CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF-YEAR ENDED

31 DECEMBER 2023

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Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Rare Earths Limited and the entities it controlled at the end of or during the half-year ended 31 December 2023.

Directors

The following persons were Directors of Arafura Rare Earths Limited during the half-year period and up to the date of this report.

- M Southey
- G Lockyer (Resigned 5 February 2024)
- C Tonkin
- C Moises
- D Cuzzubbo

REVIEW OF OPERATIONS

During the six months ended 31 December 2023, Arafura incurred a net loss of $66,865,339 (2022: $26,862,813). This increase in the company's net loss position resulted from the completion of early works construction on site to position the Company strongly to move into full construction when project financing is secured, targeted for March 2024. Nolans Project development costs are currently being expensed to the profit and loss until a final investment decision is made for the project and there is further certainty these costs will be recouped.

Arafura's ore to oxide business model has enabled it to secure high quality offtake partners aligned with the energy transition. With significant progress on its debt financing activities, all offtake groups are now strategically linked to export credit agency support received from non-binding letters of interest or similar. The alignment of offtake commitment with debt funding is significant as it enhances the opportunity for Arafura to place some of the remaining available offtake to credible OEM customers with strategic equity investment interest.

CORPORATE

Funding

In December 2023, the Company launched a placement and share purchase plan (SPP). A total of A$25 million (before costs) was received in the placement from sophisticated and institutional investors under the placement and A$6.5 million (before costs) from eligible existing shareholders under the SPP.

The capital raising was completed at an issue price of A$0.16 per new share and under the placement, investors also received one free attaching option for every two new shares subscribed with an exercise price of A$0.225 and an expiry date of 20 June 2025. A total of 125 million shares were issued under the placement and 40.7 million shares were issued under the SPP.

The combined funds raised under the placement and SPP totalling $31.5 million (before costs) are intended to be used to further develop the Nolans Project including:

- Integrated project management team costs (including KBR).
- Costs associated with detailed engineering (by consultants including Hatch) and early contractor involvement to advance detailed design and construction planning.
- Procurement of certified vendor data for equipment to support detailed engineering.
- Costs associated with site overheads, ESG, technology, business development and exploration.
- Corporate costs including office operations, project funding, and sales and marketing.
- A cash portion retained as a liquidity buffer.
- general working capital.

Annual General Meeting

The Company's annual general meeting was held at BDO's offices at Level 9, Mia Yellagonga Tower 2, 5 Spring Street, Perth WA 6000 at 10.00am WST on 19 October 2023. All resolutions were passed by way of a poll.

OFFTAKE

Arafura continues to advance its offtake strategy to secure 85% of its annual NdPr production from Nolans to be contracted under long-term sale agreements. This strategy is aligned with NdFeB users seeking a diversified supply chain. Arafura has binding offtake agreements already in place with Hyundai Motor Corporation and Kia Corporation (Refer to ASX Announcement dated 7 November 2022) and Siemens Gamesa (Refer to ASX Announcement dated 11 April 2023) and is in advanced negotiations with several prospective offtake partners to secure the remaining 47% of its 85% Offtake Target.

Consistent with its offtake and project funding strategy, these prospective offtake partners are tier 1 manufacturers and OEMs in the motor vehicle and wind turbine sector, with direct raw material procurement requirements.

PROJECT FUNDING

During the half year ended, there was positive traction in Arafura's debt-led funding strategy. Arafura received debt financing support from Export Development Canada (**EDC**) (refer to ASX Announcement dated 20 June 2023) for up to US$300 million which is linked to a strategic arrangement between EDC and General Electric Company (**GE**) to advance the energy transition. The Company has a Memorandum of Understanding with GE (Refer to ASX announcement dated 12 July 2022) for the supply of NdPr from Nolans for use in the manufacture of permanent magnets used in GE's offshore wind turbines. GE remains one of the prospective offtake partners to which Arafura is in advanced negotiations.

In December 2023, the Company also received in-principle support through a letter of interest (**LoI**) from Korea EXIMbank (**KEXIM**) for up to US$150 million of debt financing for the Nolans Project. The LoI is linked to binding offtake arrangement with Hyundai Motor Corporation and Kia Corporation.

Together with existing arrangements with German's Euler Hermes (refer to ASX Announcement dated 29 March 2023) and Australia's Export Finance Australia (refer to ASX Announcement dated 7 May 2021) and the Northern Australia Infrastructure Facility (refer to ASX Announcements dated 18 June 2021 and 29 March 2023), Arafura's indicative funding structure for the senior debt facilities of US$775 million is depicted below:

Agency	Amount		Description	Status
Debt Facilities				
Export Finance Australia (EFA)	A$200m	US$225m[1]	Debt financing	Letter of support received
Northern Australia Infrastructure Facility (NAIF)	A$150m		Debt financing	Letter of support received & completion of strategic assessment
Export Development Canada (EDC)	US$300m		Debt financing	Letter of Interest received
KEXIM	Up to US$75m		Debt financing	Letter of Interest received
Commercial bank tranche	Up to US$175m[2]		Debt financing	In discussion
Total	**Up to US$775m**			
Untied Loan Guarantees				
German ECA - Euler Hermes Aktiengesellschaft	Up to US$100m[3]		Untied loan guarantee	In-principle support received
KEXIM	Up to US$75m		Untied loan guarantee	Letter of Interest received
Total	**Up to US$175m**			

[1] A$200m (EFA) and A$150m (NAIF) combined and converted for comparison purposes only at AUD/USD 0.6428

[2] Commercial bank tranche will be supported by untied loan guarantee from Euler Hermes and KEXIM.

[3] Arafura is targeting US$100m of Euler Hermes loan guarantee, subject to debt sizing constraints and securing sufficient German based NdPr offtake. The Euler Hermes in-principle letter of support provides up to US$600 million of loan guarantee.

The indicative funding structure consists entirely of direct loans with ECAs and government agencies, and ECA debt guarantees sitting across the commercial bank tranche, demonstrating the quality of the Nolans Project and its alignment with supply chain diversification objectives of a number of ECAs and government agencies. The debt financing will be conditional on completion of a successful due diligence process, agreement of terms and conditions, credit approvals and entry into binding facility agreements.

Concurrent with the debt funding activities, the Company continues to advance discussions with potential strategic equity investors as well as an equity raising to complete the funding requirement to enable the construction, commissioning and first production at Nolans.

OPERATIONAL LICENCING

During the period, the Company registered the Nolans Project Native Title Agreement (**NTA**) dated 25 June 2020 as an indigenous land use agreement on the Register of Indigenous Land Use Agreements in accordance with the *Native Title Act 1993 (Cth)*. The ILUA records the consent of the relevant native title parties (being Kwaty Aboriginal Corporation RNTBC, Irretyepwenty Ywentent Pwert Aboriginal Corporation RNTBC and Alherramp Ilewerr Mamp Arrangkey Tywerl Aboriginal Corporation RNTBC), and the Central Land Council (**CLC**) in undertaking the Nolans Project.

Amendments to the water license was approved by the Department of Environment, Parks and Water Security (**DEPWS**) and a Sacred Site Clearance Certification (**SCCC**) application for two additional groundwater monitoring bores were approved by the CLC. An additional SCCC is expected to be issued once the NTA annexure is finalised.

Environmental management plans submitted to the Federal Government's Department of Climate Change, Energy, and Environment and Water (**DCCEEW**) under the Project's existing approval conditions remain under assessment. Arafura continued engagement with the Department to manage the completion of the relevant approvals ahead of the planned start of main construction at Nolans.

SUSTAINABILITY

Arafura released its FY23 Sustainability Report in November and outlines the eight elements that govern Arafura's approach to sustainability, referencing the Global Reporting Index (**GRI**) standards. Separately, the Company continued to assess its compliance with the Taskforce for Climate-Related Financial Disclosures (**TCFD**), and completed a risk and opportunities assessment as part of this scope. Self-assessment against recognised sustainability frameworks, including GRI and the Initiative for Responsible Mining Assurance (**IRMA**) continued.

Energy and Emissions Reduction

A draft report from the CSIRO Renewable Heat Industrial Decarbonisation program was received, confirming concentrated solar thermal (**CST**) combined with thermal energy storage as the preferred approach to generating renewable steam in the medium-term. Specific implementations of CST and other renewable technologies into the Project will continue to be developed as part of its power station solution and to ensure consistency with Arafura's Green House Gas Emissions Reduction Pathway, published in January 2023.

Arafura continues to partner with DCCEEW and the Clean Energy Regulator on establishing an appropriate safeguard mechanism baseline for Nolans, with the aim to establish best practice emissions intensities for rare earths processing.

NOLANS PROJECT

The Company made a decision to commence early works construction with a view to position the Company as strong as possible to mobilise to site and commence main construction at Nolans at the completion of project funding activities. Early works completed included:

- Completion of main site access road temporary intersection with Stuart Highway and initial works on the main site access road to the Nolans village and process plant area
- Completion of the Amadeus gas pipeline road crossing
- Commissioning of stages 1 and 2 of the construction camp to house approximately 200 personnel, including all village central facilities
- Installation of village services infrastructure including potable water and wastewater treatment plants
- Completion and commissioning of 25km arterial water pipeline, raw water dam, temporary raw water distribution systems and borefield headworks.

Concurrently, engineering, design and procurement activities progressed, particularly on the hydrometallurgical plant's detailed design. As part of the early contractor engagement, Monadelphous completed their review of the hydrometallurgical plant design, which continues to be developed by Hatch.

Following completion of early construction works, a program of operational readiness activities is now underway to ensure the Company is appropriately prepared for commissioning and operations at Nolans including a timely and safe ramp up to operation at nameplate capacity. This program includes a review of safety and production processes, controls to asset management, IT systems and system integration.

The Company remains vigilant and continues to monitor its capital cost trending, particularly in light of significant engineering and procurement progress for Nolans. In the October 2023 quarterly report, the Company indicated an approximate 5.7% increase in its capital cost estimate to approximately A$1,680 million in its trend analysis. The detailed capital cost estimates for the Project remain in the November 2022 Project Update (refer to ASX Announcement dated 11 November 2022) and at this stage, the trending remains substantially in line with expectations.

TECHNOLOGY PROGRAMS

Minor test work programs were completed during the reporting period, aimed at providing key design information and confirmation of performance predictions for the processing plant including:

- Corrosion test work on materials of construction for the rare earth sulphate precipitation reboiler.
- Modelling of the phosphoric acid purification.

The Company commenced contact testing of corrosion coupons to optimise acid purification conditions during the period, with this work expected to be finalised by 30 June 2024.

EXPLORATION

The Company continued to progress and refine the Nolans mining execution plan through detailed review of the geological model and assessment of historical drill samples to identify assay pulps requiring follow up to provide more robust estimate and better understand the deleterious elements and material types.

A detailed ground gravity survey covering a significant part of EL28473 was completed and will be merged with data collected from the previous gravity survey completed over the Nolans Bore deposit on ML26659 in 2022. A phase three regional gravity survey across more distal parts of the Aileron- Reynolds project area and subsequent detailed modelling of the entire area's gravity dataset is planned for later this year.

EVENTS OCCURRING AFTER THE REPORTING DATE

On 25 January 2024, the Company announced the results of the SPP which closed at 5:00pm AEDT on 22 January 2024. The Company received a total of $6.5 million (before costs) from 710 applications under the SPP, resulting in 40.7 million new shares being issued.

On 5 February 2024, the Company announced the appointment of Darryl Cuzzubbo as Managing Director and Chief Executive Officer, following the departure of Gavin Lockyer following a short handover. Mr Cuzzubbo's remuneration will include participation in the Nolans Success Plan incentive framework, with vesting conditions tied to 5 critical milestones linked to the successful delivery of the Nolans Project being:

- Commencement of Main Construction
- First Draw down of Debt
- First Ore delivered to ROM Pad
- First NdPr Oxide Production
- Project Close Out

The issue of incentive securities will be subject to shareholder approval at the next shareholder meeting.

DIRECTORS REPORT – FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

On 12 February 2024, the Company announced its wholly owned subsidiary Arafura Nolans Project Pty Ltd executed gas supply agreements with the Mereenie joint venture partners Central Petroleum, Cue Energy, Macquarie Mereenie and New Zealand Oil & Gas. The agreements are for the supply of up to a combine 27.14 petajoule of natural gas from 2026 for a three-year term, with an option to extend for two years. The terms include take-or-pay provisions and certain condition precedents associated with the development of the Nolans Project, including:

- Arafura' Board making a final investment decision to proceed with the development of the Nolans Project.
- Execution of a gas transport agreement.
- Execution of a power purchase agreement.
- Obtaining all authorisations, approvals, licenses or permits from a Government Agency necessary for the Company to take delivery of gas.
- Finalisation of debt financing for the Project.

No other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect:

a) the Group's operations in future financial years, or

b) the results of those operations in future financial years, or

c) the Group's state of affairs in future financial years.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 10.

Signed in accordance with a resolution of the Directors.

Darryl Cuzzubbo
Managing Director & CEO

Perth
21 February 2024

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DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF ARAFURA RARE EARTHS LIMITED

As lead auditor for the review of Arafura Rare Earths Limited for the half-year ended 31 December 2023, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Arafura Rare Earths Limited and the entities it controlled during the period.

Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 21 February 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2023

	Notes	31-Dec-23 $	31-Dec-22 $
Other income		**1,278,090**	564,388
Employee benefits expense	3	**(2,456,442)**	(1,791,858)
Project development	3	**(56,241,107)**	(22,195,089)
Other expenses	3	**(4,612,728)**	(3,262,108)
Depreciation and amortisation	3	**(4,662,687)**	(197,455)
Finance costs	3	**(218,834)**	(17,703)
Share based payments	3	**48,369**	37,012
Loss before income tax		**(66,865,339)**	(26,862,813)
Income tax benefit		-	-
Net (loss) after income tax for the period		**(66,865,339)**	**(26,862,813)**
Total comprehensive (loss) for the half year attributable to owners of Arafura Rare Earths Limited		**(66,865,339)**	**(26,862,813)**
Loss per share attributable to owners of Arafura Rare Earths Limited			
Basic loss per share (cents per share)		**(3.1)**	(1.6)
Diluted loss per share (cents per share)		**(3.1)**	(1.6)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Notes	31-Dec-23 $	30-Jun-23 $
CURRENT ASSETS			
Cash and cash equivalents		**66,940,412**	128,848,076
Trade and other receivables		**952,278**	789,099
Total Current Assets		**67,892,690**	**129,637,175**
NON-CURRENT ASSETS			
Property, plant and equipment		**376,293**	378,792
Right-of-use assets	4	**13,830,785**	7,705,058
Deferred exploration and evaluation costs	5	**120,919,619**	119,346,203
Other assets		**4,143,138**	2,464,344
Total Non-Current Assets		**139,269,835**	**129,894,397**
TOTAL ASSETS		**207,162,525**	**259,531,572**
CURRENT LIABILITIES			
Trade and other payables		**17,784,629**	32,377,776
Deferred Revenue		**6,111,407**	5,990,795
Lease liabilities	4	**3,751,650**	970,215
Provisions		**940,825**	922,670
Total Current Liabilities		**28,588,511**	**40,261,456**
NON-CURRENT LIABILITIES			
Lease liabilities	4	**2,221,202**	665,481
Provisions		**4,590,201**	3,702,926
Total Non-Current Liabilities		**6,811,403**	**4,368,407**
TOTAL LIABILITIES		**35,399,914**	**44,629,863**
NET ASSETS		**171,762,611**	**214,901,709**
EQUITY			
Contributed equity	6	**489,977,986**	466,203,376
Reserves	7	**13,525,555**	13,573,924
Accumulated losses		**(331,740,930)**	(264,875,591)
TOTAL EQUITY		**171,762,611**	**214,901,709**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2023

Consolidated	Contributed equity $	Equity reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2022	**287,728,300**	**13,135,601**	**(168,495,827)**	**132,368,074**
Loss for the period	-	-	(26,862,813)	(26,862,813)
Total comprehensive loss for the period	-	-	**(26,862,813)**	**(26,862,813)**
Contributions of equity, net of transaction costs and tax	132,669,816	-	-	132,669,816
Share based payments – value of employee services	-	(37,012)	-	(37,012)
Balance at 31 Dec 2022	**420,398,116**	**13,098,589**	**(195,358,640)**	**238,138,065**
Balance at 1 July 2023	**466,203,376**	**13,573,924**	**(264,875,591)**	**214,901,709**
Loss for the period	**-**	**-**	**(66,865,339)**	**(66,865,339)**
Total comprehensive loss for the period	**-**	**-**	**(66,865,339)**	**(66,865,339)**
Contributions of equity, net of transaction costs and tax	**23,774,610**	**-**	**-**	**23,774,610**
Share based payments – value of employee services	**-**	**(48,369)**	**-**	**(48,369)**
Balance at 31 Dec 2023	**489,977,986**	**13,525,555**	**(331,740,930)**	**171,762,611**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2023

	31-Dec-23 $	31-Dec-22 $
Cash flows from operating activities		
Payments to suppliers and employees	**(8,724,381)**	(5,103,425)
Payments for project development	**(68,998,983)**	(25,801,304)
Interest received	**1,393,573**	564,244
Interest paid	**(200,456)**	(17,703)
Net cash (outflow) from operating activities	**(76,530,247)**	**(30,358,188)**
Cash flows from investing activities		
Payment for property, plant and equipment	**(85,397)**	(106,362)
Payments/receipts for security deposits	**(1,678,794)**	-
Proceeds from sale of property, plant and equipment	**25,000**	-
Payments for exploration and evaluation	**(1,473,400)**	(1,534,622)
Net cash (outflow) from investing activities	**(3,212,591)**	**(1,640,984)**
Cash flows from financing activities		
Proceeds from share issue	**25,000,000**	138,428,734
Capital raising expenses	**(1,225,390)**	(5,758,918)
Repayment of lease liability	**(5,824,832)**	(141,776)
Net cash inflow from financing activities	**17,949,778**	**132,528,040**
Net increase in cash and cash equivalents	**(61,793,060)**	**100,528,868**
Cash at the beginning of the period	**128,848,075**	24,680,222
Effects of exchange rate changes on cash and cash equivalents	**(114,603)**	85
Cash and cash equivalents at the end of the period	**66,940,412**	**125,209,175**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTE 1: BASIS OF PREPARATION OF HALF-YEAR REPORT

BASIS OF PREPARATION

This consolidated interim financial report for the half-year reporting period ended 31 December 2023 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reports and the Corporations Act 2001.

The interim report does not include all the notes of the type normally included in the annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2023 and any public announcements made by Arafura Rare Earths Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted in the half year report are consistent with those of the previous financial year and corresponding interim reporting period.

NEW AND AMENDED STANDARDS ADOPTED

The Group has adopted all of the new or amended accounting standards or interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these new or amended standards has not resulted in any change to the entity's accounting policies.

Any new or amended accounting standards or interpretations that are not yet mandatory have not been early adopted.

NOTE 2: SEGMENT INFORMATION

The Company has identified its operating segments on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. The reportable segment is represented by the primary statements forming this half-year report.

At the end of the financial period, the Group was operating primarily in one segment, as an exploration business in Australia.

NOTE 3: EXPENSES

	31-Dec-23 $	31-Dec-22 $
Depreciation		
Depreciation – plant & equipment	**87,897**	59,245
Depreciation – leasehold improvements	**-**	550
Depreciation – right-of-use assets	**4,574,790**	137,660
Total depreciation	**4,662,687**	**197,455**
Finance costs		
Interest expense – lease liability	**193,728**	10,258
Interest expense - other	**25,106**	7,445
Total finance costs	**218,834**	**17,703**
Employee benefits expense		
Employee benefits expense	**2,456,442**	**1,791,858**
Share based payments		
Share-based employee benefits	**(48,369)**	**(37,012)**
Other expenses		
Accounting and other professional fees	**114,622**	10,250
Audit fees	**27,537**	25,463
Loss on disposal of assets	**-**	59
Consultants fees	**1,566,570**	1,617,117
Insurance	**227,865**	181,871
Legal fees	**465,713**	324,422
Share registry and stock listing fees	**174,608**	177,079
Other expenses	**2,035,813**	925,847
Total other expenses	**4,612,728**	**3,262,108**
Project Development		
Consultants	**34,010,012**	20,855,809
Employee benefits expense	**1,173,507**	881,932
Computer software	**40,121**	137,120
Early works	**13,505,292**	-
Equipment procurement	**6,978,361**	-
Rehabilitation expense	**229,780**	-
Other project development costs	**304,034**	320,228
Total project development[1]	**56,241,107**	**22,195,089**
Total expenses	**68,143,429**	**27,427,201**

[1] Expenditure relates to detailed design on the Project's hydrometallurgical plant, other engineering activities on various aspects of the Project, and early works construction.

NOTE 4: LEASES

(a) Amounts recognised in the statement of financial position:

	31-Dec-23 $	30-Jun-23 $
Right of use assets		
Buildings, fittings, and camp facilities	**13,448,684**	7,581,423
Motor vehicles	**90,666**	123,637
Plant and equipment	**291,435**	-
Total right-of-use assets[1]	**13,830,785**	**7,705,060**
Lease liabilities		
Current	**(3,751,650)**	(970,215)
Non-current	**(2,221,202)**	(665,481)
Total lease liabilities[1]	**(5,972,852)**	**(1,635,696)**

(b) Amounts recognised in the statement of profit or loss and other comprehensive income:

	31-Dec-23 $	30-Jun-23 $
Depreciation		
Buildings, fittings, and camp facilities	**4,460,161**	432,708
Motor vehicles	**32,970**	8,242
Plant and equipment	**81,659**	-
Total depreciation	**4,574,790**	**440,950**
Finance costs		
Finance costs	**175,350**	29,294
Total finance costs	**175,350**	**29,294**
Other expenses		
Gain on derecognition	**(12,680)**	-
Total other expenses	**(12,680)**	**-**

[1] Increase for the period primarily relates to the lease of the Nolans construction camp facility and extension of corporate office leases, offset by the derecognition of the right-of-use asset and lease liability for the Nolans fly camp facility.

NOTE 4: LEASES (CONTINUED)

(c) Critical judgement included in determining lease balances:

Lease terms

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term.

In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

As at 31 December 2023, there are no options to extend any lease terms.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

(d) Accounting policy:

In accordance with *AASB 16 Leases*, a right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset. Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Lease liabilities are measured at the present value of the lease payments at the commencement date. Where the interest rate implicit in a lease cannot be readily determined, the lease payments are discounted using the incremental borrowing rate.

The Group has elected not to recognize a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets under $50,000. Lease payments on these assets are expensed to profit or loss as incurred.

NOTE 5: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	31-Dec-23 $	30-Jun-23 $
Exploration and evaluation costs carried forward		
Balance at beginning of period	**119,346,203**	116,598,800
Capitalised exploration expenditure	**514,510**	621,236
Capitalised evaluation expenditure[1]	**1,058,906**	2,242,357
R&D Tax Incentive rebate receipted against capitalised evaluation costs	**-**	(116,190)
Balance at end of period	**120,919,619**	**119,346,203**

The exploration and evaluation costs in relation to each area of interest are carried forward as an asset where the Group:

- Has rights to tenure of the area of interest;
- The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest or; alternatively by its sale; or
- Exploration and evaluation activities in the area of interest have not at the end of the reporting period reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

NOTE 6: EQUITY – CONTRIBUTED EQUITY

	31 Dec 2023 Shares	30 June 2023 Shares	31 Dec 2023 $	30 June 2023 $
Share capital				
Fully Paid Ordinary Shares	**2,269,614,692**	2,113,364,692	**489,977,986**	466,203,376

Movement in ordinary share capital over the past 6 months are as follows:

Date	Details	Number of shares	Issue Price	$
30-Jun-23	**Balance**	2,113,364,692		466,203,376
20-Dec-23	Share Placement	156,250,000	0.160	25,000,000
31-Dec-23	Capital Raising Costs	-	-	(1,225,390)
31-Dec-23	**Balance**	**2,269,614,692**		**489,977,986**

[1] Capitalised evaluation expenditure is expenditure on the Nolans Project feasibility works and environment impact assessment to evaluate, formulate and demonstrate the technical feasibility and commercial viability in developing a rare earths processing plant to process and treat the ore to be mined from the Nolans Project.

NOTE 7: EQUITY – RESERVES

	31-Dec-23 $	30-Jun-23 $
Reserves		
Share based payments reserve	**13,525,555**	**13,573,924**

The movement in the share-based payments reserve over the past 6 months:

	31-Dec-23 $	30-Jun-23 $
Share based payments reserve		
Balance at beginning of period	**13,573,924**	13,135,601
Vesting of options and performance rights	**367,002**	438,323
Reversal of cumulative expense recognised for expired options and performance rights[1]	**(415,371)**	-
Balance at end of period	**13,525,555**	**13,573,924**

A summary of all options and performance rights on issue at 31 December 2023 is detailed below.

Type	Grant Date	Number	Vesting Conditions
Options	1/9/2021	2,280,000	Options vest 3 years from grant date.
Options	21/10/2021	1,240,000	Options vest 3 years from grant date.
Options	6/9/2022	3,294,000	Options vest 3 years from grant date.
Options	20/10/2022	2,118,000	Options vest 3 years from grant date.
Options	28/02/2023	197,000	Options vest 3 years from grant date.
Performance rights	6/12/2023	40,213,506	Performance rights are split evenly across five tranches subject to 5 critical milestones linked to the successful delivery of the Nolans Project being: ▪ Commencement of Main Construction. ▪ First Draw down of Debt. ▪ First Ore delivered to ROM Pad. ▪ First NdPr Oxide Production. ▪ Project Close Out.
Performance rights	6/12/2023	7,643,734	Performance rights vest on 1 July 2026.

No options or performance rights were converted during the period. On 31 December 2023 3,190,000 performance rights and 1,794,000 options were cancelled upon expiry.

[1] Relates to the reversal of the cumulative expense recognised for options or performance rights which had not vested by expiry date.

NOTE 8: COMMITMENTS

Since the release of the 30 June 2023 financial statements there has been no significant changes to commitments or contingencies.

NOTE 9: EVENTS OCCURING AFTER THE REPORTING DATE

On 25 January 2024, the Company announced the results of the SPP which closed at 5:00pm AEDT on 22 January 2024. The Company received a total of $6.5 million (before costs) from 710 applications under the SPP, resulting in 40.7 million new shares being issued.

On 5 February 2024, the Company announced the appointment of Darryl Cuzzubbo as Managing Director and Chief Executive Officer, following the departure of Gavin Lockyer following a short handover. Mr Cuzzubbo's remuneration will include participation in the Nolans Success Plan incentive framework, with vesting conditions tied to 5 critical milestones linked to the successful delivery of the Nolans Project being:

- Commencement of Main Construction
- First Draw down of Debt
- First Ore delivered to ROM Pad
- First NdPr Oxide Production
- Project Close Out

The issue of incentive securities will be subject to shareholder approval at the next shareholder meeting.

On 12 February, the Company announced its wholly owned subsidiary Arafura Nolans Project Pty Ltd executed gas supply agreements with the Mereenie joint venture partners Central Petroleum, Cue Energy, Macquarie Mereenie and New Zealand Oil & Gas. The agreements are for the supply of up to a combine 27.14 petajoule of natural gas from 2026 for a three-year term, with an option to extend for two years. The terms include take-or-pay provisions and certain condition precedents associated with the development of the Nolans Project, including:

- Arafura's Board making a final investment decision to proceed with the development of the Nolans Project.
- Execution of a gas transport agreement.
- Execution of a power purchase agreement.
- Obtaining all authorisations, approvals, licenses or permits from a Government Agency necessary for the Company to take delivery of gas.
- Finalisation of debt financing for the Project.

No other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect:

a) the Group's operations in future financial years, or

b) the results of those operations in future financial years, or

c) the Group's state of affairs in future financial years.

In the Directors' opinion:

a) the financial statements and notes set out on pages 11-21 are in accordance with the Corporations Act 2001; and
   i. complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   ii. give a true and fair view of the consolidated entity's financial position as at 31 December 2023 and of its performance for the half-year ended on that date.

b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Darryl Cuzzubbo
Managing Director & CEO

Perth
21 February 2024

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Arafura Rare Earths Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Arafura Rare Earths Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group’s financial position as at 31 December 2023 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien

Glyn O'Brien

Director

Perth, 21 February 2024