AUSTRALIAN RARE EARTHS

QUARTERLY REPORT

ASX Announcement (ASX: AR3) 27 July 2021

30 JUNE 2021 QUARTERLY ACTIVITIES REPORT

HIGHLIGHTS

CORPORATE

- **Successfully admitted to the Official List of ASX on 29 June 2021 and subsequent to the quarter, commenced quotation on July 1**
  - **Raised $12 million through the issue of 40 million fully paid ordinary shares at $0.30 per share, pursuant to the Initial Public Offering (IPO) Prospectus dated 7 May 2021**
- **Respected institutions and sophisticated investors across Australia joined the Company's share register**
- **Recruitment for Managing Director progressing well, significant interest received and shortlist to be compiled in August 2021**
- **Cash balance as of 30 June 2021 was A$12,091,355**

EXPLORATION

- **Prior to ASX listing, AR3 completed a 79-hole push tube core drilling program at flagship Koppamurra Project ("Koppamurra")**
  - **Program generated 224 samples for assay, in areas adjacent and extensional connected to the existing Red Tail and Yellow Tail Resource areas**
  - **Assays results are expected in mid-to-late August 2021**
- **Well-funded to continue successful, low-cost exploration to drive resource growth**
- **Next major field program at Koppamurra to commence in October 2021**
- **Subsequent to the quarter, 649km^2 of additional key exploration tenure in South Australia was granted, expanding the Company's footprint at Koppamurra by more than 40%**

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ASX Code: **AR3**

Australian Rare Earths Limited (ASX: AR3) ('**AR3**' or '**the Company'**) is pleased to announce its activities for the period ending June 30 2021.

EXPLORATION

Project Background

The Company's flagship Koppamurra Project (100% AR3) is Australia's largest prospective ionic clay hosted rare earth element (REE) deposit.

Koppamurra is a district scale ionic clay rare earth opportunity located in the South-East of South Australia and Western Victoria, containing a high value REE assemblage.

Prior to listing, AR3 already experienced significant exploration success through the discovery of the Red Tail and Yellow Tail deposits following an initial drilling campaign, incorporating aircore, auger and push-tube core drilling.

The discovery of Red Tail and Yellow Tail led to the declaration of a maiden JORC 2021 Inferred Mineral Resource of 39.9Mt at 725ppm TREO[i].

To date, the Company has drilled less than 5% of its landholding at Koppamurra.

Completion of 79-Hole Drill Program

Prior to listing, AR3 commenced and completed a 79-hole, 299m push tube core drilling program, which was undertaken during the week of the 21 June 2021.

The drilling method was limited to a maximum depth of 6.5m and tested for shallow occurrences of clay hosted rare earth mineralisation adjacent to and extensional from the Red Tail and Yellow Tail resource areas. Drilling was also conducted along the Poolajelo and Edenhope Roads aimed at recovering sample material from within the Red Tail resource area for further testing. The drill hole locations are detailed in figure 1 below.

Core recovered from drilling activities was photographed, geologically logged, scanned using a handheld X-Ray Fluorescence (XRF) for trace element determinations – in particular for Yttrium, and finally sampled for assay based on anomalous Yttrium responses, and lithological features. Some of the core recovered can also provide material for future metallurgical testwork.

The program generated 224 samples for assay from drillholes KMC0104 through KMC0182. Assay results are expected to be returned in mid to late August 2021.

Exploration Tenure Expanded at Koppamurra

Subsequent to the quarter, AR3 expanded its exploration tenure at Koppamurra by more than 40% through the grant of exploration licence, EL6613. The grant of this key exploration tenure brings the total granted tenure to 2,136km^2 across three (3) tenements, South Australian EL's 6509 and 6613 and Victorian EL 7254.

Exploration within the newly granted tenure can commence quickly and cheaply, with road verge drilling conducted along the network of public roads and tracks within the area. Historic drilling previously conducted within the EL6613 area, re-sampled and assayed by AR3, indicates shallow mineralised intervals with grades and thicknesses equivalent to (on average), those contained in the Red Tail and Yellow Tail Inferred Resource.

A further 1,911 km^2 of contiguous Koppamurra Project area is under application in South Australia. This area is considered by AR3 to also be prospective for clay hosted rare earth mineralisation.

The combined tenure position, granted and under application at Koppamurra, is in excess of 4,000km^2.

AR3's current granted exploration tenure position and the locations of previously identified significant intersections of rare earth mineralisation within it, are illustrated in figure 2 below.

Future Works at Koppamurra

The Company is planning a significant drilling program for Q4 2021, incorporating a combination of extensional drilling from the known Red Tail and Yellow Tail Inferred Resources and regional prospectivity confirmatory drilling to determine priority areas for future resource definition.

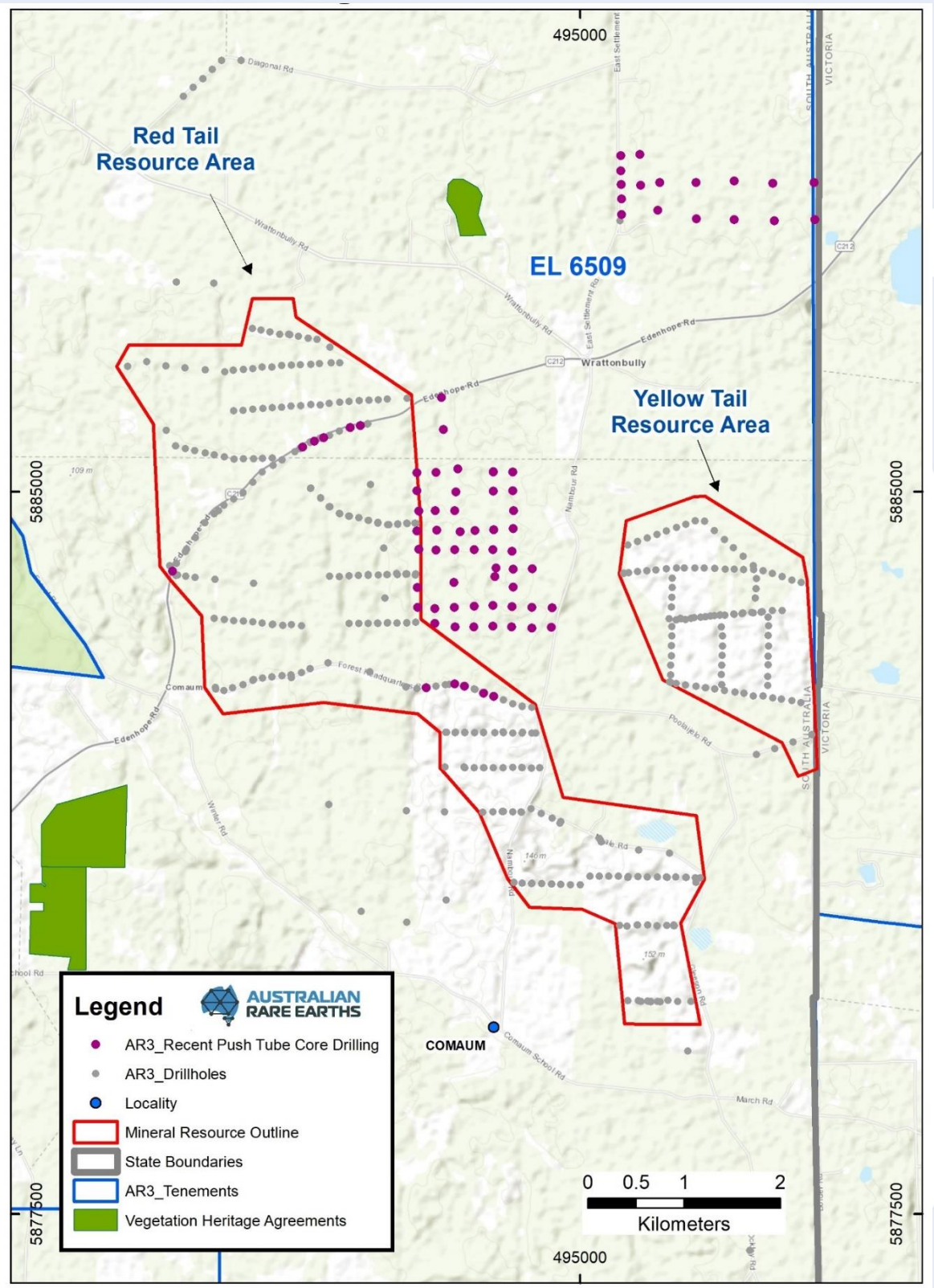

Figure 1: Red Tail and Yellow Tail resource areas with recent push-tube core drilling

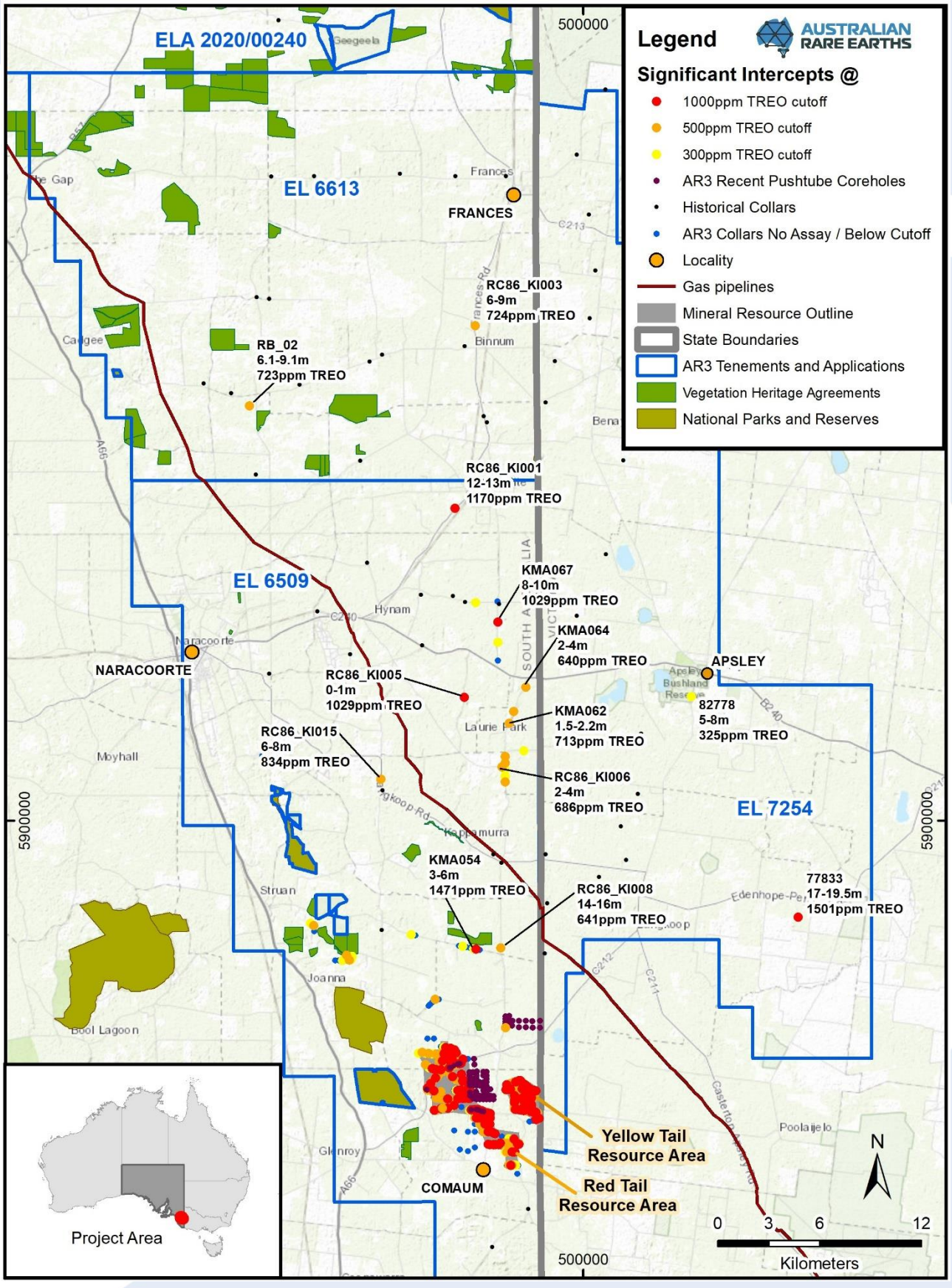

Figure 2: Granted exploration tenure with significant drillhole intercepts, and recent push-tube core locations

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CORPORATE

Successful IPO Listing

AR3 was successfully admitted to the Official List of ASX on 29 June 2021 and subsequent to the quarter, commenced quotation on July 1 after raising $12 million through the issue of 40 million fully paid ordinary shares at $0.30 per share, pursuant to the Initial Public Offering (IPO) Prospectus dated 7 May 2021.

The IPO was well supported with respected domestic and international institutions and sophisticated investors joining the Company's share register. Taylor Collison acted as Lead Manager for the IPO.

Recruitment – Managing Director

The Company continues to progress its search for a Managing Director.

AR3 has received strong interest for the position and will be compiling a short list of suitable candidates during August.

Cash Balance

The Company's cash balance at the end of the Quarter was A$12,091,355.

Capital Structure

Shares on issue: 110,680,000 fully paid ordinary shares.

Options on issue: Total of 12,597,200 unlisted options, comprising:

- 6,000,000 exercisable at $0.30 and expiring 25 January 2025.
- 6,597,200 exercisable at $0.45 and expiring 29 June 2024.

Appendix 5B Disclosures

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

During the period, the Company spent approx. $436,000 on exploration activities, including direct costs associated with the Koppamurra Red Tail and Yellow Tail Resource drill out programs, which included, drilling, geochemical assays and resource estimation activities.

List of AR3 Tenements

Tenement [1]	Location	Commodity	Project	Jurisdiction
EL 6509	Naracoorte	rare earths	Koppamurra	SA
EL 6613 [3]	Frances	rare earths	Koppamurra	SA
EL007254 [2]	Apsley	rare earths	Koppamurra	VIC

Notes

(1) All tenements are 100% owned by AR3.

(2) Granted during the quarter end

(3) Granted subsequent to quarter end

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

For further Information please contact:

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Competent Person Statement

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

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

About Australian Rare Earths Limited

Australian Rare Earths (AR3) is committed to the timely exploration and development of its 100% owned, flagship Koppamurra Project, located in South Australia and Victoria. Koppamurra is a prospective ionic clay hosted rare earth element (REE) deposit; uniquely rich in all the REEs required in the manufacture of rare earth permanent magnets which are essential components in energy efficient motors.

The Company is focused on executing a growth strategy that will ensure AR3 is in a position to become an independent and sustainable source of HREEs, playing a pivotal role in the global transition to a green economy.

[i] *Australian Rare Earths Prospectus dated 7 May 2021*

Appendix 5B

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

Name of entity	
Australian Rare Earths Limited	
ABN	**Quarter ended ("current quarter")**
73 632 645 302	30 June 2021

	Consolidated statement of cash flows	**Current quarter $A'000**	**Year to date (12 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers		
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	(40)	(56)
	(b) development		
	(c) production		
	(d) staff costs		-
	(e) administration and corporate costs	(205)	(341)
1.3	Dividends received (see note 3)		
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Government grants and tax incentives – R&D tax incentive	-	-
1.8	Other (provide details if material)		
1.9	**Net cash from / (used in) operating activities**	**(245)**	**(397)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment	-	-
	(d) exploration & evaluation (if capitalised)	(396)	(821)
	(e) investments		
	(f) other non-current assets – Intangibles	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
2.2	Proceeds from the disposal of:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment	-	-
	(d) investments		
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(396)**	**(821)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	12,000	13,300
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	(4)
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	**Net cash from / (used in) financing activities**	**12,000**	**13,304**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	732	5
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(245)	(397)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(396)	(821)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	12,000	13,304

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**12,091**	**12,091**

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter $A'000	Previous quarter $A'000
5.1	Bank balances	12,081	732
5.2	Call deposits	10	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**12,091**	**732**

6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	**Total financing facilities**	-	-

7.5	**Unused financing facilities available at quarter end**	
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.	
n/a		

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (Item 1.9)	(245)
8.2	Capitalised exploration & evaluation (Item 2.1(d))	(396)
8.3	Total relevant outgoings (Item 8.1 + Item 8.2)	(641)
8.4	Cash and cash equivalents at quarter end (Item 4.6)	12,091
8.5	Unused finance facilities available at quarter end (Item 7.5)	-
8.6	Total available funding (Item 8.4 + Item 8.5)	12,091
8.7	**Estimated quarters of funding available (Item 8.6 divided by Item 8.3)**	18.8 quarters

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: n/a

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: n/a

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

Answer: n/a

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: .....27 July 2021.....

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

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.