AUSTRALIAN RARE EARTHS

Metals for our future

Annual Report 2022

Corporate Directory

Directors

Professor Dudley Kingsnorth
Independent Non-Executive Chairman

Bryn Jones
Non-Executive Director

Pauline Carr
Independent Non-Executive Director

Rickie Pobjoy
Executive Director - Acting Managing Director

Company Secretary and Chief Financial Officer

Damien Connor

Registered Office

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Auditor

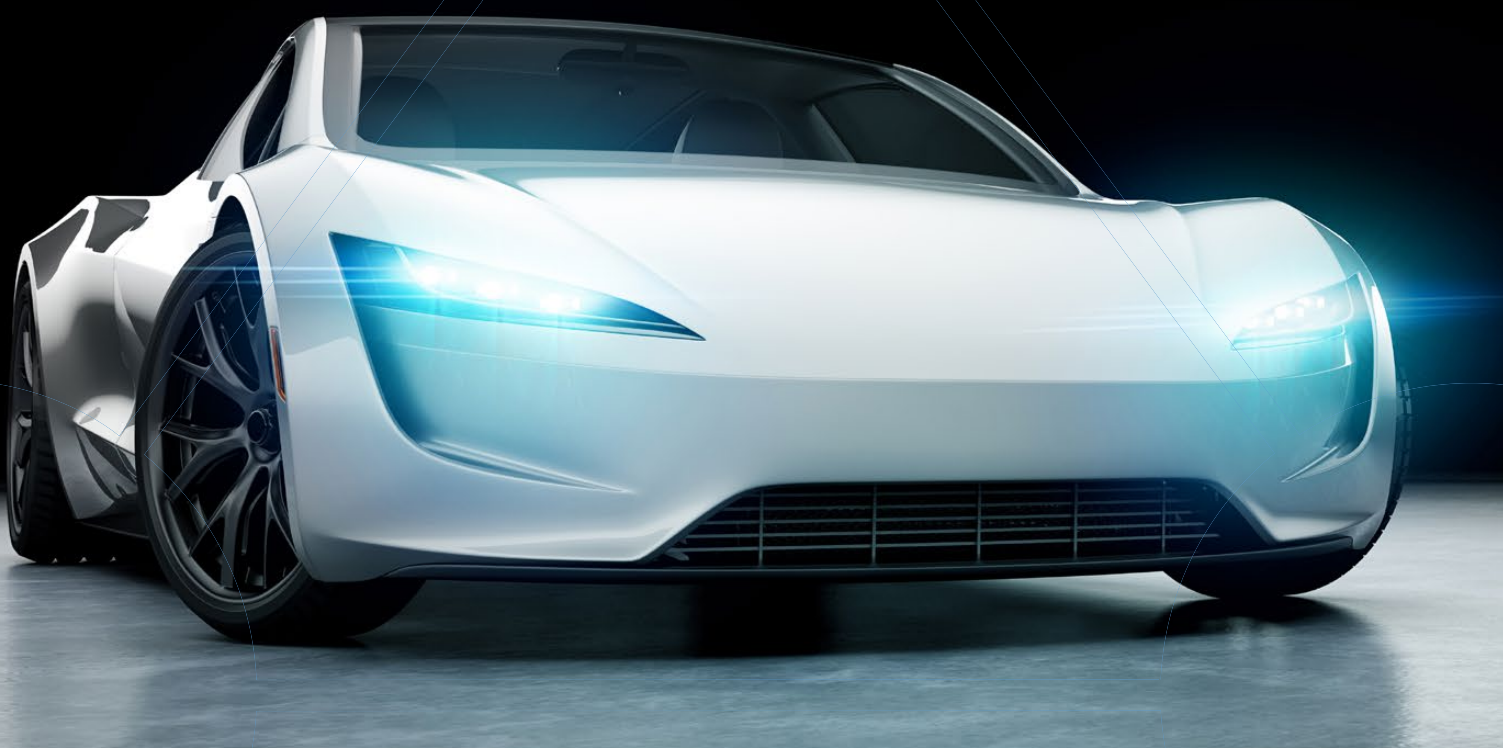
Grant Thornton Audit Pty Ltd
Grant Thornton House
Level 3, 170 Frome Street
Adelaide South Australia 5000

Australian Securities Exchange

The Company is listed on the
Australian Securities Exchange

ASX Code:

AR3



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Chairman's Letter

Dear Fellow Shareholders,

On behalf of the Board of Directors of Australian Rare Earths, it is a pleasure to present the 2022 Annual Report for the Company.

In keeping with the commitment made in the Initial Public Offer Prospectus in 2021, our focus remains on establishing AR3 as a leading rare earth company committed to the development of our world class resources with strong environmental, social, community and governance principles.

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. In particular, the incorporation of rare earth permanent magnets (REPMs) in the drives of Electric Vehicles (EVs), air conditioners and domestic appliances will significantly improve the efficient use of power generated.

The lack of diversity of supply of rare earths, in which two companies produce over 50% of the rare earths used worldwide, is of major concern to end users.

As a result, over the past 12-18 months there has been a united global effort by original equipment manufacturers, the defence industry, the mining industry and governments at all levels to build independent rare earth supply chains. The Company is working towards being an active participant in these new supply chains.

Ownership of the Koppamurra Project in South Australia and Victoria means the Company is well-placed to capitalise on this immense opportunity. Koppamurra is Australia's most advanced prospective ionic clay hosted Rare Earth Element (REE) (indicated) Resource.

The Koppamurra orebody has the distinct advantage of containing all the rare earths used in the production of REPMs, namely praseodymium, neodymium, terbium and dysprosium.

In other words, the Company has the potential to market a single concentrate containing all the rare earth elements required in the manufacture of REPMs, rather than a blend of several concentrates from different locations.

Located in the regional South Australian population centres of Naracoorte and Mount Gambier, Koppamurra is in a tier one mining jurisdiction close to a skilled workforce with established energy and transport infrastructure.

South Australia, with its history of manufacturing, and as a heartland of Australia's defence industry, is ideally suited for the location of value-add processing in the State.

To this end preliminary discussions have commenced with potential downstream partners, community leaders and government departments to identify the job opportunities that the future development offers while ensuring that the appropriate educational and training courses will be in place.

Accordingly, the Company is uniquely placed to play a key role in the emerging independent rare earth supply chains, often referred to as mine to magnet supply chains.

The dedication and hard work of Acting Managing Director, Rick Pobjoy, supported by a high calibre exploration and development team has been instrumental in progressing the Koppamurra resource with the potential to be the first rare earths ionic clay processing facility outside China, Myanmar and Vietnam.

As reported last year, work in 2021 on the Red Tail and Yellow Tail deposits, led to the declaration of a maiden JORC Inferred Mineral Resource of 39.9Mt @ 725ppm TREO (total rare earth oxides), the exploration work undertaken in the past year has increased the Koppamurra Resource to 81.4Mt at 785ppm including an initial Indicated Mineral Resource of 45Mt at 835 ppm TREO, a truly outstanding result.

The grade of the Resource is comparable with those deposits that form the backbone of the heavy rare earth resources in China.

The Company is looking forward to the outcome of the exploration program commenced in September this year which aims to convert the identified exploration target of 90–220Mt into resources while upgrading the classification of the existing identified resource.

An integral part of the exploration and development strategy is the ongoing test work being undertaken at the Australian Nuclear Science and Technology Organisation (ANSTO) to develop a process that will enable AR3 to produce a rare earth concentrate that can be sold on the international market.

The positive impact of the Company's understanding of the basic science of processing through participation of the University of Toronto in the program is acknowledged.

In keeping with our strong environmental and social principles, AR3 continues to make a concerted effort to keep the local community fully informed about our activities.

Jacquie Owen, AR3's Manager, Community and Land, lives in the region and is on-hand to ensure that we continue to build relationships with the local community. The Naracoorte office provides a centre for local communities to obtain information on the Company. The associated warehouse provides storage for geological samples and contains support equipment and supplies which facilitate the rapid mobilisation of the exploration team. Wherever and whenever possible we endeavour to support local businesses in the region.

There is no doubt that proper governance and control processes are integral to developing meaningful ESG strategies and policies. The Board has been active in this area through both its Audit & Risk Management Committee and its recently established Remuneration & Nomination Committee.

Since joining the Company, nearly two years ago, I have continued to be impressed by the skills and dedication of the AR3 team and our contractors. I wish to take this opportunity to thank them for their outstanding work which has ensured our journey to date has been rewarding and successful.

On behalf of the Board of Directors I thank you for your support of the Company. You may rest assured that we will continue to work diligently to enhance the value of your shareholding in AR3.

Yours sincerely,

Professor Dudley J. Kingsnorth
Independent Non-Executive Chairman

29 September 2022

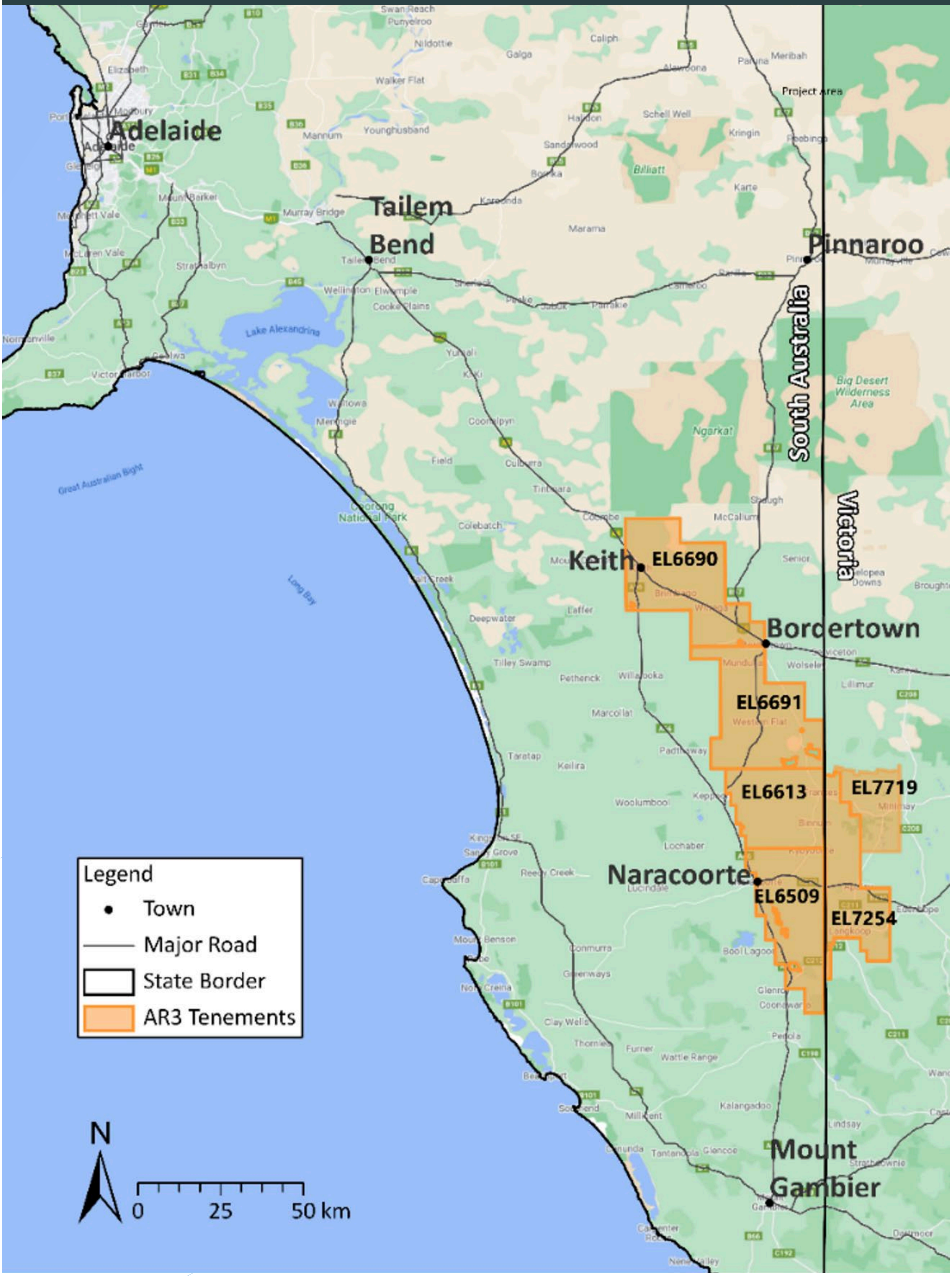
Project Overview

Koppamurra Project - South Australia and Victoria

Australian Rare Earths' flagship Koppamurra Project is a frontier ionic clay rare earth opportunity in South Australia and Victoria, Australia

The Company is the registered holder of the granted South Australian EL's 6509, 6613, 6690 & 6691 and Victorian EL007254 and is the registered applicant for EL007719. This granted tenure and tenure application in Western Victoria combine for ~4,000km^2 of prospective tenure and forms the Company's flagship Koppamurra Project ("Koppamurra' or "the Project").

AR3 tenements



Project Overview

Australian Rare Earths is a South Australian, ASX-listed Exploration Company, listed as AR3. AR3 currently holds multiple exploration licences across the Southeast of South Australia and Western Victoria. The Company is led by a highly-credentialled Board and a South Australian based management team, who are focused on delivering long-term value to its stakeholders and the local community.

AR3 is working to secure a sustainable future through an environmentally and socially responsible approach to producing critical rare earth materials for a cleaner energy future. We understand 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.

AR3 has a Head Office in Adelaide, South Australia and has established an office and warehouse in Naracoorte, to support the ongoing exploration programs and community engagement efforts. We intend to deliver long-term value to the community through job creation, sponsorship and education.

The Koppamurra Project, which is 100% owned by Australian Rare Earths (AR3) has all four key rare earth elements which are important for the production of rare earth permanent magnets. Koppamurra has a Substantial JORC Resource of 81.4Mt at 785ppm TREO (Total Rare Earth Oxide) and it is a clay hosted deposit of the same style that underpins China's massive rare earths industry. Koppamurra has immense growth potential. The Resource defined to date is < 5% of the total exploration tenure.

Indications of anomalous REE in shallow sediments in the Project area were first identified by the Company following a review of geochemical data acquired from a 2016 PhD project, that was initiated and supported through the Deep Exploration Technologies Cooperative Research Centre (CRC) to characterise the sedimentary cover of Loxton Sand across the Murray Basin.

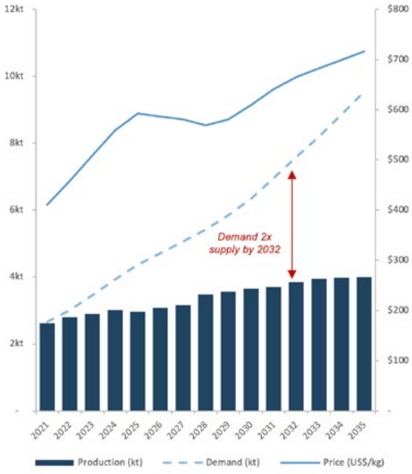
The key advantage of Koppamurra is the relatively high total proportion of rare earths used in the production of rare earth permanent magnets (REPMs) which, based on test work to date, have been shown to be relatively easy to recover. These characteristics of Koppamurra indicate that, as these four rare earths, namely praseodymium, neodymium, terbium and dysprosium, will constitute over 92% of the revenue of the Project's output, the production process, will be simpler than other projects which may separate all the rare earths contained in other rare earth minerals.

Adamas Intelligence (an expert commentator on the rare earths market which provide independent research and advice on markets for critical metals and minerals) forecasts the share of value attributed to REPM demand will continue to increase with strong demand growth for these REOs at 9.1% per annum to 2030 driven by EV traction motors and wind turbines. Adamas Intelligence also forecasts shortages of these high value REOs with persistent undersupply from 2023 and declining inventories in China.

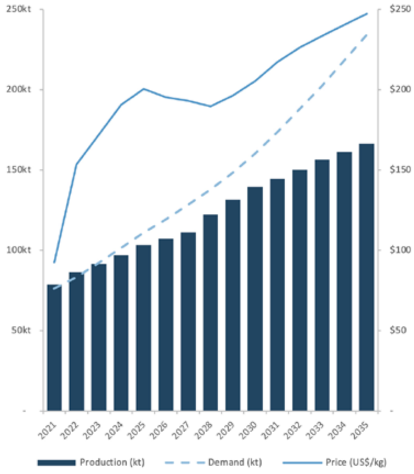
Importantly, this translates into a compelling basket price for Koppamurra ore in comparison with incumbent producers both at current and forecast prices.

The next 12 months is shaping up to be an extremely busy and exciting period for AR3, with strong potential to quickly increase resources and to progress development studies on a low capex, high margin rare earth operation. Resource expansion and development drilling is expected to be underway by Q3 2022 Stakeholder engagement and discussions with off-takers and downstream partners is progressing and a development pathway targeting first production in 2025/26 has been identified. Our aim is to become a global supplier of added-value rare earth products, working alongside government, academia, community and landowners.

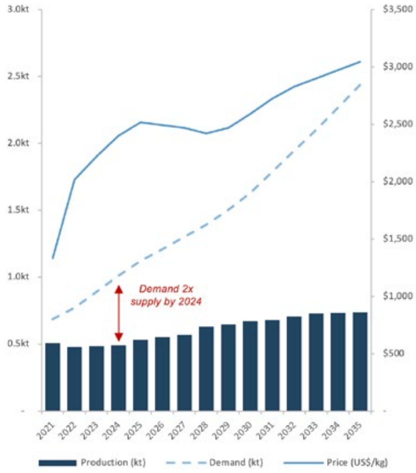
Dysprosium (Dy) demand-supply balance (LHS) vs price (RHS)



Neodymium+Praesodymium (NdPr) demand-supply balance (LHS) vs price (RHS)



Terbium (Tb) demand-supply balance (LHS) vs price (RHS)



Source: Adamas Intelligence

Project highlights

OUR FIRST YEAR

The Koppamurra deposit is located in South Australia, home to world-class mining operations and internationally recognised as a Tier-1 jurisdiction for innovation and resources development.

The Company has completed two significant drilling programs since October 2021, establishing the potential for the Koppamurra deposit as a shallow, low cost, long-life resource.

Koppamurra is a unique rare earth business opportunity. The consistent nature of the deposit also enables expedient drilling and rapid Resource extension and is conducive to undertaking progressive rehabilitation.

The updated Mineral Resource estimate, which is more than double the initial Mineral Resource posted in April 2021, is considered a key Project milestone and demonstrates that AR3 is well on the path to establishing a world-scale inventory at Koppamurra.

Adjoining Exploration Targets highlight scope for further substantial resource growth, the updated Mineral Resource Estimate is based on drilling conducted over ~200km^2 or ~5% of the ~4,000km^2 in exploration licences held by AR3 in the region. The contiguous nature of the Koppamurra deposit supports on-going drilling to unlock further exploration upside at Koppamurra

The landmark resource update and the ongoing work we are undertaking to confirm the viability of the Koppamurra Project gives us added confidence in our discussions with potential strategic downstream partners

Koppamurra is well placed to capitalise on the sizeable forecast growth in demand for sources of rare earths.

Koppamurra is endowed with Heavy Rare Earth Elements, Over 90% of the value contained in a rare earth deposit is associated with the four "magnet" rare earths elements – Neodymium (Nd) and Praseodymium (Pr), Terbium (Tb) and Dysprosium (Dy). All four are key to producing high-strength permanent magnets used in the manufacture of high efficiency synchronous motors and generators for electric vehicles, wind turbines, air conditioners and building lifts.

The two heavy rare earths, Dy and Tb, are essential in maintaining the magnetic strength and hence performance of the motors and generators operating at elevated temperatures.

Deposits which are well-endowed in heavy rare earths are highly attractive and will become even more sought after as demand strongly grows over the next decade.

Clay-hosted rare earth deposits are uncommon, the Koppamurra deposit is emerging as a high-quality, low radionuclide clay-hosted rare earth deposit, uncommonly found outside southern China and Myanmar.

The mineralisation present at Koppamurra is attractive and low risk for extraction. Koppamurra is a shallow deposit that is amenable to low impact air-core drilling, with an average drill hole depth of 10m which can be completed in a short 30 minutes from start to finish.

At Koppamurra we are actively engaging with the local community, knowing their support is key to building a successful business. Having established a Naracoorte office/warehouse which is managed by locally based personnel we are building an open and collaborative community relationship which underpins AR3's approach to engagement.

Since listing on the ASX on 11 July 2021, we have also advanced in other areas.

> We appointed an additional independent non-executive Director to strengthen our governance,

> AR3 has a compiled a strong technical, project development and governance team, which will play an important role in the responsible development of what could become a multi- generational business and a successful contributor to regional South Australia.

> We have successfully implemented health, safety, and environmental protection measures for the protection of personnel, contractors, and the environment within which AR3 operates.

Technical Director and Acting Managing Director Rick Pobjoy with Peter Keller, AR3 Geologist at the Koppamurra test pit.

GLOBALLY SIGNIFICANT RARE EARTHS PROJECT

Koppamurra has emerged as a globally significant critical rare earths project with a 104% increase in Mineral Resource.

The expanded Mineral Resource inventory, which includes more than 50% in the Indicated Resource category, paves the way for strategic discussions with critical minerals end-users.

The key attributes of the updated Koppamurra Resources include:

- Tier-1 jurisdiction location;
- a suite of rare earth elements that offers the potential to supply both the light and heavy rare earths required for high strength permanent magnets; and
- the shallow, free digging nature of the mineralisation which enables a low CAPEX development pathway that also offers the potential for a modular, staged approach.

Demand for Neodymium Iron Boron (NdFeB) high strength permanent magnets in electric vehicles (EVs) and wind turbine generators is the key demand driver for the four key rare earth elements contained in the Koppamurra Resource – Neodymium, Praseodymium, Dysprosium and Terbium.

Shortages of NdFeB are forecast as early as 2023, with the global market almost totally reliant on supply from China.

Koppamurra is ideally placed to capitalise on the strong forecast growth in demand by building a new source of critical rare earths for the burgeoning global EV and wind turbine industries.

The Koppamurra Resource increased to 81.4Mt at 785ppm TREO (total rare earth oxide) ASX: 4 July 2022 including

- an initial Indicated Resource of 45Mt at 835ppm TREO;
- a 15% increase in TREO grade versus the maiden April 2021 Inferred Resource; and
- identification of an adjoining exploration target of 90 to 220Mt, providing substantial potential for upside resource growth.

The updated Mineral Resource Estimate incorporates the results from two completed drilling programs announced to the ASX in February 2022 and April 2022, which also highlighted a ~30% increase in dry bulk density (1.40 to 1.78 t/m3), along with a potential 6km northerly and 2km southerly extension to the initial April 2021 Mineral Resource, and record grades of up to 15,500ppm TREO.

The overall program added 21,400m (2,057 holes) to the existing 4,785m (670 holes) drilled for the Maiden Inferred Resource Estimate announced in April 2021.

The evaluation also revealed the potential for regional extension with an Exploration Target of 90 to 220Mt subject to additional drilling. At present the potential quantity and grade of the Exploration Target is conceptual in nature as there has not yet been sufficient exploration undertaken to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource.

This landmark resource update and the ongoing work we are undertaking to confirm the viability of the Koppamurra Project gives us added confidence in our discussions with potential strategic downstream partners.

The Koppamurra deposit is emerging as a high quality, low radionuclide clay-hosted rare earth deposit, uncommonly found outside southern China and Myanmar.

The mineralisation present at Koppamurra is attractive and low risk for extraction. Koppamurra is a shallow deposit that is amenable to low impact air-core drilling, with an average drill hole depth of 10m and requiring a short 30 minutes from start to finish.

The updated Mineral Resource Estimate is based on drilling conducted over ~200km^2 or ~5% of the ~4,000km^2 in exploration licences held by AR3 in the region. The contiguous nature of the Koppamurra deposit supports ongoing drilling to unlock further exploration upside at AR3.

Koppamurra Mineral Resource Estimate – July 2022

			Magnet Rare Earths							
JORC	**Tonnes**	**TREO**	**Praseodymium[1]**		**Neodymium[1]**		**Terbium[1]**		**Dysprosium[1]**	
Category	Mt	ppm	ppm	% TREO	ppm	% TREO	ppm	% TREO	ppm	% TREO
Indicated	45	835	37	4.4	142	17	4	0.5	22	2.6
Inferred	36	721	32	4.4	122	17	3	0.5	19	2.6
Total	81	785	34	4.4	133	17	4	0.5	21	2.6
Exploration										
Target[2]	90-220	629-849	29-41	4.6-4.8	110-150	17-18	3-4	0.5-0.5	16-22	2.5-2.6
April 2021 Initial Resource										
Inferred	39.9	725	32	4.4	124.6	17.2	3.5	0.5	19.2	2.6

[1] For the purposes of this report the primary focus elements for the Koppamurra project are converted to their oxide form for reporting purposes, using known conversion factors, they are Pr_6O_{11}, Nd_2O_3, Tb_4O_7 & Dy_2O_3.

Mineral Resources reported at a cut-off grade of 325 ppm TREO-CeO2, consistent with the previous MRE.

[2] The potential quantity and grade of the Exploration Target is conceptual in nature. Further exploration is required to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource.

MULTI GENERATION POTENTIAL FOR RARE EARTHS PRODUCTION

Regional exploration drilling across the wider Koppamurra Project area over the past 12 months has demonstrated the prospectivity across a vast area by confirming clay hosted rare earth mineralisation at least 40km north of the existing mineral resource area, and in many locations in between.

Regional prospectivity has been established through a 298 drillhole program on EL6613 (Francis). The regional exploration results, across a wide area of EL 6613 (Francis) confirmed significant intersections averaging 660ppm to 800ppm Total Rare Earth Oxide (TREO), consistent with the July 2022 updated Mineral Resource Estimate (MRE) average grade of 785ppm.

Importantly, the average of the combined Neodymium/Praseodymium contents of the TREO is 21.5%, and the average Dysprosium content of the TREO is 2.5% in these significant intersections. This is consistent with the magnet rare earth contents of the recently updated Mineral Resource Estimate located ~40km to the south.

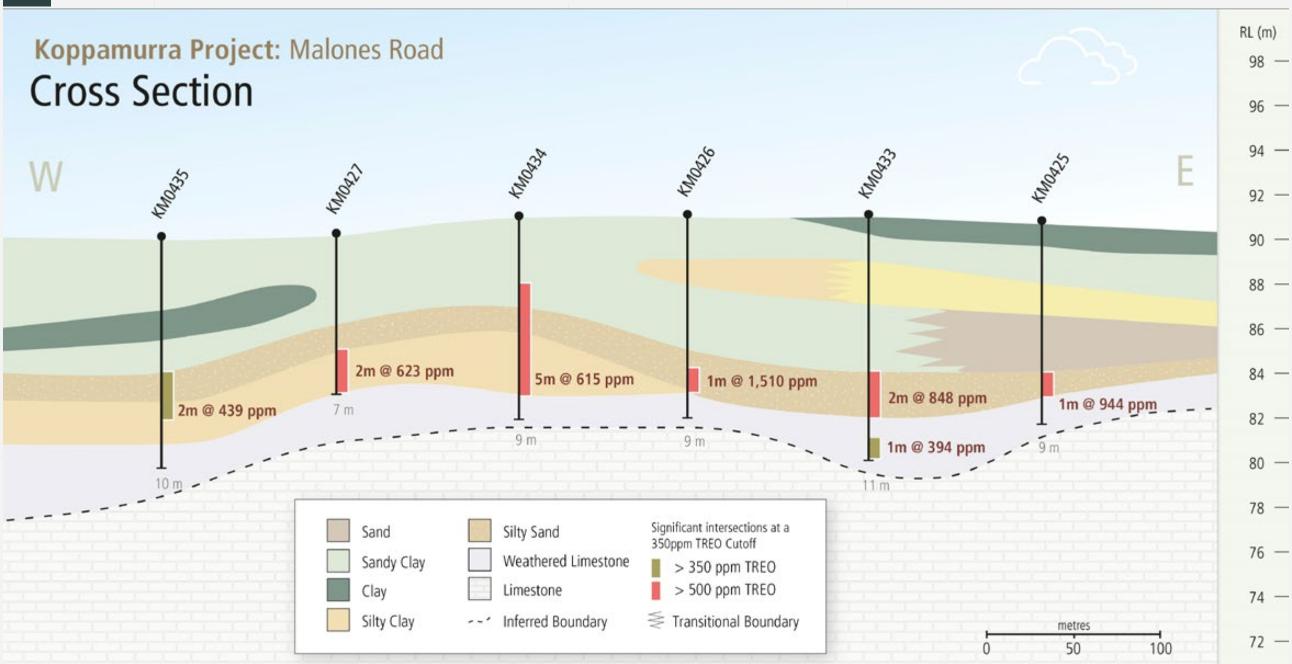
Two cross sections have been produced. These cross sections demonstrate the shallow nature of the mineralisation regionally and demonstrate that REEs are accumulating in the clayey sediments sitting atop the Gambier Limestone.

The consistent shallow nature of the deposit is beneficial to the Project in several ways. Shallow deposits allow for the type of rapid exploration drilling that the Company has successfully performed, leading to swift understanding of the deposit, and the delineation of additional JORC compliant mineral resources.

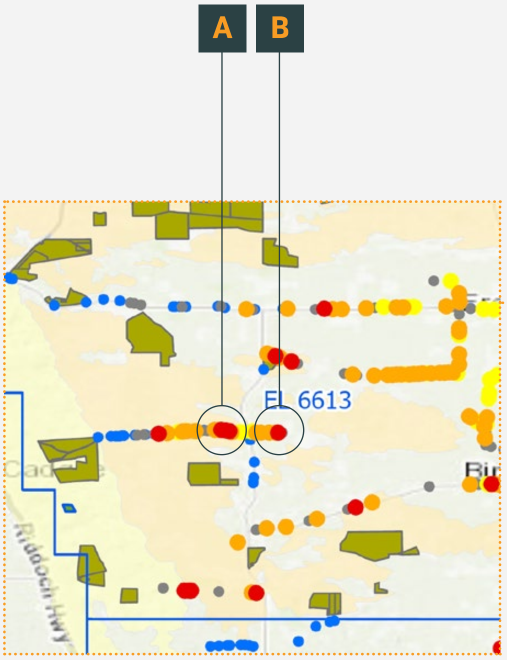
Eventually this will also allow for a shallow production profile with less ground disturbance and which is conducive to progressive remediation during mining.

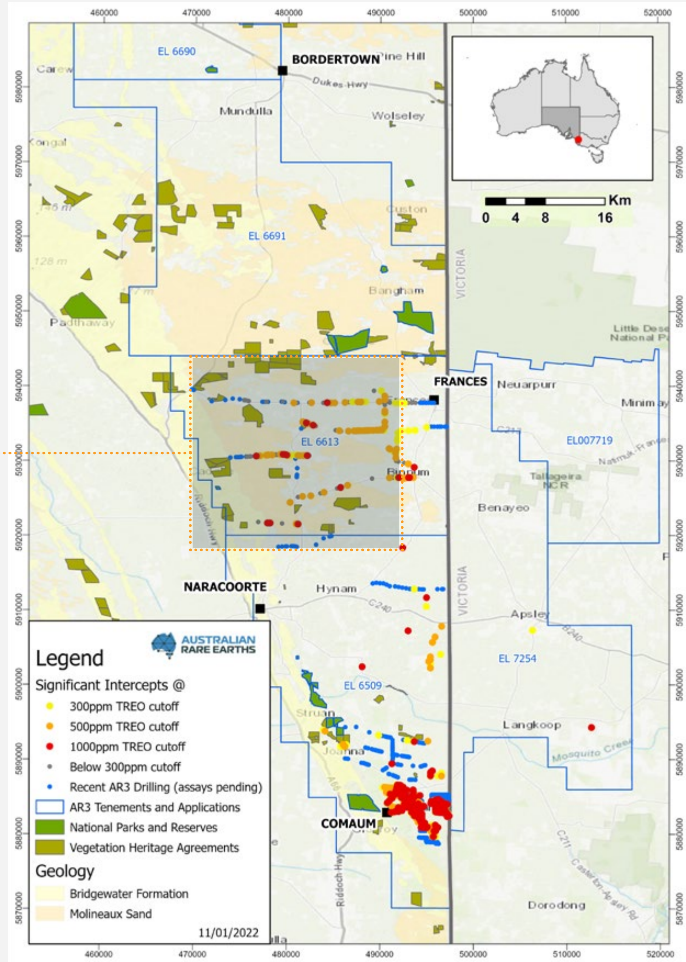
The cross sections shown for this Francis region indicate significant widths of shallow Rare Earth Element (REE) mineralisation and the potential for significant along strike extension which could be quickly and easily delineated with follow up drilling.

A



Koppamurra Regional Drilling Location Plan





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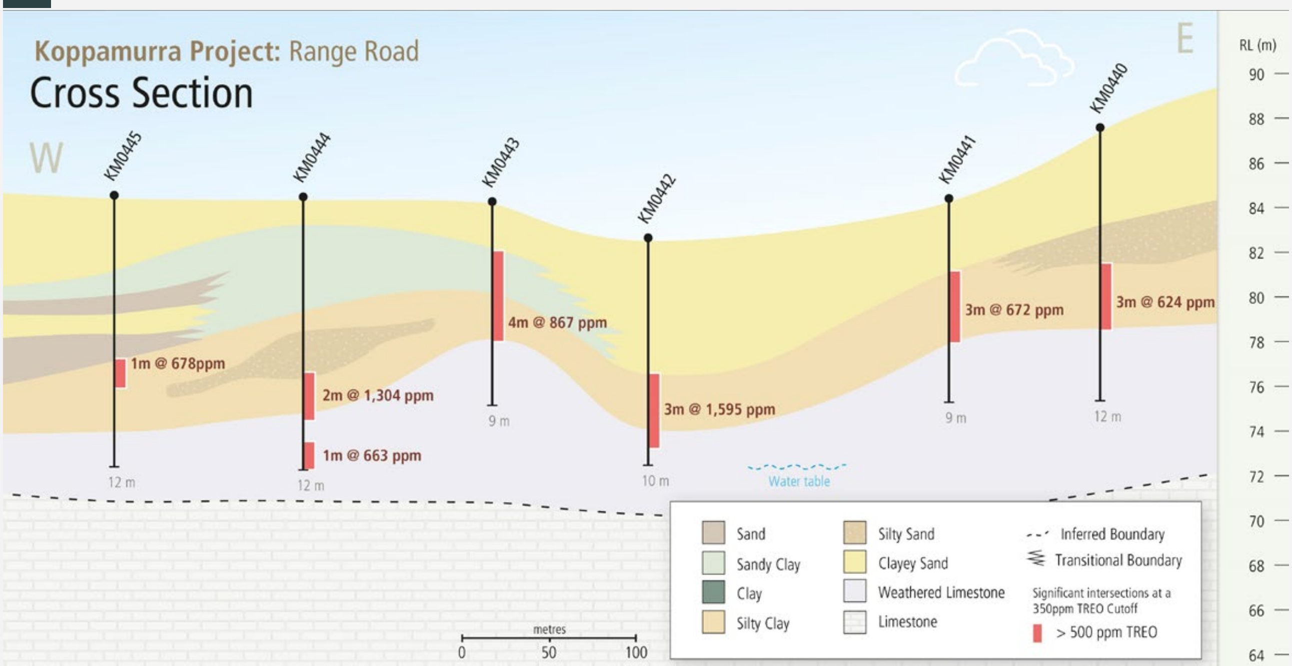


THE COMMUNITY AND AR3

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.

Having 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. Jacqui Owen, AR3's Manager of Community and Land, has said:

> "Working with the landowners across the region has been fantastic. They are supportive of a new business in the region, and they understand the long-term vision of Australian Rare Earths to contribute to and become part of the community. The recent drilling program could not have been achieved in such an uninterrupted fashion without the tremendous support of the landowners who we are working with."

AR3 plans an active role in the community in Naracoorte and the wider region, through a range of interactions including;

- supporting local businesses
- participating in significant local events such as the South East Field Days and the , Naracoorte Show
- sponsoring local community clubs and events
- providing support to local schools through our sponsorship of the Teacher Earth Science Education Programme (TESEP), a teach-the-teachers, national not-for-profit organisation which is providing STEM based teaching resources aimed at increasing awareness of critical minerals, and in this vein,
  - our warehouse, and technical staff have become a source of STEM based learning experiences for the local high school year 11 chemistry teachers and students.

AR3 is committed to working together with the community, in a professional and amicable manner, for the long-term benefit of the Project and all its stakeholders.

Building trust, respect and acceptance in the community is at the core of our values.

We understand the importance of developing long lasting relationships with landowners, to enable us to conduct our business, to access land to explore and potentially develop the underlying rare earth resources.

AR3 Manager of Community and Land, Jacqui Owen, on site at Koppamurra

Our tenements are located in a region that's home to valued environments and areas recognised for the role they play in primary production.

The rare earth elements AR3 are targeting in this region are critical to producing cleaner energy technologies, aimed at decarbonising economies and building a more sustainable future.

AR3's focus is to find ways to study and extract these minerals in a safe and responsible manner, with a focus on protecting the communities in which we operate

Engagement with our landholders forms a critical part of our activities. We are committed to respecting landholders' rights and work in a respectful and courteous manner with all landholders within our tenure areas, acknowledging their operational requirements and enterprise values.

AR3 places a high value on protecting the local environment and is working hard to ensure it can sustainably co-exist with other land users including the agricultural, viticulture and forestry sectors.

We work closely with government regulatory agencies and landholders to ensure we understand and manage risks to the environment.

All exploration activities at Koppamurra are conducted in accordance with an approved EPEPR – Exploration Program for Environment Protection and Rehabilitation, pursuant to the Mining Act 1971 and approved by the Minister for Energy and Mining. The strong regulatory framework in South Australia provides a solid foundation to underpin AR3's focus on being a sustainable explorer and developer of rare earth elements.

Top
Education day for local students at the Naracoorte office/warehouse

Left
Jacqui Owen with Rex Copping, winner of AR3's South East Field Day competition

TRIAL PIT / PROGRESSIVE REHABILITATION

Work on a small-scale mining trial commenced at Koppamurra during the year.

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 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; and

> Enabled the collection of a 500 tonne bulk sample of rare earth oxide rich clay for future metallurgical pilot plant tests.

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.

8 May 2022

Aerial view of Trial Mining

15 September 2022

Rehabilitation in progress, extensive vegetation coverage established

DEVELOPING THE METALLURGY AND MINERAL PROCESSING

Mineralogical analysis and metallurgical testing on samples from the defined resource areas of the Koppamurra Project continue to deliver positive results.

Metallurgical testing at the ANSTO facility

The Koppamurra resource is recognised as a clay hosted Rare Earth Element (REE) deposit, characterised by a combination of ionically adsorbed, acid soluble and refractory rare earth minerals. As drilling advances and further clay hosted rare earth resources are defined, representative composite samples from within the Koppamurra resource area continue to be collected and provided for metallurgical testing and for establishing their rare earth recovery characteristics.

Metallurgical testing to date using various extraction techniques and test conditions demonstrated rare earth extraction of up to 68% of the valuable rare earth oxides used in high strength magnets. (Neodymium N2O3, Praseodymium Pr_6O_{11}, Dysprosium Dy_2O_3 and Terbium Tb_4O^7). ASX 4 April 2022

Since December 2021, mineralogical analysis and metallurgical testing has been conducted in conjunction with ANSTO, the University of Toronto, SGS Lakefield, ALS Perth and ALS Brisbane, and with advisory assistance by KYSPYMet and Inception Group (now WGA). AR3 recognises the opportunity offered by downstream processing of rare earths into higher value refined products.

The Company has held several sessions with key organisations in the sector both in Australia and overseas to consider how best and the optimum timing to participate in the growing need for an independent mine to magnet rare earth supply chain to alleviate current supply concerns.

The key advantage of Koppamurra is the relatively high total proportion of rare earths used in the production of Rare Earth Permanent Magnets (REPMs) which, based on test work to date, have been shown to be relatively easy to recover. These characteristics of Koppamurra indicate that, as these four rare earths, namely praseodymium, neodymium, terbium and dysprosium, will constitute over 92% of the revenue of the Project's output, the production process, will be simpler than other projects which may separate all the rare earths contained in other rare earth minerals.

We are advancing metallurgical tests in preparation for a pilot plant. These steps are designed to demonstrate the technical and economic viability of the project as well as provide further clarity of its ultimate potential.

The work, assessing particle size separation, solid/liquid separation, impurity removal, and carbonate precipitation will contribute to finalising the flowsheet prior to starting a project scoping study.

GREENFIELD EXPLORATION – RAPID ASSESSMENT CAPABILITIES

AR3 is leveraging its working knowledge of rare earth deposits and its considerable in-house geological expertise to undertake the assessment of a number of greenfields ionic clay hosted rare earth prospects.

We aim to be a leader in ionic clay hosted rare earth deposits in Australia through continued exploration for and assessment of clay hosted rare earth prospects Australia wide.

AR3's wholly owned Massie Creek and Dalrymple Projects in far north Queensland are chemical analogues for the Chinese style clay hosted rare earth deposits, and utilising our in house expertise, their rapid assessment is currently underway.

AR3 continues to search for and identify opportunities for clay hosted rare earth projects across the length and breadth of Australia, our growing in-house capabilities in understanding these uncommon deposits, which are attractive and low risk for extraction, sets us up for success not only at Koppamurra but Australia wide.

Pegmatite outcrop, Massie Creek

OUTLOOK

Next key steps include:

- A drilling program of between 10,000 to ~20,000 metres scheduled to commence in Q3 2022, aimed at further growing the resource footprint and converting existing Resources to greater confidence levels.
- Economic studies and evaluation of downstream processing opportunities.
- Environmental studies focusing on groundwater and flora-fauna to support the application for a Mining Lease over a portion of the Koppamurra Project.
- Completion of laboratory scale metallurgical testwork in preparation for pilot plant tests.
- Achieving first production in 2025/26 to capitalise on strong forecast growth in demand for new, independent, sustainable sources of vital rare earths from the global EV and wind turbine industries.

The next 12 months is shaping up to be another active and exciting period for AR3, with strong potential to move Koppamurra from the initial discovery and mineral resource definition phase into preliminary mine planning, environmental baseline studies, continued community and landowner engagement and commencement of a Project scoping study to demonstrate the technical and economic feasibility of this uniquely clay hosted, low capex, high margin rare earth operation.

Mr Bryn Jones – Co-founder and Non-Executive Director of the Company.

Koppamurra Project – Mineral Resource Estimate

The recently updated Mineral Resource Estimate (ASX 4 July 2022) of 81.4Mt at 785ppm TREO (total rare earth oxide) incorporates the results from two completed drilling programs announced to the ASX in February 2022 and April 2022, which also highlighted a ~30% increase in dry bulk density (1.40 to 1.78 t/m3), a potential 6km northerly and 2km southerly extension to the initial April 2021 Mineral Resource, and record grades of up to 15,500ppm TREO.

The overall program added 21,400m (2,057 holes) to the existing 4,785m (670 holes) drilled for the Maiden Inferred Resource Estimate announced in April 2021.

Interpretation of geological samples and chemical assay data using relevant industry standard methods resulted in a significant increase in overall resource tonnes, resulting in a JORC Mineral Resource Estimate (MRE) for the Koppamurra clay-hosted rare earths project, located on the South Australian-Victorian border, increasing it by 104% to 81.4Mt at 785ppm TREO, and which included the delivery of the first JORC Indicated Resource for the project of 45Mt at 835ppm TREO.

The evaluation also revealed the potential for regional extension with an Exploration Target of 90 to 220Mt subject to additional drilling. Note: 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.

Estimation methodology

The JORC Resource Classification for the July 2022 Mineral Resource Estimate 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 resources was supported by all the criteria included in an assessment of geology and geological interpretation, sampling and sub-sampling techniques, drilling techniques and sample analysis method. 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 result appropriately reflects a reasonable view of the deposit categorisation.

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 mineralization 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 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 utilized in ongoing metallurgical testwork.

Koppamurra Mineral Resource Estimate – July 2022										
			Magnet Rare Earths							
JORC	Tonnes	TREO	Praseodymium[1]		Neodymium[1]		Terbium[1]		Dysprosium[1]	
Category	Mt	ppm	ppm	% TREO	ppm	% TREO	ppm	% TREO	ppm	% TREO
Indicated	45	835	37	4.4	142	17	4	0.5	22	2.6
Inferred	36	721	32	4.4	122	17	3	0.5	19	2.6
Total	81	785	34	4.4	133	17	4	0.5	21	2.6
Exploration										
Target[2]	90-220	629-849	29-41	4.6-4.8	110-150	17-18	3-4	0.5-0.5	16-22	2.5-2.6
April 2021 Initial Resource										
Inferred	39.9	725	32	4.4	124.6	17.2	3.5	0.5	19.2	2.6

[1] For the purposes of this report the primary focus elements for the Koppamurra project are converted to their oxide form for reporting purposes, using known conversion factors, they are Pr_6O_{11}, Nd_2O_3, Tb_4O_7 & Dy_2O_3.

Mineral Resources reported at a cut-off grade of 325 ppm TREO-CeO2, consistent with the previous MRE.

[2] The potential quantity and grade of the Exploration Target is conceptual in nature. Further exploration is required to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource.

JORC 2012 Compliant Prospect	Zone (Mt)	Tonnes (ppm)	TREO (ppm)	TREOCeO 2 (ppm)	LREO (ppm)	HREO (ppm)	CREO (ppm)	ThO2 (ppm)	U3O8 (ppm)
Yellow Tail	2	10.0	903	586	638	265	329	19.0	1.6
Red Tail	2	29.5	668	452	465	203	250	18.4	1.6
Red Tail	3	0.4	520	359	363	157	195	14.0	1.7
Total		**39.9**	**725**	**485**	**507**	**218**	**269**	**18.5**	**1.6**

Note: Totals may not add up due to rounding.

Competent Person 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.

Exploration Tenements

Tenement Interests

All granted tenement interests and tenement applications held at 30 June 2022 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[1]	Minimay	VIC	Application		100%
Massie Creek	EPM27952	Massie Creek	QLD	Granted	10/03/2022	100%
Dalrymple	EPM28165	Riverside	QLD	Application		100%
	EPM28166	Dalbeg	QLD	Application		100%
	EPM28167	Burdekin	QLD	Application		100%
	EPM28168	Mt Wickham	QLD	Application		100%
	EPM28169	Stones Creek	QLD	Application		100%
Woolgangie	E15 1868[2]	Gnarlbine Station	WA	Application		100%
	E15 1869[2]	Nepean South	WA	Application		100%
	E15 1870[2]	Woodline	WA	Application		100%
	E15 1871[2]	Yilma South	WA	Application		100%
	E15 1872[2]	Dingo Dam	WA	Application		100%
	E15 1873[2]	Chalice	WA	Application		100%
	E15 1874[2]	Yilma	WA	Application		100%

1 *Tenement granted subsequent to 30 June 2022.*

2 *Application withdrawn subsequent to 30 June 2022.*

Aerial view of Trial Mining 8th May 2022

Sustainability Report

Sustainability

AR3 embraces sustainability. It is a core value and is part of who we are and how we operate.

The 2022 AR3 Sustainability Report explores why sustainability matters, and the role AR3 plays in championing sustainability and driving value for not only key stakeholders including our investors, but also globally, through the creation of alternative supply chains for rare earth minerals.

As the world transitions towards to 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 efficient, the use of power we generate.

AR3 sees sustainability as a source of competitive advantage, imbedded with the increase in demand for critical mineral resources. Along with this increase comes a growing expectation from the global community that exploration, mining and production of these mineral resources is undertaken in a responsible and sustainable manner.

At AR3, our core values form the basis of our approach to responsible and sustainable resource development. 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 minimise our environmental impact and the controls we put in place to ensure strong governance and accountability across all our operations.

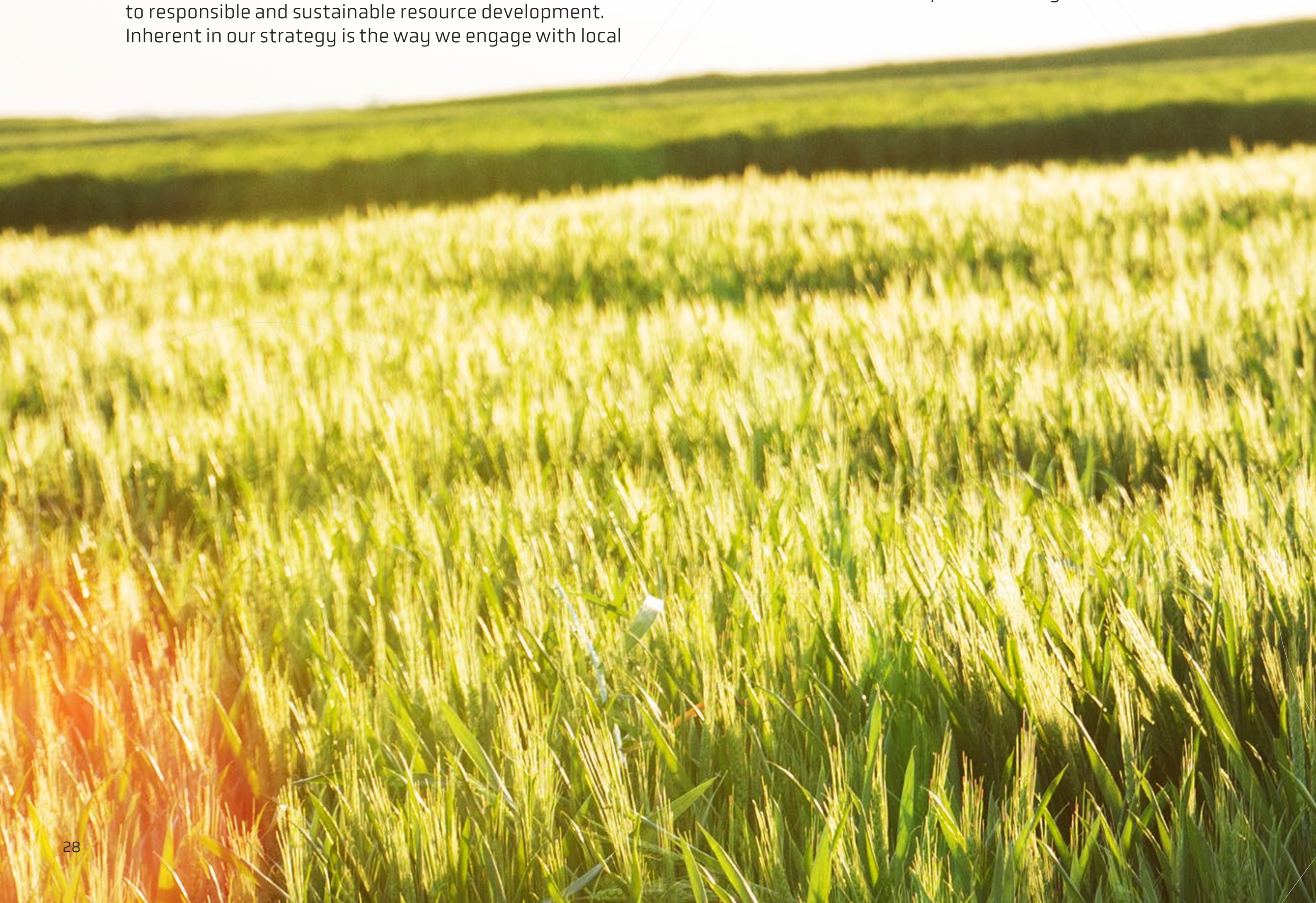
Sustainability directs the decisions we make as a Company and empowers our employees.

These values represent who we are and how we work — everyone, everywhere, every day.

Our 2022 Sustainability Report builds on the environmental, social, community and governance framework we developed in 2021 and serves to represent our non-financial progress over the past 12 months.

Importantly, the 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 over the long-term; building robust supply chains to responsibly power a cleaner tomorrow.

Further details of AR3's sustainability focus can be found in the AR3 2022 Annual Sustainability Report located at www.ar3.com.au/sustainability



Directors' Report

The 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 2022.

The Operating and Financial Review (which includes the Chairman's Letter) of this Annual Report is incorporated by reference into, and can be found on pages 4 to 23 of this Annual Report.

Directors

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

Professor Dudley Kingsnorth
Independent Non-Executive Chairman

Bryn Jones
Non-Executive Director
(Non-Independent)

Pauline Carr
Independent Non-Executive Director
Appointed 15 October 2021

Rick Pobjoy
Executive Director – Acting Managing Director
Executive 'Technical' Director (prior to 19 August 2021)

Don Hyma
Executive Director – Managing Director
Appointed 5 October 2021
Resigned as a Director on 19 August 2022

Company Secretary

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

Damien Connor

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.

Information on continuing Directors and Management

Professor Dudley Kingsnorth

(Independent Non-Executive Director)
FAICD, FAusIMM, FIMM, B.Met (Hons), M.Sc

Professor 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 and is a former non-executive Director of Boss Energy Limited (ASX: BOE).

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

Interest in Shares and Options:

2,147,001 fully paid ordinary shares and 2,100,000 unlisted options.

Special Responsibilities:

Chairman. Member, Audit & Risk Management Committee. Member, Remuneration & Nomination 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:

15,386,825 fully paid ordinary shares and 3,450,000 unlisted options

Special Responsibilities:

Member, Audit & Risk Management Committee. Member, Remuneration & Nomination 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

Acting Managing Director

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:

14,070,000 fully paid ordinary shares and 6,700,000 unlisted options

Special Responsibilities:

Nil

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

Nil

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.

Interest in Shares and Options:

10,000 fully paid ordinary shares and 600,000 unlisted options.

Special Responsibilities:

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

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

Highfield Resources Limited (ASX: HFR)

Information on continuing Directors and Management

Damien Connor

(Chief Financial Officer and Company Secretary)
CA, GAICD, AGIA, B.Com.

Damien Connor is an experienced Company Secretary and CFO, with over 20 years finance and accounting experience including 15 years in the mining and mineral exploration industry.

Mr Connor is a member of the Institute of Chartered Accountants of Australia (Chartered Accountant), an associate of the Governance Institute of Australia (Chartered Secretary) and a Graduate of the Australian Institute of Company Directors.

Mr Connor has been providing Company Secretary and CFO services to several ASX Listed and unlisted entities since 2011.

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 2022, 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	13	13	3	3	2	2
Bryn Jones	13	13	3	3	2	2
Pauline Carr [1]	9	9	2	2	2	2
Rick Pobjoy	13	13	2	2	1	1
Don Hyma [2]	9	9	2	2	1	1

[1] *Appointed on 15 October 2021.*
[2] *Appointed 5 October 2021 and resigned as a Director on 19 August 2022, following the Company's termination of his executive services agreement.*

Don Hyma and Rick Pobjoy attended Audit & Risk Management Committee and segments of the Remuneration & Nomination 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 have also had additional informal discussions on a regular basis throughout the year.

The Remuneration & Nomination Committee was established during the year ended 30 June 2022.

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 which includes those REE important for the production of rare earth permanent magnets. China currently produces 94% of permanent rare earth magnets, highlighting the urgent need for new independent supply sources.

To date the Company has already had significant exploration success through the development of a Substantial JORC Resource of 81.4Mt at 785ppm TREO (Total Rare Earth Oxide), including an initial Indicated Resource of 45Mt at 835ppm TREO the grade and composition of which is comparable with those found in southern China, currently the major source of heavy rare earths.

Drill core assays and metallurgical testing of material collected from Koppamurra confirm the presence of recoverable light and highly sought after heavy rare earth elements Dysprosium and Terbium. Minerals containing Neodymium and Praseodymium are mined from multiple global sources, however Dysprosium and Terbium are almost entirely sourced from ionic clays in China and Myanmar. Chinese reserves are depleting, with downstream producers turning to Myanmar and rest-of-world mixed rare earth hard rock suppliers. Dysprosium and Terbium are considered highly critical by the US and European governments and AR3 understands that an ionic clay deposit in Australia containing Dysprosium and Terbium could be strategically significant.

Following a successful listing on the ASX in June 2021, the Group's focus is on district scale exploration drilling at Koppamurra to prioritise areas for additional resource definition. Parallel activities will continue to develop processing methodologies for the current resources and prepare the environmental, social and community cases for potential development of these resources.

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 to grow the mineral resource base and to improve the confidence limits of the existing Mineral Resource;
- to conduct the baseline studies of the existing environment in the area of the current Mineral Resource to support the application of a Mining Lease over that area, and
- the active pursuit of other opportunities, both in Australia and overseas, with the aim of creating value for the Company's shareholders.

The main focus for the Company remains exploring and developing 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 two years will be applied to increasing the confidence of known Mineral Resource areas as well as identifying additional clay hosted rare earth mineralisation within the Koppamurra Project area through drilling, assay, and ground based geophysical surveys. This includes the definition of additional resources as well as continued 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.

Summary of financial performance

The net loss of the Group for the year ended 30 June 2022 was $5,371,085 (30 June 2021: $586,764) primarily due to share based payments expense associated with the issue of unlisted options and shares to employees of $2,960,879 (30 June 2021: $176,918) and mineral exploration expensed of $225,698 (30 June 2021: $68,554) and wages, corporate and administrative costs of $2,255,850 (30 June 2021: $345,292).

During the year ended 30 June 2022 the Group's net available cash position increased by $533,665 from $12,081,355 (1 July 2021) to $12,615,020 (30 June 2022) with no debt. During the year, the Group received inflows of $8,128,653 (before costs) from the issue of 18,474,211 fully paid ordinary shares (Shares) at $0.44 per share associated with a share placement in June 2022 and a $66,700 receipt from the ATO in respect of a research and development tax incentive for the year ended 30 June 2021. These inflows were largely offset by outflows relating to capitalised exploration & evaluation expenditure of $4,147,908, capital raise costs of $1,384,562, and operating cash outflows for payments to other suppliers and employees of $1,762,096.

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 110,680,000 (1 July 2021) to 129,498,220 (30 June 2022) during the year as a result of the following events:

> On 3 December 2021 308,261 fully paid ordinary shares were issued to the then Managing Director, Mr Hyma, following shareholder approval at the Company's Annual General Meeting held on 26 November 2021. The shares were issued pursuant to his executive services agreement.

> On 9 March 2022 the Company issued 35,748 fully paid ordinary shares, to a landowner in lieu of cash payment for access to land to undertake exploration and development related activities.

> On 8 June 2022 18,474,211 fully paid ordinary shares were issued pursuant to a share placement to institutional and professional investors, raising $8,128,653 (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 12,597,200 (1 July 2021) to 30,434,306 (30 June 2022) during the year as a result of the following events:

> On 1 December 2021, 7,600,000 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 26 November 2021. The 7,600,000 Options issued comprise as follows:

- 1,600,000 Options exercisable at $1.44 each, expiring on or before 1 December 2024, and vested immediately on the date of issue;
- 2,000,000 Options exercisable at $0.60 each, expiring on or before 29 July 2025, and vested immediately on the date of issue;
- 2,000,000 Options exercisable at $1.46 each, expiring on or before 1 December 2024, and vest on 5 October 2022. Subsequent to 30 June 2022, these Options were forfeited unexercised in accordance with the terms in which they were issued; and
- 2,000,000 Options exercisable at $1.95 each, expiring on or before 1 December 2025, and vest on 5 October 2023. Subsequent to 30 June 2022, these Options were forfeited unexercised in accordance with the terms in which they were issued.

> On 20 May 2022 a further 1,000,000 Options were issued to an employee of the Company. The Options are exercisable at $1.02 each, expire on or before 9 May 2025 and are subject to service-based vesting conditions.

> On 8 June 2022, 9,237,106 Options were issued participants of the June 2022 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 13 December 2022 and vested immediately from the date of issue.

Refer to Notes 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 exploiting 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 a 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.

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 non-compliance by a contracting party, given that 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.

COVID-19

The COVID-19 global pandemic has not yet presented any operational challenges for the Company and the Company has been able to continue its exploration activities largely unimpeded.

The Company continues to monitor the COVID-19 situation and will take appropriate measures to mitigate any potential impacts on its operations, should they arise.

During and subsequent to the reporting period, there has been no significant impact on the financial statements attributable to events or conditions associated with COVID-19, however this will continue to be monitored and mitigation measures put in place as required and as appropriate.

Significant changes to the state of affairs

Admission to the Official List of ASX

Australian Rare Earths Limited was successfully admitted to the Official List of the Australian Securities Exchange (ASX) on 29 June 2021 and official quotation of the Company's shares commenced on 1 July 2021, following the successful raising of $12,000,000 from the issue of 40,000,000 fully paid ordinary shares at $0.30 per share, pursuant to the Initial Public Offering (IPO) Prospectus dated 7 May 2021.

Executive Director changes

Pursuant to Mr Pobjoy's employment agreement with the Company, from 1 July 2021 Mr Pobjoy was the Company's interim Managing Director and remained in that role until Mr Don Hyma was appointed as the Company's Managing Director on 5 October 2021.

Following the appointment of Mr Hyma, Mr Pobjoy reassumed his role as the Company's Executive Technical Director and continued as a member of the Board.

On 19 August 2022, Mr Hyma resigned as a Director of the Company, following the Company's termination of Mr Hyma's executive services agreement. Mr Pobjoy accepted the role of Acting Managing Director, effective 19 August 2022.

Change of Registered Office and Principal Place of Business

On 31 August 2021, the Company changed its registered office and principal place of business to Level 10, 111 Gawler Place, Adelaide, South Australia, 5000.

New subsidiary company incorporated

WRDBD Developments Pty Ltd was incorporated on 7 December 2021 as a wholly owned subsidiary of Australian Rare Earths Limited.

There have been no further significant changes to the state of affairs of the Company during the year ended 30 June 2022 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.

Directors' Report

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**

B **Details of remuneration**

C **Employment Contracts of Directors and other Key Management Personnel**

D **Share based remuneration**

E **Incentive payments included in remuneration**

F **Other information**

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

The Board established a Remuneration & Nomination Committee ("the Committee") in March 2022. The Committee is comprised solely of Non-executive Directors, the majority of which 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 will oversee 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 depends 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. As an exploration company, the Company currently has a small team of employees which is supplemented with specialist technical and business consultants and field teams for operational programs and business activities on an as needed basis.

In the forthcoming year the Remuneration & Nomination Committee plans to undertake further work in a range of areas including the Company's remuneration framework and incentive plans with a view to developing a foundation for attracting, motivating and retaining a range of talent and expertise in line with its strategic plan.

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 as required by legislation which was 10.0% during the reporting period (and subsequently increased to 10.5% from 1 July 2022) 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 Managing Director by reference to the Group's performance, individual performance, comparable information from industry sectors and other listed companies of similar size in analogous industries.
- 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.

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

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 (KMP) remuneration is undertaken by the Remuneration & Nomination Committee and the consultants report their findings directly to the Committee. 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 7,600,000 unlisted options (Options), in aggregate, were issued as remuneration to the Company's key management personnel. 7,100,000 Options were issued to Directors, in aggregate, following shareholder approval on 26 November 2021, and a further 500,000 Options were issued to the Company Secretary.

During the reporting period and as at the date of this report no performance-based options have been exercised. Subsequent to 30 June 2022, 4,000,000 Options, in aggregate, that were issued to the Managing Director were forfeited unexercised in accordance with the terms on which they were issued.

Executive Directors 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.

The Company is in the process of developing short-term and long-term incentive programs which all eligible employees will be entitled to participate. The plans are expected to be in place for the year ended 30 June 2023 and will form part of the incentive program to attract and retain employees.

Voting and comments made at the Company's 2021 Annual General Meeting

The Company received 99.9% 'for' votes on its Remuneration Report for the financial year ending 30 June 2021. The Company received no specific feedback on its Remuneration Report at the 2021 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 2022	1 July 2021 (first day of official quotation on ASX)	IPO
Share price ($)	$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 $	Contract Payments $	Bonus $	Superannuation $	Shares [1,2] $	Unlisted Options [3,7] $	Total $	Performance based %
NON-EXECUTIVE DIRECTORS									
Professor Dudley Kingsnorth *Independent Chairman*	2022	60,000	–	–	6,000	–	193,846	259,846	–%
	2021	–	–	–	–	25,000	17,680	42,680	–%
Bryn Jones *Non-Independent*	2022	40,000	–	–	4,000	–	–	44,000	–%
	2021	–	–	–	–	19,000	30,783	49,783	–%
Pauline Carr *Independent Director*	2022	38,958	–	–	–	–	232,615	271,573	–%
	2021	–	–	–	–	–	–	–	–%
EXECUTIVE DIRECTOR									
Don Hyma [4,5] *Managing Director*	2022	267,143	–	194,400	17,676	300,000	744,584	1,523,803	12.8%
	2021	–	–	–	–	–	–	–	–%
Rick Pobjoy [6] *Executive Director*	2022	287,239	–	177,500	28,724	–	1,243,933	1,737,396	10.2%
	2021	–	–	–	–	19,000	47,042	66,042	–%
OTHER KEY MANAGEMENT PERSONNEL									
Damien Connor Company Secretary/CFO	2022	–	217,875	25,000	–	–	193,846	436,721	5.7%
	2021	–	40,000	–	–	15,000	3,252	58,252	–%
2022 TOTAL	**2022**	**693,340**	**217,875**	**396,900**	**56,400**	**300,000**	**2,608,825**	**4,273,399**	
2021 TOTAL	**2021**	**–**	**40,000**	**–**	**–**	**78,000**	**98,757**	**216,757**	

1 On 3 December 2021, 308,261 Shares were issued pursuant to Mr Hyma's executive services agreement with the Company. Shareholder approval for the issue was received at the Company's Annual General Meeting held on 26 November 2021.

2 On 10 February 2021, 630,000 Shares were issued, in aggregate, to Directors as payment in lieu of $63,000 of Director fees for the period to 30 June 2021. Shareholders approved the issue of Shares to Directors on 25 January 2021. On 12 March 2021, a further 150,000 Shares were issued to the Company Secretary as payment in lieu of $15,000 of fees for the period to 30 June 2021. A total of 780,000 shares were issued for a fair value of $78,000.

On 15 April 2021, shareholders approved a share split of the Company's share capital on a 3 for 1 basis (therefore the 780,000 Shares became 2,340,000 Shares. The fair value of the Shares issued remained at $78,000).

3 Expense recognised for unlisted options issued during the year ended 30 June 2022. The exercise price of unlisted options issued during the year ranged from $0.60 to $1.95, being well in excess of the Company's share price of $0.375 as at 30 June 2022. Refer Note 21 for further details relating to share-based payments expense.

4 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.

5 Short-term incentive, approved by the Board, related to KPI achievement for the year ended 30 June 2022, pursuant to Mr Hyma's employment contract.

6 Short-term incentive, approved by the Board, related to KPI achievement for the year ended 30 June 2022, pursuant to Mr Pobjoy's employment contract.

7 In accordance with Accounting Standards, remuneration includes a portion of the notional value of the options granted during the year. The notional value of options are determined as at the issue date and is progressively allocated over the vesting period. The amount included as remuneration is not indicative of the benefit (if any) that the employee may ultimately realise should the option vest and become exercisable. The notional value of the options as at the grant date has been determined in accordance with the accounting policy detailed at Note 1 and calculation details in Note 21.

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:

Don Hyma

Managing Director (from 5 October 2021 until 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 2022 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)).
SIGN-ON SHARES	Up to $300,000 worth of fully paid ordinary shares in the Company (subject to customary conditions precedent, including relocation from Perth to Adelaide and shareholder approval).
SHORT TERM INCENTIVE (STI) STI Options (1 year performance period, subject to satisfaction of KPIs related to exploration and resource development, safety and corporate activities).	Up to 100% of base salary (pro-rate from the commencement date of employment to 30 June 2022), to be paid in STI Options subject to satisfaction of KPIs for the performance period ending 30 June 2022 and shareholder approval. STI Options to have an exercise price of zero and expire 3 years from the date of issue. Following the Company's termination of Mr Hyma's executive services agreement, the Board resolved, in their absolute discretion, to pay Mr Hyma his STI achieved for the performance period to 30 June 2022, in cash.
LONG TERM INCENTIVE (LTI) LTI Incentive Options	4,000,000 Options, in aggregate, subject to shareholder approval, comprising: • 2,000,000 Options exercisable at a price that is 150% of the VWAP of the Company's Shares, for the 5 trading days immediately prior to the offer date of the Options. Each Option will vest 12 months from the employment commencement date and expire 3 years from the date of issue; and • 2,000,000 Options exercisable at a price that is 200% of the VWAP of the Company's Shares, for the 5 trading days immediately prior to the Offer Date. Each Option will vest 24 months from the employment commencement date and expire 4 years from the date of issue; Following receipt of Shareholder approval at the Company's Annual General Meeting held on 26 November 2021, Mr Hyma was issued LTI Incentive Options as follows: • 2,000,000 Options exercisable at a $1.46 each and expire on or before 1 December 2024. Each Option will vest on 5 October 2022; and • 2,000,000 Options exercisable at a $1.95 each and expire on or before 1 December 2025. Each Option will vest on 5 October 2023; As at the date of this report, all 4,000,000 Options detailed above have been 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.

LONG TERM INCENTIVE (LTI) LTI Options (respective 1 year performance periods, subject to satisfaction of KPIs related to Company performance including relative performance against the ASX Small Ordinaries Resources Index (AXSRD)).	Up to 1,000,000 unlisted options, in aggregate, subject to satisfaction of particular Service and Performance conditions for the respective performance periods as follows: • 500,000 Options will be assessed for vesting for the performance period 1 January 2022 to 31 December 2022; and • 500,000 Options will be assessed for vesting for the performance period 1 January 2023 to 31 December 2023. LTI zero exercise priced options (ZEPO Options) would have an exercise price of zero and expire 3 years from the date of issue. As at the date of this report, none of the Options detailed above will be capable of being issued or vested, following the Company's termination of Mr Hyma's executive services agreement on 19 August 2022.
TERM OF AGREEMENT	Indefinite. Mr Hyma's contract was subject to termination with or without cause by either party. On 19 August 2022, the Company terminated Mr Hyma's executive services agreement.
NOTICE PERIOD	1 month
TERMINATION BENEFITS	Subsequent to year end, on 19 August 2022, the Company terminated Mr Hyma's executive services agreement. In accordance with his executive services agreement, a termination payment was made to Mr Hyma of six month's base salary. In addition, payment was made for accrued untaken annual leave up to the date of his termination. Superannuation was paid in accordance with legislation.

Rick Pobjoy

Executive (Technical) Director to 19 August 2022 and Acting Managing Director from 19 August 2022.

The terms under which Mr Pobjoy was employed during the year ended 30 June 2022 and subsequent to that date are detailed in the table below.

UNIT OF MEASURE	Salaried employee
BASE REMUNERATION	<u>To 30 June 2022</u> $200,000 p.a base salary plus statutory superannuation, together with an additional salary component of $50,000 p.a plus statutory superannuation, until such time as the Company appoints a Managing Director or Chief Executive Officer. Mr Pobjoy performed the role of Managing Director for the period 1 July 2021 to 5 October 2021. <u>Effective from 1 July 2022</u> During the reporting period the Remuneration & Nomination Committee undertook a review of Mr Pobjoy's remuneration. Following an assessment of market relativities and Mr Pobjoy's skill set and expertise the Board determined that Mr Pobjoy's base salary be adjusted to $250,000 p.a plus statutory superannuation with effect from 1 July 2022. <u>While holding the Position of Acting Managing Director</u> Mr Pobjoy was appointed to the position of Acting Managing Director on 19 August 2022. While holding the position of Acting Managing Director Mr Pobjoy will be paid $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)).

Rick Pobjoy (continued)

OPTION REMUNERATION	<u>To 30 June 2022</u> 2,000,000 unquoted Options over securities in the Company exercisable at a price being a 100% premium to the issue price of shares in the Company to be offered pursuant to the Prospectus for an Initial Public Offering of the Company, and expiring on the fourth anniversary of the date of the Company's admission to the Official List of ASX. Following receipt of Shareholder approval at the Company's Annual General Meeting held on 26 November 2021, Mr Pobjoy was issued the following Options: • 2,000,000 Options exercisable at a $0.60 each and expire on or before 29 July 2025. Each Option vested on the date of issue (1 December 2021).
SHORT TERM INCENTIVE (STI)	<u>To 30 June 2022</u> Up to 100% of base salary, to be paid subject to satisfaction of Board agreed KPIs for the year ended 30 June 2022. Any STI achieved, to be paid to Mr Pobjoy, at the absolute discretion of the Board (excluding Mr Pobjoy) either in cash, unlisted options, or a combination of both cash and unlisted options. As at the date of this Report the Board have resolved, in their absolute discretion, to pay Mr Pobjoy his STI entitlement, achieved for the performance period to 30 June 2022, in cash. <u>Effective from 1 July 2022</u> Up to 100% of base salary (pro-rated for the period of time Mr Pobjoy holds the position of Acting Managing Director), subject to satisfaction of Board agreed KPIs for the year ended 30 June 2023. Any STI achieved, is to be paid to Mr Pobjoy, 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)	Eligible to participate in any Long Term Incentive Plan as adopted by the Board.
TERM OF AGREEMENT	Indefinite. Commencing on 19 August 2022, Mr Pobjoy's role as Acting Managing Director will be for such a time as until the Board appoints a Managing Director. 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.
TERMINATION BENEFITS	Entitled to a payment of up to 3 months of base salary.

Damien Connor

Company Secretary & Chief Financial Officer

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:

2022 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	500,000	26/11/2021	$1.44	$0.387	$193,847	1/12/2021	1/12/2024
P. Carr	600,000	26/11/2021	$1.44	$0.387	$232,616	1/12/2021	1/12/2024
D. Hyma [3]	2,000,000	26/11/2021	$1.46	$0.384	$768,294	5/10/2022	1/12/2024
	2,000,000	26/11/2021	$1.95	$0.336	$672,940	5/10/2023	1/12/2025
R. Pobjoy	2,000,000	26/11/2021	$0.60	$0.622	$1,243,934	1/12/2021	29/7/2025
D. Connor	500,000	26/11/2021	$1.44	$0.387	$193,847	1/12/2021	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 fair value of the Options at the date of grant was $3,305,478 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 $2,608,825 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 2022.

3 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.

The above 7,600,000 Options were issued following shareholder approval at the Company's Annual General Meeting held on 26 November 2021.

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 2021 are set out below:

2021 OPTIONS	NUMBER GRANTED	GRANT DATE	EXERCISE PRICE	FAIR VALUE AT GRANT DATE [1]		VESTING DATE	EXPIRY DATE
GRANTED TO				$/option	Full value($)		
D. Kingsnorth	600,000	25/01/2021	$0.30	$0.008	$4,673	15/4/2021	25/01/2025
	1,000,000	25/01/2021	$0.45	$0.013	$13,007	10/2/2021	29/06/2024
B. Jones	2,700,000	25/01/2021	$0.30	$0.008	$21,027	15/4/2021	25/01/2025
	750,000	25/01/2021	$0.45	$0.013	$9,756	10/2/2021	29/06/2024
R. Pobjoy	2,700,000	25/01/2021	$0.30	$0.008	$21,027	15/4/2021	25/01/2025
	2,000,000	25/01/2021	$0.45	$0.013	$26,015	10/2/2021	29/06/2024
D. Connor	250,000	25/01/2021	$0.45	$0.013	$3,252	12/3/2021	29/06/2024
	10,000,000				**$98,757**		

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.

SHARES

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**

Year ended 30 June 2021

During the year ended 30 June 2021 the Directors and Company Secretary were issued fully paid ordinary shares in the Company in lieu of cash fees for the period to 30 June 2021, pursuant to their respective employment and appointment agreements with the Company.

Details of fully paid ordinary shares in the Company that were issued as remuneration to each KMP during the prior year ended 30 June 2021 are set out below:

ISSUED TO	NUMBER ISSUED	ISSUE DATE	FAIR VALUE	
			$/option	Full value($)
D. Kingsnorth	750,000	10/02/2021	$0.033	$25,000
B. Jones	570,000	10/02/2021	$0.033	$19,000
R. Pobjoy	570,000	10/02/2021	$0.033	$19,000
D. Connor	450,000	12/03/2021	$0.033	$15,000
	2,340,000			**$78,000**

On 10 February 2021, 630,000 Shares were issued, in aggregate, to Directors as payment in lieu of $63,000 of Director fees for the period to 30 June 2021. Shareholders approved the issue of Shares to Directors on 25 January 2021. On 12 March 2021, a further 150,000 Shares were issued to the Company Secretary as payment in lieu of $15,000 of fees for the period to 30 June 2021. A total of 780,000 shares were issued for a fair value of $78,000.

On 15 April 2021, shareholders approved a share split of the Company's share capital on a 3 for 1. As a consequence, the 780,000 Shares became 2,340,000 Shares. Following the share split, the fair value of the Shares issued remained at $78,000.

E. Incentive Payments Included in Remuneration

Details of the short term incentive (STI) 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 AWARDED DURING THE YEAR	PERCENTAGE FORFEITED DURING THE YEAR
Don Hyma [1] *Managing Director*	$194,400 (including statutory superannuation)	72%	28%
Rick Pobjoy [2] *Executive (Technical) Director*	$177,500 (including statutory superannuation)	88.75%	11.25%
Damien Connor [3] *Company Secretary/ CFO*	$25,000	Not applicable	Not applicable

1 Mr Hyma's contract of employment provided for a short term incentive of up to 100% of his base salary (pro-rata from the date of his appointment) for the year ended 30 June 2022, determined with reference to satisfaction of performance targets relating to exploration and resource development, safety, process design and corporate activities pertaining to forward strategy.

Mr Hyma's executive services agreement with the Company was terminated on 19 August 2022. In accordance with his executive services agreement the Board assessed the attainment of the STI performance targets for the period since his commencement to 30 June 2022.

2 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 2022, determined with reference to the attainment of stretch performance targets relating to resource development, land access and agreements, exploration and safety.

3 Mr Connor was awarded a discretionary bonus by the Board in recognition of his contribution toward the Company's successful admission to the Official List of ASX.

No other key management personnel were awarded short term incentive cash payments as remuneration during the year ended 30 June 2022.

F. Other Information

Option Holdings of Key Management Personnel as at 30 June 2022

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:

2022 KEY MANAGEMENT PERSONNEL	HELD AT 1 JULY 2021	GRANTED[1]	EXERCISED	LAPSED/ CANCELED	HELD AT 30 JUNE 2022	VESTED AND EXERCISABLE AT 30 JUNE 2022
D. Kingsnorth	1,600,000	500,000	–	–	2,100,000	2,100,000
B. Jones	3,450,000	–	–	–	3,450,000	3,450,000
P. Carr [2]	–	600,000	–	–	600,000	600,000
D. Hyma [3]	–	4,000,000	–	–	4,000,000	–
R. Pobjoy	4,700,000	2,000,000	–	–	6,700,000	6,700,000
D. Connor	250,000	500,000	–	–	750,000	750,000
Total	**10,000,000**	**7,600,000**	**-**	**-**	**17,600,000**	**13,600,000**

1 7,600,000 Options were granted to KMP following shareholder approval at the Company's Annual General Meeting held on 26 November 2021. Options were issued for nil consideration on 1 December 2021 and are governed by the terms and conditions of the Company's Employee Option Plan. The 7,600,000 Options issued comprised:

- 1,600,000 Options are exercisable at $1.44 each, expiring on 1 December 2024, and vest on the date of issue.
- 2,000,000 Options are exercisable at $1.46 each, expire on or before 1 December 2024 and vest on 5 October 2022.
- 2,000,000 Options are exercisable at $1.95 each, expire on or before 1 December 2025 and vest on 5 October 2023
- 2,000,000 Options are exercisable at $0.60 each, expire on or before 29 July 2025 and vest on the date of issue.

2 Ms Carr was appointed on 15 October 2021.

3 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.

Share Holdings of Key Management Personnel as at 30 June 2022

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:

2022 KEY MANAGEMENT PERSONNEL	HELD AT 1 JULY 2021	GRANTED AS COMPENSATION	ON MARKET PURCHASE/ (SALE)	OTHER MOVEMENT DURING THE YEAR	HELD AT 30 JUNE 2022
D. Kingsnorth	2,092,668	–	75,000	(20,667) [1]	2,147,001
B. Jones	15,270,000	–	116,825	–	15,386,825
P. Carr	–	–	10,000	–	10,000
D. Hyma [2,3]	–	308,261	–	–	308,261
R. Pobjoy	14,070,000	–	–	–	14,070,000
D. Connor	466,667	–	–	–	466,667
Total	**31,899,335**	**308,261**	**201,825**	**(20,667)**	**32,388,754**

1 Relates to a holding which Professor Kingsnorth does not have a relevant interest in, being a non-dependent related party of Professor Kingsnorth.

2 On 3 December 2021, 308,261 Shares issued pursuant to Mr Hyma's executive services agreement with the Company. Shareholder approval for the issue was received at the Company's Annual General Meeting held on 26 November 2021.

3 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.

Transactions with Key Management Personnel

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

Amounts paid to Director related entities:

RELATED PARTY	RELATIONSHIP TO KEY MANAGEMENT PERSONNEL/ DIRECTOR	SERVICES PROVIDED	2022 $	2021 $
Inception Group [1]	A business of which Mr Jones had a greater than 20% interest	Serviced corporate office lease and geological consulting fees	$51,610	$122,979

1 Mr Jones disposed his holding in Inception Group Pty Ltd in November 2021 and from that date no longer held a beneficial interest in Inception Group or Wallbridge Gilbert Aztec (WGA), which acquired Inception Group during the year. The value of services provided to the Company during the period 1 July 2022 – 30 November 2022 was $51,610.

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	8/6/2022	8/6/2022	9,237,106	$0.57	13/12/2023
EMPLOYEE	8/7/2022	8/7/2022	500,000	$0.5743	4/7/2025
			26,934,306		

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

> On 8 July 2022, 500,000 Options were granted to an employee of the Company. The Options were issued for nil consideration and are exercisable at $0.5743 each on or before 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 (provided that the recipient is an employee of the Company at the respective vesting dates) and are governed by the terms and conditions of the Company's Employee Option Plan. The fair value of the Options at the date of grant was $66,467.

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

The Directors are not aware of any other matter or circumstance that has arisen since 30 June 2022 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 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 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 53 and forms part of the Director's Report for the financial period ended 30 June 2022.

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

Professor Dudley J. Kingsnorth
Independent Non-Executive Chairman

Dated this 29th day of September 2022

GrantThornton

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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 2022, 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 2022

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Financial Report

For the year ended 30 June 2022


28,355
27,554

Statement of Profit or Loss and Other Comprehensive Income

(For the year ended 30 June)

	NOTES	2022 $	2021 $
REVENUE			
Revenue from ordinary activities		–	–
Other income	3	71,342	4,000
EXPENSES			
Employee benefits expense		(1,290,179)	–
Share based payments expense	21	(2,960,879)	(176,918)
Corporate consulting expenses		(396,692)	(79,177)
Exploration expenditure expensed		(225,698)	(68,554)
Amortisation – leases	17	(36,063)	–
Depreciation		(7,685)	–
Other expenses	4	(525,231)	(266,115)
LOSS BEFORE INCOME TAX EXPENSE		**(5,371,085)**	**(586,764)**
Income tax benefit		–	–
LOSS FOR THE YEAR		**(5,371,085)**	**(586,764)**
LOSS ATTRIBUTED TO MEMBERS OF THE PARENT ENTITY		**(5,371,085)**	**(586,764)**
Other comprehensive income		–	–
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		**(5,371,085)**	**(586,764)**
LOSS PER SHARE		Cents	Cents
Basic loss per share	19	(4.80)	(2.37)

The accompanying notes form part of the financial statements.

Statement of Financial Position

(As at 30 June)

	NOTES	2022 $	2021 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	12,615,020	12,081,355
Trade and other receivables	10	279,162	88,099
Other assets		53,364	30,373
Total current assets		12,947,546	12,199,827
NON-CURRENT ASSETS			
Restricted cash – term deposit for exploration bond	9	100,000	10,000
Property, plant and equipment	13	221,186	478
Right of use asset – office lease, warehouse & carpark	17	56,433	–
Exploration and evaluation expenditure	12	5,155,043	940,265
TOTAL ASSETS		**18,480,208**	**13,150,570**
CURRENT LIABILITIES			
Trade and other payables	15	1,158,458	1,177,644
Lease liability	17	44,145	–
Employee benefits	16	38,062	–
Total current liabilities		1,240,665	1,177,644
NON-CURRENT LIABILITIES			
Lease liability	17	18,082	–
Total non-current liabilities		18,082	–
TOTAL LIABILITIES		1,258,747	1,177,644
NET ASSETS		**17,221,461**	**11,972,926**
EQUITY			
Issued capital	18	20,163,426	12,204,685
Share based payment reserve	21	3,021,541	360,662
Retained losses		(5,963,506)	(592,421)
TOTAL EQUITY		**17,221,461**	**11,972,926**

The accompanying notes form part of the financial statements.

Statement of Changes in Equity

(For the year ended 30 June)

	ISSUED CAPITAL $	RETAINED LOSSES $	SHARE BASED PAYMENT RESERVE $	TOTAL $
BALANCE AT 1 JULY 2020	4	(5,657)	–	(5,653)
Shares issued – seed funding	1,378,000	–	–	1,378,000
Shares issued – IPO	12,000,000	–	–	12,000,000
Shares issued – in lieu of fees to Key Management Personnel	78,000	–	–	78,000
Transaction costs – seed funding	(78,000)	–	–	(78,000)
Transaction costs – IPO	(1,173,319)	–	–	(1,173,319)
Fair value of options vested during the year	–	–	360,662	360,662
Transactions with owners	12,204,681	–	360,662	12,565,343
Total comprehensive loss for the year	–	(586,764)	–	(586,764)
BALANCE AT 30 JUNE 2021	**12,204,685**	**(592,421)**	**360,662**	**11,972,926**

	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**

The accompanying notes form part of the financial statements.

Statement of Cash Flows

(For the year ended 30 June)

	NOTES	2022 $	2021 $
CASH FLOW FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,762,096)	(214,903)
Interest received		4,528	–
Research and development tax concession		66,700	–
NET CASH USED IN OPERATING ACTIVITIES	22	**(1,690,868)**	**(214,903)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration expenditure	12	(4,147,908)	(883,162)
Payments for property, plant and equipment	13	(251,381)	(478)
Restricted cash – term deposit for exploration bond	9	(90,000)	(10,000)
NET CASH USED IN INVESTING ACTIVITIES		**(4,489,289)**	**(893,640)**
PROCEEDS FROM ISSUE OF SHARES		8,128,653	13,300,000
Share issue costs		(1,384,562)	(119,475)
Repayment of lease liability		(30,269)	–
Proceeds from loans received from related parties		–	4,000
NET CASH PROVIDED BY FINANCING ACTIVITIES		**6,713,822**	**13,184,525**
Net increase in available cash held		533,665	12,075,982
Available cash at beginning of year		12,081,355	5,373
AVAILABLE CASH AT THE END OF THE YEAR	8	**12,615,020**	**12,081,355**

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.

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.

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.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

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, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options and rights is reflected as additional share dilution in the computation of earnings per share.

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

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

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

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 Judgments

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 2022 (30 June 2021: 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.

(iii) Research and development (R&D) tax concession

The Company is entitled to claim R&D tax incentives in Australia. The R&D tax incentive is calculated using the estimated expenditures multiplied by a 43.5% non-refundable tax offset. It has been established that the conditions of the R&D incentive have been met and that the expected amount of the incentive can be reliably measured. Estimated amounts receivable are recognised as research and development tax concession income.

The financial report was authorised for issue on 29th September 2022 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 2022 $	30 JUNE 2021 $
Interest received	4,642	–
Research and development tax concession	66,700	–
Other – Loans from related parties forgiven	–	4,000
Total other income	**71,342**	**4,000**

NOTE 4 – OTHER EXPENSES

	30 JUNE 2022 $	30 JUNE 2021 $
Compliance	161,653	121,011
Legal, insurance and registry	158,074	118,812
Office and website expenses	111,519	15,031
Other expenses	93,985	11,261
Total other expenses	**525,231**	**266,115**

NOTE 5 – INCOME TAX BENEFIT / (LOSS)

	30 JUNE 2022 $	30 JUNE 2021 $
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:		
Net loss from continuing operations	(5,371,085)	(586,764)
Income tax rate	25%	26%
Prima facie tax benefit on loss from activities before income tax	(1,342,771)	(152,559)
Non-deductible expenses	667,719	46,141
Tax effect of temporary differences not brought to account as they do not meet the recognition criteria	675,052	106,418
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 25% (2021: 26%)	760,736	108,225
d) Timing difference for which no deferred tax asset has been recognised	–	–

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:

Professor Dudley Kingsnorth – Independent Non-Executive Chairman

Bryn Jones – Non-Executive Director

Pauline Carr – Independent Non-Executive Director | *Appointed 15 October 2021*

Rick Pobjoy – Acting Managing Director | *Executive 'Technical' Director prior to 19 August 2022*

Don Hyma – Former Managing Director | *Appointed 5 October 2021. Resigned as a Director on 19 August 2022*

Damien Connor – CFO & Company Secretary

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 2022 $	30 JUNE 2021 $
Short term benefits	1,308,115	40,000
Post employment benefit	56,400	–
Share based payments	2,908,824	176,757
	4,273,339	216,757

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 2022 $	30 JUNE 2021 $
Audit Services		
Audit and review of Financial Reports	51,500	32,000
Other Services		
Tax compliance and advisory services	4,600	3,100
Financial Due Diligence – associated with IPO	–	20,000
	56,100	55,100

NOTE 8– CASH AND CASH EQUIVALENTS

	30 JUNE 2022 $	30 JUNE 2021 $
Available cash at bank and on hand	12,595,020	12,081,355
Short term Bank deposits	20,000	–
	12,615,020	12,081,355

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– RESTRICTED CASH

	30 JUNE 2022 $	30 JUNE 2021 $
Bank guarantees in relation to rehabilitation obligations	100,000	10,000
	100,000	10,000

Bank guarantees relate 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 one Victorian tenement ($10,000).

NOTE 10 – TRADE AND OTHER RECEIVABLES

	30 JUNE 2022 $	30 JUNE 2021 $
GST receivable	216,596	88,099
Other receivables	62,566	–
	279,162	88,099

NOTE 11– INVESTMENT IN CONTROLLED ENTITIES

		PERCENTAGE OWNED	
	COUNTRY OF INCORPORATION	30 JUNE 2022 %	30 JUNE 2021 %
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 [1]	Australia	100	–

1 WRDBD Developments Pty Ltd was incorporated on 7 December 2021.

NOTE 12 – EXPLORATION AND EVALUATION EXPENDITURE

	30 JUNE 2022 $	30 JUNE 2021 $
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation at cost	5,155,043	940,265
Movements in carrying amounts:		
Balance at the beginning of the year	940,265	–
Amounts capitalised during the year	4,214,778	940,265
Balance at the end of the year	**5,155,043**	**940,265**

During the year ended 30 June 2022, $22,987 of equipment depreciation was included in the amount capitalised as exploration and evaluation expenditure (30 June 2021: nil).

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT

	30 JUNE 2022 $	30 JUNE 2021 $
Plant and Equipment at cost	251,858	478
Accumulated depreciation	(30,672)	–
	221,186	**478**
Movements in carrying amounts:		
Balance at the beginning of the period	478	–
Additions	251,381	478
Depreciation	(30,673)	–
Balance at the end of the period	**221,186**	**478**

NOTE 14 – TENEMENT INTERESTS

All tenement interests are 100% owned by the Company. Tenement interests held by the Company as at 30 June 2022 are as follows:

EXPLORATION LICENCES

TENEMENT	GRANT DATE	LOCATION	COMMODITY	PROJECT	JURISDICTION	2022 CARRYING VALUE $	2021 CARRYING VALUE $
EL6509	15 Sept 2020	Naracoorte	Rare earths	Koppamurra	SA	3,936,344	932,302
EL6613	7 Jul 2021	Frances	Rare earths	Koppamurra	SA	544,160	–
EL6690	3 Nov 2021	Keith	Rare earths	Koppamurra	SA	23,784	–
EL6691	3 Nov 2021	Bordertown	Rare earths	Koppamurra	SA	33,413	–
EL007254	29 Apr 2021	Apsley	Rare earths	Koppamurra	VIC	564,137	7,963
EPM27952	10 Mar 2022	Massie Creek	Rare earths	Massie Creek	QLD	53,205	–
						5,155,043	**940,265**

EXPLORATION LICENCE APPLICATIONS

APPLICATION NO.	APPLICATION DATE	LOCATION	COMMODITY	PROJECT	JURISDICTION
EL007719 [1]	10 Aug 2021	Minimay	Rare earths	Koppamurra	Victoria
EPM28165	3 Dec 2021	Riverside	Rare earths	Dalrymple	Queensland
EPM28166	3 Dec 2021	Dalbeg	Rare earths	Dalrymple	Queensland
EPM28167	3 Dec 2021	Burdekin Dam	Rare earths	Dalrymple	Queensland
EPM28168	3 Dec 2021	Mt Wickham	Rare earths	Dalrymple	Queensland
EPM28169	3 Dec 2021	Stones Creek	Rare earths	Dalrymple	Queensland

1 Exploration licence was granted subsequent to year end.

NOTE 15 – TRADE AND OTHER PAYABLES

	30 JUNE 2022 $	30 JUNE 2021 $
Trade payables	623,004	988,798
Accrued bonus payments	416,100	–
Other creditors and accruals	119,354	188,846
	1,158,458	1,177,644

NOTE 16 – EMPLOYEE BENEFITS

	30 JUNE 2022 $	30 JUNE 2021 $
Current		
Employee leave entitlements	38,062	–
	38,062	–

NOTE 17 – RIGHT OF USE ASSETS AND LEASE LIABILITIES

	30 JUNE 2022 $	30 JUNE 2021 $
Right of use assets		
Right of use assets – office, warehouse and carpark	92,496	–
Accumulated depreciation	(36,063)	–
	56,433	**–**
Lease Liabilities		
Current	44,145	–
Non-current	18,082	–
	62,227	**–**

During the period the Group entered into lease contracts for commercial office/warehouse space and accommodation in Naracoorte in South Australia, and a car park lease in Adelaide. The Naracoorte office/warehouse lease has a term of two years, with an option to extend for a further three years. The car park lease in Adelaide has a three year term.

NOTE 18 – ISSUED CAPITAL

	30 JUNE 2022 $	30 JUNE 2021 $
129,498,220 (2021: 110,680,000) fully paid ordinary shares	20,163,426	12,204,685

a) Shares on issue: 30 JUNE 2022	NUMBER OF SHARES	$
Issued and paid up capital		
Fully paid ordinary shares	129,498,220	20,163,426
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 (Former 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.

Shares on issue: 30 JUNE 2021	NUMBER OF SHARES	$
Issued and paid up capital		
Fully paid ordinary shares	110,680,000	12,204,685
Movements in fully paid shares		
Balance as at 1 July 2020	4	4
Shares issued - seed investors (19 November 2020)	13,000,000	1,300,000
Shares issued – share subdivision (28 October 2020) [1]	8,999,996	–
Shares issued - fee relating to seed funding (19 November 2020) [2]	780,000	78,000
Shares issued – Directors in lieu of fees (10 February 2021) [3]	630,000	63,000
Shares issued – Company Secretary in lieu of fees (12 March 2021)	150,000	15,000
Shares issued - Share subdivision (15 April 2021) [4]	47,120,000	–
Shares issued – allotment of IPO shares (11 June 2021) [5]	40,000,000	12,000,000
Shares issue costs – IPO	–	(1,173,319)
Shares issue costs – seed funding	–	(78,000)
Balance as at 30 June 2021	110,680,000	12,204,685

1 Shares were split on the basis of 1 for 2,250,000.

2 Shares issued in settlement of brokerage fees payable on seed capital raised and have been valued at the same price per share as the seed capital.

3 Shareholder approval was received on 25 January 2021 for the issue of shares to Directors in lieu of fees.

4 On 15 April 2021, shareholders approved the share split of the Company's fully paid ordinary shares on a 3 for 1 basis. Following the subdivision of shares, the Company had 70,680,000 fully paid ordinary shares on issue (from 23,560,000 fully paid ordinary shares on issue).

5 On 11 June 2021 40 million shares were issued following receipt of $12 million pursuant to the IPO Prospectus dated 7 May 2021. The Company was admitted to the Official List of ASX on 29 June 2021 and quotation commenced on 1 July 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 2022	30 JUNE 2021
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
DIRECTORS & CO. SECRETARY	01/12/2021	26/11/2021	1,600,000	$1.44	01/12/2024	1,600,000	–
DIRECTOR [1]	01/12/2021	26/11/2021	2,000,000	$1.46	01/12/2024	2,000,000	–
DIRECTOR [1]	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	–
EMPLOYEE	20/05/2022	09/05/2022	1,000,000	$1.02	09/05/2025	1,000,000	–
PLACEMENT	08/06/2022	08/06/2022	9,237,106	$0.57	13/12/2023	9,237,106	–
			30,434,306			**30,434,306**	**12,597,200**

1 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, were forfeited unexercised, subsequent to 30 June 2022, in accordance with the terms on which they were issued.

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

Options granted during the year

Director and Company Secretary Options

On 1 December 2021, 7,600,000 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 2021.

Employee Options

On 9 May 2022, 1,000,000 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 9 May 2022, 1/3rd on 9 May 2023 and 1/3rd on 9 May 2024.

Placement Options

On 6 June 2022, 9,237,106 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

No Options were exercised, lapsed, forfeited or cancelled during the year.

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 2022 $	30 JUNE 2021 $
Reconciliation of earnings to Statement of Profit or Loss and other Comprehensive Income		
Loss for year used to calculate basic EPS	(5,371,085)	(586,764)
	NUMBER	**NUMBER**
a) Weighted average number of shares outstanding during the year used in calculation of basic EPS	111,981,092	24,796,933
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 2022 $	30 JUNE 2021 $
Share based payment reserve	3,021,541	360,662
Movement associated with Options during the year:		
Opening Balance	360,662	–
Share based payment expense	2,660,879	360,662
Forfeited/Lapsed	–	–
Closing Balance	3,021,541	360,662

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

The Company did not issue any performance rights during the year ended 30 June 2022 (30 June 2021: None).

An amount of $2,660,879 was expensed to the statement of profit or loss and other comprehensive income for the year ended 30 June 2022 in respect of unlisted options issued to Directors, Company Secretary, other employees and third party service providers (30 June 2021: $98,918 expensed and $261,744 recorded as cost of capital).

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 2022

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

	NUMBER OF SHARES	30 JUNE 2022 $	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Opening Balance – 1 July 2021	12,597,200	360,662	$0.38
Granted as remuneration	8,600,000	2,660,879	$1.32
Exercised	–	–	–
Forfeited/Lapsed	–	–	–
Closing Balance as at 30 June 2022	**21,197,200**	**3,021,541**	**$0.76**

Weighted average remaining contractual life of Options at 30 June 2022 is 2.42 years (30 June 2021: 3.19 years)

Options granted during the year

Director and Company Secretary Options

On 1 December 2021, the Company issued 7,600,000 unlisted options (Options), in aggregate, to Directors and the Company Secretary, following shareholder approval of the Director Options at the Company's Annual General Meeting held on 26 November 2021. 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

> 600,000 Options issued to Ms Carr, exercisable at $1.44 each and expiring on 1 December 2024, and vest on the date of issue.

> 500,000 Options issued to Professor Kingsnorth, exercisable at $1.44 each and expiring on 1 December 2024, and vest on the date of issue.

> 2,000,000 Options issued to Mr Hyma, exercisable at $1.46 each and expiring on 1 December 2024, with a vesting date of 5 October 2022. Subsequent to year end these Options were forfeited unexercised, in accordance with the terms on which they were issued.

> 2,000,000 Options issued to Mr Hyma, exercisable at $1.95 each and expiring on 1 December 2025, with a vesting date of 5 October 2023. Subsequent to year end these Options were forfeited unexercised, in accordance with the terms on which they were issued.

> 2,000,000 Options issued to Mr Pobjoy, exercisable at $0.60 each and expiring on 29 July 2025, and vest on the date of issue.

Company Secretary

> 500,000 Options issued to Mr Connor, exercisable at $1.44 each and expiring on 1 December 2024, and vest on the date of issue.

The total fair value at the grant date for the 7,600,000 Options issued was $3,305,478 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 October 2023. An amount of $2,608,825 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.

Employee Options

On 9 May 2022, 1,000,000 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 $1.02 each and expire on 9 May 2025. The Options vest 1/3rd on 9 May 2022, 1/3rd on 9 May 2023 and 1/3rd on 9 May 2024.

The total fair value at the grant date for the 1,000,000 Options issued was $128,676 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 9 May 2024 as detailed above. An amount of $52,054 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.

NOTE 21– SHARE BASED PAYMENTS CONTINUED

Details of the Options granted as remuneration during the year ended 30 June 2022 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
DIRECTORS & CO. SECRETARY	26/11/2021	1/12/2021	1,600,000	$1.44	1/12/2021	–	–	1/12/2024
DIRECTOR	26/11/2021	1/12/2021	2,000,000	$1.46	5/10/2022	–	–	1/12/2024
DIRECTOR	26/11/2021	1/12/2021	2,000,000	$1.95	5/10/2023	–	–	1/12/2025
DIRECTOR	26/11/2021	1/12/2021	2,000,000	$0.60	1/12/2021	–	–	29/7/2025
EMPLOYEE	9/5/2022	20/5/2022	1,000,000	$1.02	9/5/2022	9/5/2023	9/5/2024	9/5/2025
			8,600,000					

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 & CO. SECRETARY OPTIONS	DIRECTOR OPTIONS	DIRECTOR OPTIONS	DIRECTOR OPTIONS	EMPLOYEE OPTIONS
Exercise price ($)	1.44	1.46	1.95	0.60	1.02
Share price at date of grant ($)	1.00	1.00	1.00	1.00	0.515
Historic volatility (%)	73.5	73.5	66.5	68.2	62.8
Risk free interest rate (%)	0.93	0.93	0.93	0.93	3.04
Expected life of Options (days)	1,101	1,101	1,466	1,341	1096

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.

Subsequent to 30 June 2022, a further 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 $0.5743 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. The total fair value at the grant date for the 500,000 Options issued was $66,467 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 4 July 2024 as detailed above.

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 2022 or as at the date of this report.

Options lapsed/forfeited during the year

No Options issued as remuneration or as payment for services provided to the Company, have lapsed or been forfeited during the year ended 30 June 2022.

Subsequent to 30 June 2022, the 4,000,000 Options, in aggregate, issued to Mr Hyma during the year, were forfeited unexercised, in accordance with the terms on which they were issued.

NOTE 21 – SHARE BASED PAYMENTS CONTINUED

SHARES

30 JUNE 2022

Shares issued during the year

Managing Director remuneration

On 3 December 2021, Mr Hyma, the Company's then Managing Director 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.

Land access agreement – payment for services

On 9 March 2022, the Company issued 35,748 Shares pursuant to an agreement between the Company and a landowner relating to the provision of land access for the purposes of undertaking exploration and development related activities. The fair value of the Shares issued was $30,000. An amount of $30,000 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.

NOTE 22 – CASH FLOW INFORMATION

RECONCILIATION OF CASH FLOWS FROM OPERATIONS WITH LOSS AFTER INCOME TAX	30 JUNE 2022 $	30 JUNE 2021 $
Loss after income tax	(5,371,085)	(586,764)
Depreciation (net of capitalised depreciation)	7,685	–
Amortisation – leased assets	36,063	–
Exploration expenditure expensed	225,698	68,554
Share based payments expense	2,960,879	176,918
Loan from related parties forgiven	–	(4,000)
Changes in assets and liabilities:		
– Increase in trade and other receivables	(151,601)	(117,621)
– Increase in trade and other payables	147,331	248,010
– Increase in employee entitlements	454,162	–
Net cash used in operating activities	**(1,690,868)**	**(214,903)**

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 2022 $	30 JUNE 2021 $
Exploration expenditure commitments		
Expenditure Commitment	1,280,795	533,295

Other than the commitments disclosed above, the Group does not have any further commitments at 30 June 2022 (30 June 2021: Nil).

b) Contingent Assets/Liabilities

Contingent assets

The Group did not have any contingent assets as at 30 June 2022 (30 June 2021: 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 Rick 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 totalling $100,000, in respect of rehabilitation bonds required as part of the licence conditions associated with the granting of two South Australian tenements ($90,000) and one Victorian tenement ($10,000). The bank guarantees are cash backed by short-term deposits of the same value (refer Note 9).

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

Other than transactions with related parties detailed in Note 6, there were no other related party transactions entered into during the year ended 30 June 2022.

During the prior period ended 30 June 2021, Directors of the Company, Mr Jones and Mr Pobjoy, each loaned $2,000 to the Company (Debt) to fund its operations ($4,000 in aggregate). Mr Jones and Mr Pobjoy (Lenders) each determined to release the Company from their respective Debt owing to them by the Company as at 31 December 2020, in accordance with the terms of a Deed of Release between each of the Directors and the Company.

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.

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 2022, 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:

	2022 $	2021 $
Change in loss		
– Increase in interest rates by 2%	2,400	200
– Decrease in interest rates by 2%	(2,400)	(200)
Change in equity		
– Increase in interest rates by 2%	2,400	200
– Decrease in interest rates by 2%	(2,400)	(200)

d) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalent and non-interest 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.

NOTE 25 – FINANCIAL INSTRUMENTS CONTINUED

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	–

CONSOLIDATED - 2021	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		1,177,644	–	–	–
Interest-bearing - variable					
Lease liability		–	–	–	–
Total		1,177,644	–	–	–

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

> On 8 July 2022, 500,000 Options were granted to an employee of the Company. The Options were issued for nil consideration and are exercisable at $0.5743 each on or before 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 (provided that the recipient is an employee of the Company at the respective vesting dates) and are governed by the terms and conditions of the Company's Employee Option Plan. The fair value of the Options at the date of grant was $66,467.

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

The Directors are not aware of any further matter or circumstance that has arisen since 30 June 2022 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 2022 $	30 JUNE 2021 $
ASSETS		
Current assets	12,735,665	12,199,825
Non-current assets	1,497,835	950,743
Intercompany loans	3,008,178	–
Investments in subsidiaries	4	2
TOTAL ASSETS	**17,241,682**	**13,150,570**
LIABILITIES		
Current liabilities	801,099	1,177,644
Non-current liabilities	18,082	–
TOTAL LIABILITIES	**819,181**	**1,177,644**
EQUITY		
Issued capital	20,163,426	12,204,685
Share based payments reserve	3,021,541	360,662
Retained losses	(6,762,466)	(592,421)
TOTAL EQUITY	**16,422,501**	**11,972,926**
FINANCIAL PERFORMANCE		
Loss for the year	(6,170,045)	(586,764)
Other comprehensive income	–	–
TOTAL LOSS	**(6,170,045)**	**(586,764)**

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 2022.

Directors' Declaration

The Directors of the Company declare that:

1. the Financial Statements and Notes as set out on pages 56 to 82 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 2022 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.

Professor Dudley J. Kingsnorth
Independent Non-Executive Chairman

Dated this 29th day of September 2022

Grant Thornton

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Independent Auditor's Report

To the Members 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 2022, 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 2022 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 - Note 12	
As 30 June 2022 the carrying value of exploration and evaluation assets was $5,155,043. 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: • 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; – enquiry 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; • evaluating the competence, capabilities and objectivity of management's experts in the evaluation of potential impairment triggers; and • assessing the appropriateness of the related financial statement disclosures.

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 2022, 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 Group 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 2022.

In our opinion, the Remuneration Report of Australian Rare Earths Limited, for the year ended 30 June 2022 complies with section 300A of the Corporations Act 2001.

Responsibilities

The Directors of the Group 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 2022

Additional Information Compiled as at 15 September 2022

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
ACORN CAPITAL LTD	19,136,975 shares	14.78%
BRYN JONES AND ASSOCIATES	15,386,825 shares	11.88%
RICK POBJOY AND ASSOCIATES	14,070,000 shares	10.87%

Distribution of equity securities

Number of security holders by size of holding:

RANGE	ORDINARY SHARES	UNLISTED OPTIONS
1 – 1,000	326	–
1,001 – 5,000	655	1
5,001 – 10,000	285	4
10,001 – 100,000	470	63
100,001 and over	107	23
TOTAL	**1,843**	**91**

UNMARKETABLE PARCELS	MINIMUM PARCEL SIZE	HOLDERS	ORDINARY SHARES
Minimum $500.00 parcel at $0.355 per share	1,409 shares	461	390,926

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.

Additional Information Compiled as at 15 September 2022

Twenty largest holders of each class of quoted equity security

ORDINARY SHARES

RANK	NAME	SHARES	% ISSUED CAPITAL
1	BNP PARIBAS NOMS PTY LTD <DRP>	22,376,186	17.28
2	BEECHCREST INVESTMENTS PTY LTD <JONES FAMILY A/C>	14,070,000	10.87
3	TOO UP HOLDINGS PTY LTD <POBJOY FAMILY A/C>	14,070,000	10.87
4	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	5,710,505	4.41
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,053,956	3.90
6	NEO PERFORMANCE MATERIALS INC	3,333,333	2.57
7	TAYCOL NOMINEES PTY LTD <211 A/C>	2,340,000	1.81
8	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	2,199,341	1.70
9	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,682,290	1.30
10	CITICORP NOMINEES PTY LIMITED	1,658,040	1.28
11	MR MICHAEL ANDREW WHITING + MRS TRACEY ANNE WHITING <WHITING FAMILY S/F A/C>	1,652,272	1.28
12	DADS MONEY PTY LTD <TOM PORTER SUPER FUND A/C>	1,333,334	1.03
13	CALAMA HOLDINGS PTY LTD <MAMBAT SUPER FUND A/C>	1,250,000	0.97
14	PUNTERO PTY LTD	1,081,665	0.84
15	AJSM SUPER PTY LTD <POBJOY RETIREMENT FUND A/C>	1,066,667	0.82
16	MR BRYN LLYWELYN JONES + MRS KELLIE NICOLE JONES <TAWEL SUPERANNUATION A/C>	1,066,667	0.82
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	1,049,566	0.81
18	LOTAKA PTY LTD	970,000	0.75
19	MR CRAIG PETER BALL + MRS SUZANNE KATHERINE BALL <CPB SUPER FUND A/C>	930,272	0.72
20	GP SECURITIES PTY LTD	926,520	0.72
TOTAL		**83,820,614**	**64.73**

Corporate Governance Statement

For the Year Ended 30 June 2022

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


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AUSTRALIAN RARE EARTHS
Metals for our future

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