no contingent assets, liabilities or commitments as at 30 June 2023.

Directors' Declaration

The Directors of the Company declare that:

1. the Financial Statements and Notes as set out on pages 70 to 99 are in accordance with the Corporations Act 2001 and:
   a) comply with Australian Accounting Standards and International Financial Reporting Standards as disclosed in Note 1; and
   b) give a true and fair view of the financial position as at 30 June 2023 and of the performance for the period ended on that date of the Company;
2. the Acting Managing Director and the Chief Financial Officer have each declared that:
   a) the financial records of the Company for the year ended have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   c) the financial statements and notes give a true and fair view;
3. in the Directors' opinion there are reasonable grounds to believe that the Group 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
Chairman

Perth
Dated this 29 day of September 2023

GrantThornton

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Independent Auditor's Report

To the Members of Australian Rare Earths Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Australian Rare Earths Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Exploration and evaluation assets – Notes 12 & 13	
At 30 June 2023 the carrying value of exploration and evaluation assets was $10,172,163. In accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*, the Group is required to assess at each reporting date if there are any triggers for impairment which may suggest the carrying value is in excess of the recoverable value. The process undertaken by management to assess whether there are any impairment triggers in each area of interest involves an element of management judgement. This area is a key audit matter due to the significant judgement involved in determining the existence of impairment triggers.	Our procedures included, amongst others: • obtaining the management reconciliation of capitalised exploration and evaluation expenditure and agreeing to the general ledger; • evaluating the competence, capabilities and objectivity of management's experts in the evaluation of potential impairment triggers; • reviewing management's area of interest considerations against AASB 6; • conducting a detailed review of management's assessment of trigger events prepared in accordance with AASB 6 including; – tracing projects to statutory registers, exploration licenses and third party confirmations to determine whether a right of tenure existed; – enquiring of management regarding their intentions to carry out exploration and evaluation activity in the relevant exploration area, including review of management's budgeted expenditure; – understanding whether any data exists to suggest that the carrying value of these exploration and evaluation assets are unlikely to be recovered through development or sale; and • assessing the appropriateness of the related financial statement disclosures.
Recognition of research and development tax incentive – Note 10	
The Group receives a research and development (R&D) refundable tax offset from the Australian government, which represents applicable company tax rate + 18.5% each dollar of eligible annual R&D expenditure if its turnover is less than $20 million per annum. Registration of R&D Activities is filed with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive in cash. Management reviewed the Group's total R&D expenditure to estimate the refundable tax offset receivable under the R&D tax incentive legislation. This area is a key audit matter due to the size of the accrual and the degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.	Our procedures included, amongst others: • obtaining through discussions with management and understanding of the process to estimate the claim; • utilising an internal R&D tax specialist to: – review the expenditure methodology employed by management for consistency with the R&D tax offset rules; and – consider the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria; • comparing the nature of the R&D expenditure included in the current year estimate to the prior year's claim;

Key audit matter	How our audit addressed the key audit matter
Recognition of research and development tax incentive – Note 10 (Cont.)	
	• testing a sample of R&D expenditure and agreeing to supporting documentation to ensure appropriate classification, the validity of the claimed amount and eligibility against the R&D tax incentive scheme criteria; assessing the appropriateness of the financial statement disclosure.

Information other than the financial report and auditor’s report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group’s annual report for the year ended 30 June 2023, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf.This description forms part of our auditor’s report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors’ report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Australian Rare Earths Limited, for the year ended 30 June 2023 complies with section 300A of the Corporations Act 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 29 September 2023

Additional Information

Compiled as at 4 September 2023

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholder information

Substantial Shareholders

The name of the substantial shareholders in the Company with 5% or greater relevant interest in securities of the Company, the number of equity securities to which the substantial shareholder and their associates have a relevant interest, as disclosed in substantial holding notices and other notices given to the Company are as follows:

SHAREHOLDER	NUMBER ORDINARY SHARES HELD	% ORDINARY SHARES HELD
BEECHCREST INVESTMENTS PTY LTD <JONES FAMILY A/C> and MR BRYN LLYWELYN JONES + MRS KELLIE NICOLE JONES <TAWEL SUPERANNUATION A/C>	15,834,048 shares [1]	10.27%
ACORN CAPITAL LTD [1]	17,325,775 shares [2]	11.23%
TOO UP HOLDINGS PTY LTD <POBJOY FAMILY A/C>	14,220,000 shares [1]	9.22%

1 As per Directors Interest notice issued by the Company on 28 June 2023.

2 As per substantial shareholder notice received by the Company on 3 May 2023.

Distribution of equity securities

Number of security holders by size of holding:

RANGE	ORDINARY SHARES	UNLISTED OPTIONS
1 – 1,000	355	–
1,001 – 5,000	1,107	16
5,001 – 10,000	587	18
10,001 – 100,000	1,033	73
100,001 and over	162	33
TOTAL	**3,244**	**140**

UNMARKETABLE PARCELS	MINIMUM PARCEL SIZE	HOLDERS	ORDINARY SHARES
Minimum $500.00 parcel at $0.2550 per share	1,961 shares	678	703,820

Voting Rights

At meeting of members or classes of members.

Ordinary shares

On a show of hands, every person present who is a member or proxy, attorney or representative of a member has one vote.

Unlisted options

No voting rights.

Twenty largest holders of each class of quoted equity security

Ordinary Shares

RANK	NAME	SHARES	% ISSUED CAPITAL
1	BNP PARIBAS NOMS PTY LTD <DRP>	17,232,893	11.18
2	BEECHCREST INVESTMENTS PTY LTD <JONES FAMILY A/C>	14,517,223	9.42
3	TOO UP HOLDINGS PTY LTD <POBJOY FAMILY A/C>	14,120,000	9.16
4	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,539,349	2.30
5	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	3,398,088	2.20
6	NEO PERFORMANCE MATERIALS INC	3,333,333	2.16
7	MR ANGUS JACK RUTHERFORD BARKER	2,700,000	1.75
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,193,143	1.42
9	MR ANTHONY EDWARD WATT	2,145,151	1.39
10	TAYCOL NOMINEES PTY LTD <211 A/C>	2,140,000	1.39
11	MR CHRISTOPHER ANDREW KOCH	2,000,000	1.30
12	MR BRYN LLYWELYN JONES + MRS KELLIE NICOLE JONES <TAWEL SUPERANNUATION A/C>	1,316,825	0.85
13	BOND STREET CUSTODIANS LIMITED <ROSSF2 – V44118 A/C>	1,253,667	0.81
14	B & M LAWS SUPER FUND PTY LTD <B & M LAWS SUPER FUND A/C>	1,250,000	0.81
15	DADS MONEY PTY LTD <TOM PORTER SUPER FUND A/C>	1,089,115	0.71
16	MR MICHAEL ANDREW WHITING + MRS TRACEY ANNE WHITING <WHITING FAMILY S/F A/C>	1,052,272	0.68
17	LOTAKA PTY LTD	970,000	0.63
18	LEGANO PTY LTD <B G FAIRLEY SF A/C>	946,621	0.61
19	BCI HOLDINGS PTY LTD <BCI SUPERANNUATION FUND A/C>	925,000	0.60
20	ZANACORP FINANCIAL GROUP PTY LTD	866,750	0.56
TOTAL		**83,820,614**	**64.73**

Corporate Governance Statement

For the Year Ended 30 June 2023

The Corporate Governance Statement for the Group is located in the Corporate Governance section of the Company's website at: www.ar3.com.au

CORPORATE DIRECTORY

Directors

Dudley Kingsnorth
Non-Executive Chairman

Bryn Jones
Non-Executive Director

Pauline Carr
Non-Executive Director

Angus Barker
Non-Executive Director

Rick Pobjoy
Technical Director

Company Secretary and Chief Financial Officer

Noel Whitcher

Registered Office

Level 10, 111 Gawler Place
Adelaide South Australia 5000

Telephone: 1300 646 100

Email: hello@ar3.com.au

Share Registry

Computershare Investor Services Pty Ltd

Level 5, 115 Grenfell Street
Adelaide, South Australia 5000

Auditors

Grant Thornton Audit Pty Ltd

Grant Thornton House
Level 3, 170 Frome Street
Adelaide, South Australia 5000

Solicitor

O'Loughlins Lawyers

Level 2, 99 Frome Street,
Adelaide, South Australia 5000

Bankers

Commonwealth Bank of Australia

96 King William Street ,
Adelaide, South Australia 5000

Australian Securities Exchange

The Company is listed on the
Australian Securities Exchange

ASX Code: AR3

Australian Rare Earths Limited

ANNUAL AND SUSTAINABILITY REPORT

2023


AUSTRALIAN
RARE EARTHS
Metals for our future

AUSTRALIAN RARE EARTHS
Metals for our future

REGISTERED OFFICE

Level 10, 111 Gawler Place
Adelaide SA 5000

Email: hello@ar3.com.au

www.ar3.com.au