AUSTRALIAN RARE EARTHS

ANNUAL REPORT 2021

AUSTRALIAN RARE EARTHS LIMITED

ACN 632 645 302

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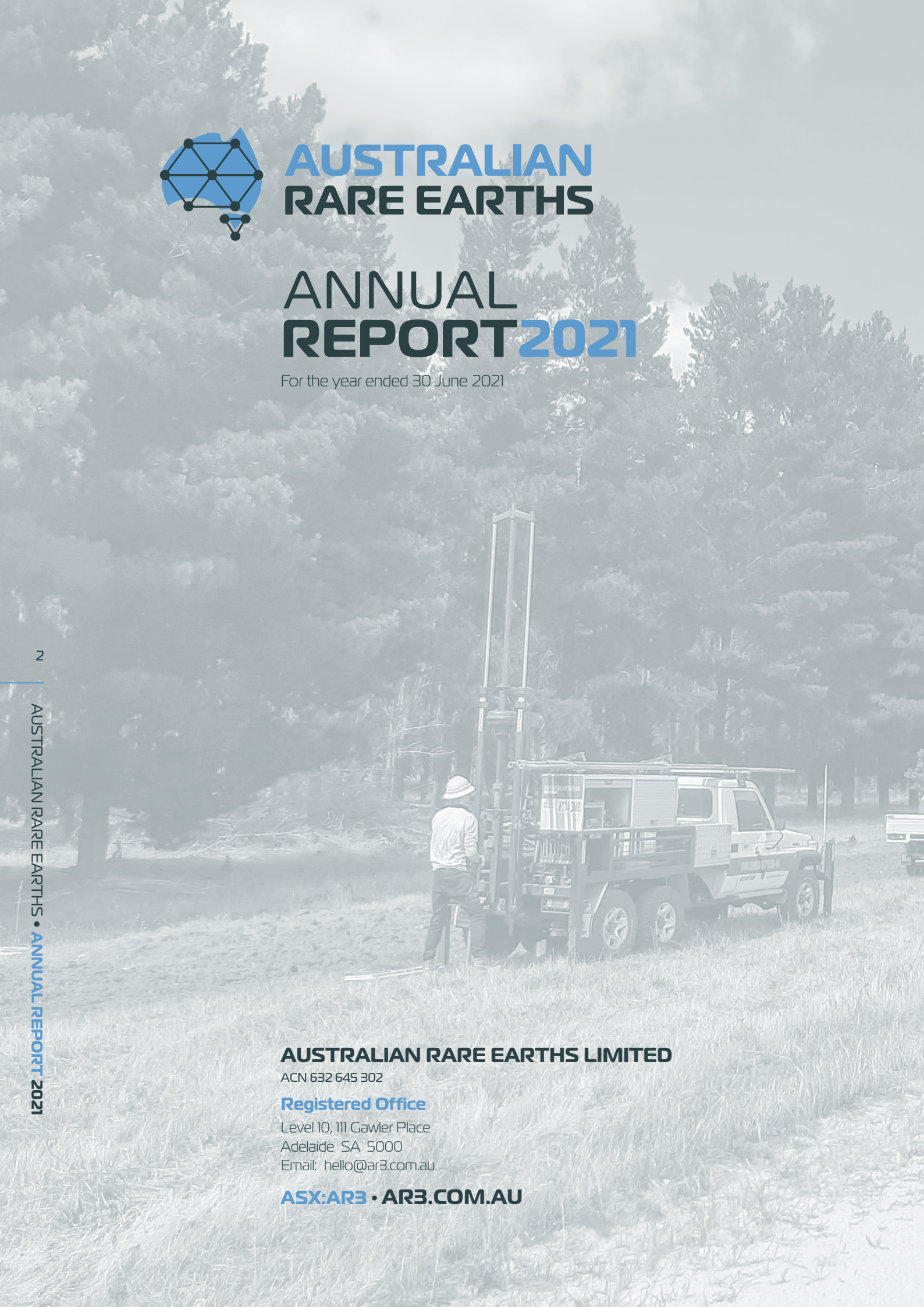
ANNUAL REPORT 2021

For the year ended 30 June 2021



AUSTRALIAN RARE EARTHS LIMITED

ACN 632 645 302

Registered Office

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Background image - drilling at the Koppamurra Project, South Australia

CHAIRMAN'S LETTER

Dudley J. Kingsnorth
Non-executive Chairman

Dear Shareholders,

On behalf of the Board of Directors of Australian Rare Earths Limited ("AR3" or the "Company") it is a pleasure to present our first Annual Report. In keeping with the commitment made in the Initial Public Offer (IPO) Prospectus, we are taking the first steps to establish AR3 as a leading rare earth company committed to the development of our world class resources through strong environmental, social, community and governance principles.

We believe the success of our oversubscribed IPO and the performance of the Company since listing is a recognition of the critical role rare earths will play in the global push for carbon neutrality through the incorporation of rare earth permanent magnets (REPMs) in the drives of Electric Vehicles (EVs), renewable energy (wind) installations and improving efficiency of domestic appliances. The timing of our ASX listing has enabled AR3 to benefit from the growing interest in companies that supply critical materials to an increasingly technology driven global economy.

The Company's focus is our 100%-owned Koppamurra Project (Koppamurra), a rare earth ionic clay opportunity located in South Australia and Victoria. Koppamurra is Australia's only prospective ionic clay hosted REE deposit and one of three listed opportunities globally. Koppamurra is located in a tier-one mining jurisdiction in close proximity to a skilled workforce, established energy and transport infrastructure in close proximity to the regional South Australian population centres of Naracoorte and Mount Gambier.

The Company has already experienced significant exploration success at Koppamurra through the discovery of the Red Tail and Yellow Tail deposits, which has led to the declaration of a maiden JORC 2021 Inferred Mineral Resource of **39.9Mt @ 725ppm TREO**, the grade of which is comparable with those that form the backbone of China's heavy rare earth resources.

The recently announced results of the 79-hole push tube core hole drill program (ASX announcement 24 September 2021), which was completed prior to listing and focused on targeted areas adjacent to and extensional from the existing Red Tail and Yellow Tail Resources has increased our confidence in the tenure and ready accessibility of the rare earth ionic clays at Koppamurra. The Company is confident that the major exploration effort scheduled to commence in the coming weeks will establish the potential for Koppamurra to be a demonstratably significant rare earth producer.

An integral part of the exploration program 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.

Importantly, the characteristics of the Koppamurra deposit are unique as it contains all the rare earths used in the production of REPMs, namely praseodymium, neodymium, terbium and dysprosium. This represents a key advantage for AR3, having already received interest from potential customers and downstream partners. This interest reinforces the potential for the Company to achieve its goal to become an active participant in an independent global ***mine to magnet*** supply chain.

In common with other businesses, COVID-19 has impacted the progress of activities, although in our case the impact on our exploration program has been minimal due the containment policies put in place by the South Australian Government.

In keeping with our strong environmental and social principles, AR3 has and continues to make a concerted effort to keep the local community fully informed of our current and future activities. To further our community presence, the Company has established a base in Naracoorte and employed a Land Access and Regional Communications Manager. The incumbent, an experienced environment and regulatory professional, lives in the region and will be on-hand to ensure that we build on the dialogue established with the local community. The Naracoorte base also provides a warehouse for geological samples and contains support equipment and supplies which will facilitate the rapid mobilisation of the exploration team.

Since joining the Company in November last year, I have continued to be thankful and impressed by the skills and dedication of the AR3 team, the professional personnel who assisted in the preparation of the IPO and our contractors. I wish to take this opportunity to thank them for the efforts they have made to ensure 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 be working hard to enhance the value of your shareholding in AR3 in the coming years.

Dudley J. Kingsnorth
Non-executive Chairman

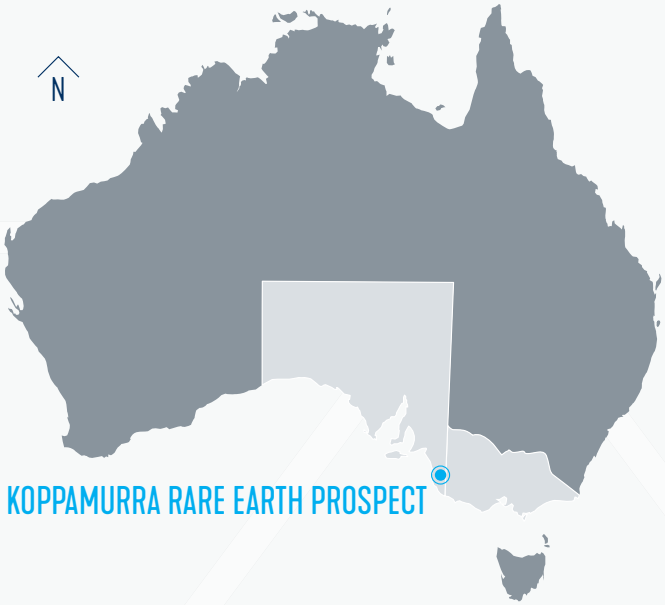
Adelaide, 22 September 2021

PROJECT OVERVIEW

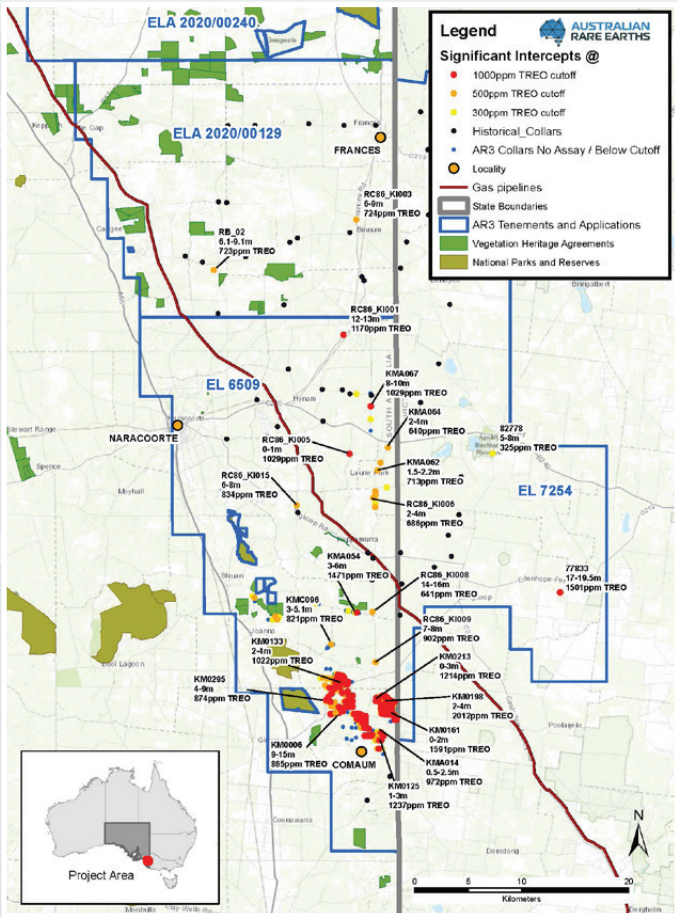
KOPPAMURRA PROJECT

South Australia and Victoria

Australian Rare Earths Limited's 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 EL6509, Victorian EL007254 and the registered applicant for South Australian ELA2020/129 (granted as EL6613 subsequent to 30 June 2021), ELA 2020/239 and ELA 2020/240. This granted tenure and tenure applications in South-Eastern South Australia and Western Victoria combine for ~4,000km² of prospective tenure and forms the Company's flagship Koppamurra Project ("Koppamurra' or "the Project").



The Project, which is 100% owned by Australian Rare Earths, is prospective for rare earth element (REE) mineralisation, interpreted to have analogies to ion adsorption ionic clay deposits being developed elsewhere in the world. It is Australia's only prospective ionic clay hosted REE deposit and one of only three listed opportunities globally.

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 Company moved quickly on ground at Koppamurra and completed key exploration workstreams including sampling of historical core, two auger drilling programs, push tube drilling program, two-phase air core drilling program, mineralogical studies, and metallurgical testwork.

Results from the historic core resampling were used to design an initial drill program seeking to rapidly define an initial resource. A 470 aircore, auger and pushtube drill hole program was completed in January 2021, with the Company identifying laterally extensive rare earth mineralisation within a (on average) 2 to 3 metre thick clay horizon, leading to the discovery of the Red Tail and Yellow Tail prospects.

The Red Tail area extends along strike for over 10 kilometres (at the longest point) and 3 kilometres wide (at the widest point), whilst the Yellow Tail area is approximately 3 kilometres long and 1.9 kilometres wide (at the widest point).

Impressively, the discovery of both Red Tail and Yellow Tail resulted in the declaration of a JORC 2012 Inferred Mineral Resource of 39.9Mt @ 725ppm TREO[1]. 429 of 470 holes were used in the April 2021 Inferred Mineral Resource.

A key feature of the Mineral Resource is its low radioactivity. Samples representing the resource material have been assessed for their uranium and thorium content, and on the basis of the essentially background levels of these elements within the samples, they are not considered radioactive[2].

The maiden MRE accounts for less than 2% of the granted tenure of the entire Koppamurra landholding and extensional holes (outside the initial mineral resource area) completed also intersected similar grades of TREO.

Koppamurra April 2021 MRE[1]

PROSPECT	Zone	Tonnes (Mt)	TREO (ppm)	TREO-CeO_2 (ppm)	LREO (ppm)	HREO (ppm)	CREO (ppm)	ThO_2 (ppm)	U_3O_8 (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 INFERRED		**39.9**	**725**	**485**	**507**	**218**	**269**	**18.5**	**1.6**

[1] Australian Rare Earths Prospectus dated 7 May 2021.

Note: Totals may not add up due to rounding

[1] *Australian Rare Earths Prospectus dated 7 May 2021*
[2] *ANSTO Minerals, Progress Note #1, Preparation of Variability Samples from the Koppamurra Deposit. Preparation, Head Assay and Mineralogy, 30 April 2021.*

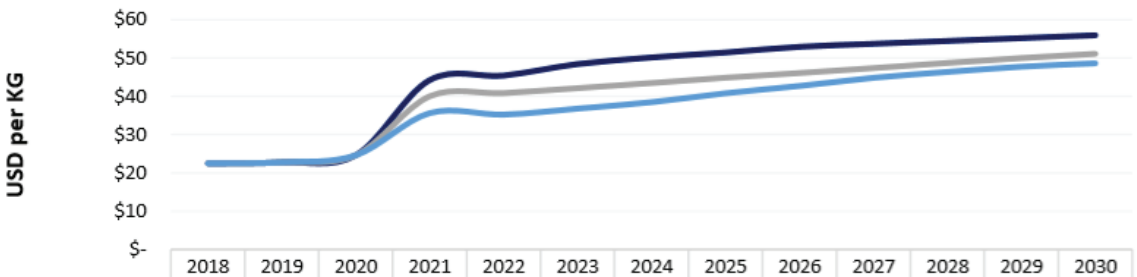
Initial mineralogical assessments were completed by CSIRO in Adelaide and were followed up by two rounds of desorption testing by Australian Nuclear Science and Technology ("ANSTO"), Australia's leading hydrometallurgical research and development facility, with internationally recognised rare earth capability. Results from 18 of the 22 samples submitted to ANSTO for metallurgical testwork from the resource area have been received. Results demonstrated TREO (excluding Ce) recoveries of between 37% and 71% within the Red Tail prospect area through simple desorption and washing and highlighted that recovery improves at lower pH levels. AR3 intends to further investigate optimisation of metallurgical recoveries.

A key advantage of Koppamurra is that it has a relatively high proportion of heavy rare earths, particularly Dysprosium and Terbium, along with Neodymium and Praseodymium, all of which are used in rare earth permanent magnets (REPM) which were responsible for over 90% of total global REO value traded in 2020.

Adamas Intelligence (an expert commentator on the rare earths market who provides independent research and advice on markets for critical metals and minerals) expects 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 2021 and declining inventories in China.

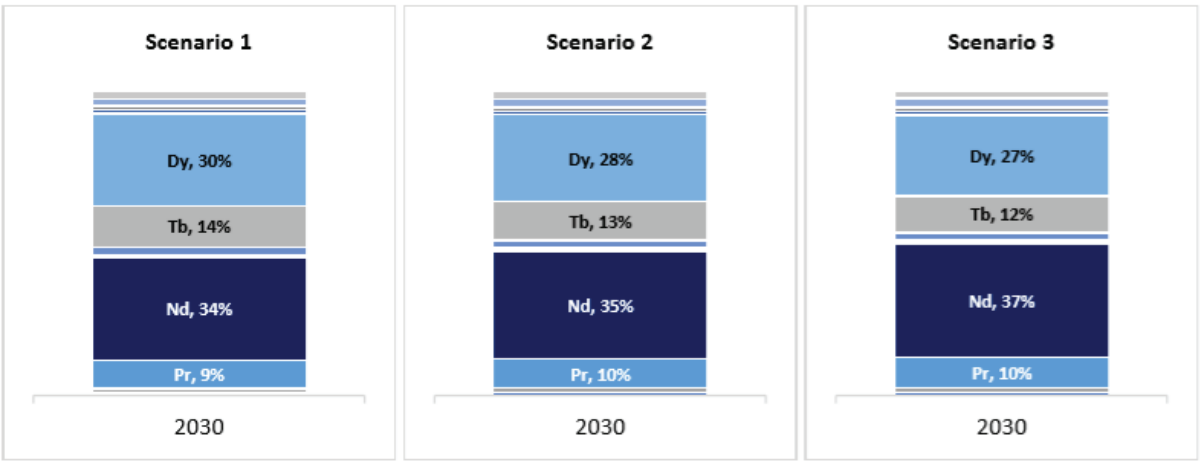
Importantly, this translates into a compelling basket price for Koppamurra ore in comparison with incumbent producers both at today's and forecast prices.

Forecast Koppamurra basket value through to 2030



	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Scenario 1	$22.50	$22.78	$24.62	$44.25	$45.42	$48.44	$50.15	$51.46	$52.94	$53.71	$54.45	$55.20	$55.94
Scenario 2	$22.50	$22.78	$24.62	$40.02	$40.84	$42.14	$43.49	$44.86	$46.08	$47.39	$48.71	$50.00	$51.11
Scenario 3	$22.50	$22.78	$24.62	$35.63	$35.24	$36.81	$38.47	$40.82	$42.71	$44.83	$46.38	$47.74	$48.63

Contribution of REPM REOs to the Koppamurra basket value in 2030



Source (both charts): Adams Intelligence Market Report Q2 2021

The next 12 months is shaping up to be an extremely busy and exciting period for AR3, with great potential to quickly increase resources and proceed to development studies on a potentially low capex, high margin rare earth operation.

Competent Person Statement

The information in this Annual 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 Competent Person for the Mineral Resource Statement in this report as a whole is Ms Rebecca Morgan, who is a director of REESearch Pty Ltd, and a member of the Australian Institute of Geologists (AIG). Ms Morgan is a consultant to Australian Rare Earths and has 19 years' experience in the mining industry and has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the JORC Code. Ms Morgan consents to the inclusion of the matters based on her 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).

TENEMENT INTERESTS

All tenement interests are held 100% by Australian Rare Earths and its related body corporates.

Exploration Licences

Tenement	Grant Date	Location	Commodity	Project	Jurisdiction
EL 6509	15 Sept 2020	Naracoorte	Rare earths	Koppamurra	South Australia
EL 6613 [1]	7 Jul 2021	Frances	Rare earths	Koppamurra	South Australia
EL007254 [2]	29 Apr 2021	Apsley	Rare earths	Koppamurra	Victoria

[1] *ELA2020/00129 granted subsequent to 30 June 2021.*
[2] *Granted during the year.*

Exploration Licence Applications

Application	Location	Commodity	Project	Jurisdiction
ELA 2020/00239 [1]	Keith	Rare earths	Koppamurra	South Australia
ELA 2020/00240 [1]	Bordertown	Rare earths	Koppamurra	South Australia
EL007719 [2]	Minimay	Rare earths	Koppamurra	Victoria
EPM 27952 [2]	Massie Creek	Rare earths	Carpentaria	Queensland

[1] *Applied for during the year.*
[2] *Applied for subsequent to 30 June 2021.*

MINERAL RESOURCES

Koppamurra Project – Mineral Resource Estimate

The Koppamurra Project Mineral Resource Estimate was completed by IHC Robbins Pty Ltd and reviewed by the competent person in this matter, Rebecca Morgan, who has taken into consideration the drill hole spacing in plan view and downhole, as well the sample support within domains and the variography for these Koppamurra deposits for classification of the resource under the 2012 edition of the JORC code. The deposit has been assigned a JORC Classification of Inferred, and comprises a total Mineral Resource of 39.9 Mt @ 725 ppm TREO and 485 ppm TREO-CeO_2 and is tabled here below. The Mineral Resource statement is based on and fairly represents, information and supporting documentation prepared by the competent person.

JORC 2012 Compliant

Prospect	Zone	Tonnes (Mt)	TREO (ppm)	TREO-CeO_2 (ppm)	LREO (ppm)	HREO (ppm)	CREO (ppm)	ThO_2 (ppm)	U_3O_8 (ppm)
Yellow Tail	2	10.0	903	586	638	265	329	19.0	1.6
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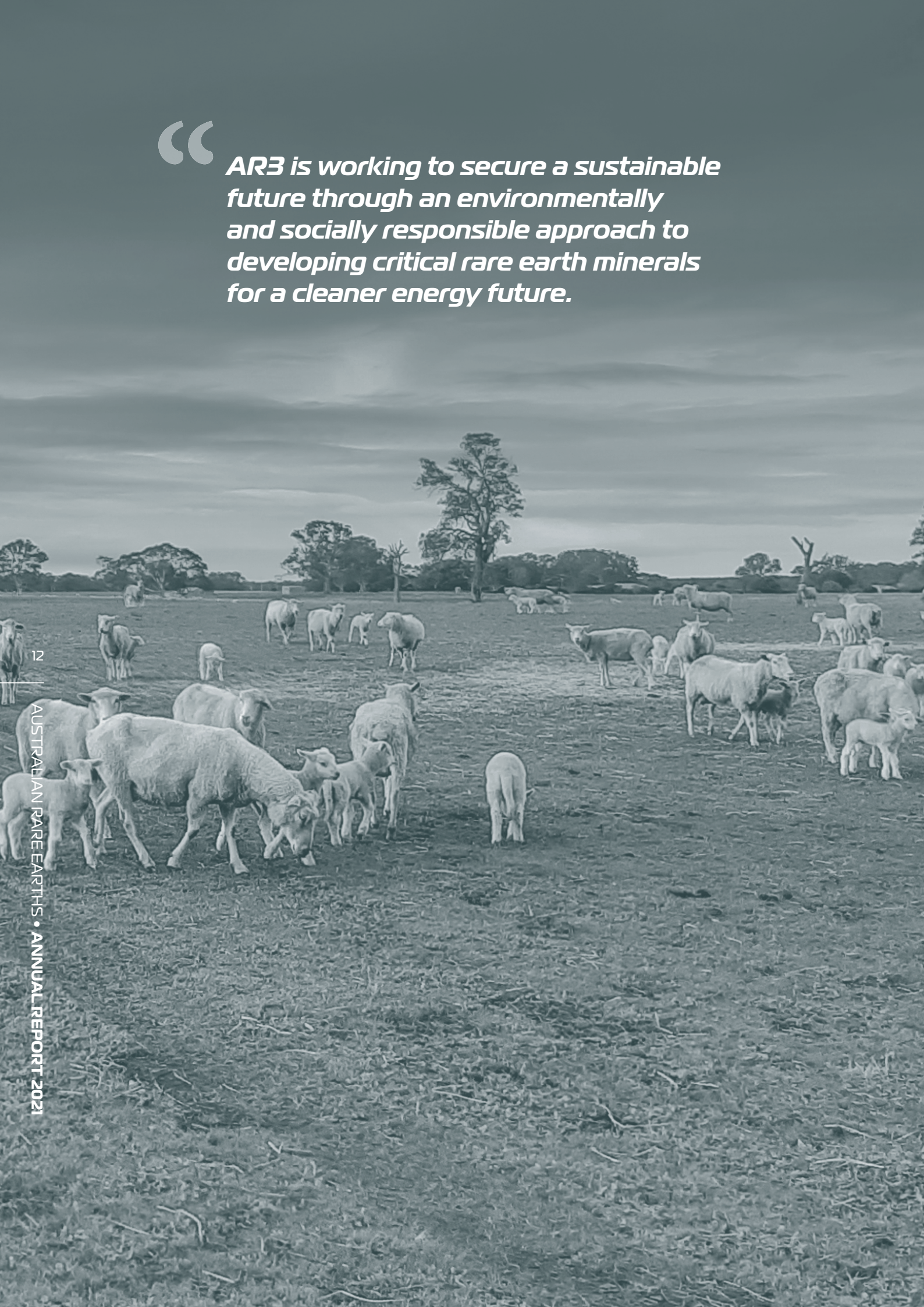

> ***AR3 is working to secure a sustainable future through an environmentally and socially responsible approach to developing critical rare earth minerals for a cleaner energy future.***

SUSTAINABILITY REPORT

Environment

The inaugural Sustainability Report provides an exciting opportunity for AR3 to set the framework for how it will establish its operational foundations beyond financial performance. Establishment of a reporting framework which not only measures material impacts, but drives AR3's environmental, social, community and governance (herein referred to as sustainability) performance, will provide a benchmark to assess AR3's overall performance as a global leader in the exploration and development of clay hosted rare earth minerals.

Further details of AR3's sustainability focus can be found in the AR3 2021 Annual Sustainability Report located at www.ar3.com.au/sustainability.

OPERATING AND FINANCIAL REVIEW

Principal activities

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

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

Significant changes to the state of affairs

Change of Company Name and Type

On 9 March 2021 the Company converted to a public company limited by shares and changed its name to Australian Rare Earths Limited (formerly Tawel Exploration Pty Ltd), following shareholder approval on 25 January 2021.

New subsidiary companies incorporated

RDBD Developments Pty Ltd was incorporated on 17 December 2020 as a wholly owned subsidiary of Australian Rare Earths Limited.

QRDBD Developments Pty Ltd was incorporated on 18 June 2021 as a wholly owned subsidiary of Australian Rare Earths Limited.

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.

There have been no significant changes to the state of affairs of the Company during the period ended 30 June 2021.

Strategy

The Group's primary focus is on its 100%-owned Koppamurra Project (Koppamurra), a regional scale ionic clay rare earths opportunity located in South Australia and Victoria containing a high value REE assemblage with low radioactivity. To date, the Company has already had significant exploration success through the discovery of the Red Tail and Yellow Tail deposits, including the declaration of a maiden Mineral Resource the grade of which is comparable with those found in southern China, the major source of heavy rare earths.

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

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

The majority of the Company's planned expenditure over the next two years will be applied to increasing the confidence of known prospect 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 to define additional resources, as well as regional assessments of the prospectivity of the wider exploration tenure.

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

Factors and risks affecting future performance

The Company's Prospectus dated 7 May 2021 describes the external factors and business risks that could have a material impact on the Company's ability to deliver its strategy.

Additionally, 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.

Summary of financial performance

The net loss of the Group for the year ended 30 June 2021 was $586,764 (period ended 30 June 2020: $5,657), primarily due to share based payments expense associated with the issue of unlisted options ($176,918) and mineral exploration expensed ($68,554) and other corporate and administrative costs largely associated with the Initial Public Offering (IPO) ($345,292).

During the year ended 30 June 2021, the Group's net available cash position increased by $12,075,982 from $5,373 (1 July 2020) to $12,081,355 (30 June 2021) with no debt. During the year, the Group received inflows of $1,300,000 (before costs) associated with pre-IPO seed funding round in November 2021, and a further $12,000,000 (before costs) from the issue of 40,000,000 fully paid ordinary shares (Shares) at $0.30 per Share pursuant to the Australian Rare Earths Limited prospectus dated 7 May 2021, which were offset by outflows exploration expenditure ($883,162), corporate & administration expenditure ($214,903) and capital raise related costs ($119,475) .

Changes in share capital

Shares

The number of Shares on issue increased from 4 (1 July 2020) to 110,680,000 (30 June 2021) during the year as a result of the following events:

- On 28 October 2020, the Company undertook a capital restructure, whereby the Company's existing 4 fully paid ordinary shares at that time were subdivided on a 1 for 2,250,000 basis, resulting in the Company having 9,000,000 shares on issue following the subdivision.
- 13,000,000 fully paid ordinary shares were issued at $0.10 per share to seed investors to raise $1,300,000 (before costs) to fund pre-IPO working capital requirements.
- 780,000 fully paid ordinary shares, with a fair value of $78,000, were issued in lieu of cash fees payable relating to the raising of $1,300,000 in seed funding.
- On 10 February 2021, the Company issued 630,000 fully paid ordinary shares, in aggregate, to Directors in lieu of cash payment for fees, following shareholder approval on 25 January 2021.
- On 12 March 2021, the Company issued 150,000 fully paid ordinary shares, to the Company Secretary, in lieu of cash payment for fees.
- On 15 April 2021, shareholders approved the subdivision 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 prior to the subdivision).
- On 11 June 2021, 40,000,000 fully paid ordinary shares were issued following receipt of $12,000,000 (before costs), 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.

Unlisted Options

- On 10 February 2021, the Company issued 5,750,000 unlisted options, in aggregate, to Directors following shareholder approval on 25 January 2021. 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:
  - 2,000,000 Options, exercisable at $0.30 each and expiring on 25 January 2025.
  - 3,750,000 Options, exercisable at $0.45 each and expiring on 29 June 2024.

  On 15 April 2021, shareholders approved a subdivision of the Company's shares on issue and also the 2,000,000 Options issued to Directors (as detailed above) on a three for one basis. This resulted in the 2,000,000 Options exercisable at $0.30 each and expiring on 25 January 2025, becoming 6,000,000 Options exercisable at $0.30 each and expiring on 25 January 2025.

  Options issued to Directors were issued as remuneration pursuant to their respective employment agreements with the Company.
- On 12 March 2021, 150,000 Options were issued to the Company Secretary as consideration for providing financial and company secretarial services to the Company. The Options are exercisable at $0.45 each and expire on 29 June 2024.
- Options issued to the Company Secretary were issued as remuneration pursuant to a services agreement with the Company.
- On 23 April 2021, 180,000 Options were issued to a third party consultant for providing services to the Company. The Options are exercisable at $0.45 each and expire on 29 June 2024.
- On 16 June 2021, 2,417,200 Options were issued Taylor Collision Limited (or nominee), pursuant to the terms of a mandate with the Company for the provision of lead manager services associated with the Company's initial public offering. The Options are exercisable at $0.45 each and expire on 29 June 2024.

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.

Likely developments and expected results of operations

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

Environmental regulation

The Group's operations are subject to significant environmental regulations under the laws of the Commonwealth and/or State. 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

The Directors of Australian Rare Earths Limited and its consolidated entities ('Company' or 'Group' or 'Australian Rare Earths') for the year ended 30 June 2021.

The Operating and Financial Review of this Annual Report is incorporated by reference in, and forms part of, this Directors' Report.

Directors

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

Mr Dudley Kingsnorth (Non-executive Chairman)	*appointed 11 December 2020*
Mr Bryn Jones (Non-executive Director)	*appointed 1 April 2019*
Mr Rickie Pobjoy (Executive (Technical) Director)	*appointed 28 February 2020*

Company Secretary

Damien Connor held the position of Company Secretary during the financial year and as at the date of this report:

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 2021, and the numbers of meetings attended by each Director were as follows:

DIRECTOR	BOARD OF DIRECTORS		AUDIT & RISK MANAGEMENT COMMITTEE	
	A	B	A	B
Dudley Kingsnorth	6	6	-	-
Bryn Jones	6	6	-	-
Rickie Pobjoy	6	6	-	-

Where:

Column A is the number of meetings the Director was entitled 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.

As at the date of this report, the Group has not formed separate Remuneration or Governance Committees, as these matters are handled by the Board as a whole.

Information on continuing Directors and Management

Directors

Professor Dudley Kingsnorth (Non-Executive Chairman)
FAICD, FAusIMM, FIMM, B.Met (Hons), M.Sc

Dudley Kingsnorth is a Metallurgist with over 50 years' experience in operations, project development and marketing. Professor Kingsnorth is an internationally recognised independent expert on the rare earths industry, providing advice to producers, end users and government entities. Professor Kingsnorth was a former Project Manager for the Mt Weld Rare Earths Project, and is currently a 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:
2,092,668 fully paid ordinary shares and 1,600,000 unlisted options.

Special Responsibilities:
Non-Executive Chairman. Member, Audit & Risk Management 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 (Executive) 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 PhosEnergy Limited.

Interest in Shares and Options:
15,270,000 fully paid ordinary shares and 3,450,000 unlisted options.

Special Responsibilities:
Chair, Audit & Risk Management Committee.

Directorships of other ASX Listed entities in the last 3 years:
Boss Energy Limited (ASX: BOE) , DevEx Resources Ltd (ASX: DEV) and SO4 Ltd (ASX:SO4 - Resigned May 2021).

Rickie Pobjoy (Executive (Technical) Director)
BSc, MAusIMM

Rickie 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 4,700,000 unlisted options.

Special Responsibilities:
Member, Audit & Risk Management Committee.

Directorships of other ASX Listed entities in the last 3 years:
None.

Information on continuing Directors and Management *- continued*

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 member 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.

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.

The Remuneration Report is set out under the following main headings:

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 compensation

E. Other information

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

The Board acts as the remuneration committee as a consequence of the size of the Board and the Group. The Board believes that individual salary negotiation is more appropriate than formal remuneration policies and external advice and market comparisons are sought where necessary. The Board recognises that the attraction of high calibre executives is critical to generating shareholder value. The key management personnel of the Company are the Board of Directors and Executive officers.

Note 4 lists the respective names and roles of the Company's key management personnel.

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

- All key management personnel are remunerated based on services provided by each person. Key management personnel paid via payroll receive a superannuation guarantee contribution required by the government of 9.50% (increased to 10% from 1 July 2021), and no key management personnel receive any other retirement benefits. The Board annually reviews the packages of executive Directors and other key management personnel by reference to the Groups performance, individual performance and comparable information from industry sectors and other listed companies on similar industries.
- The Board may exercise discretion in relation to approving increases, incentives, bonuses and options and/or performance rights. The policy is designed to attract the highest calibre of 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 time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability.

  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.

  However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in employee equity plans, which may exist from time to time.

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

Use of remuneration consultants

The Company has not engaged the services of a remuneration consultant during the year.

Performance based remuneration

Performance based remuneration is tailored to increase goal congruence between shareholders, Directors and other 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 10,000,000 unlisted options (Options), in aggregate, have been issued as remuneration to the Company's key management personnel (9,750,000 Options issued to Directors, in aggregate, following shareholder approval on 25 January 2021, and a further 250,000 Options issued to the Company Secretary).

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

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

As the Company was converted to a Public Company on 9 March 2021, it is yet to hold its first Annual General Meeting.

Consequences of performance on shareholder wealth

In considering the Company's performance and benefits for shareholder wealth, the Board will have regard to a number of relevant indices following its listing on ASX, as well as current and prior year share price performance of the Company.

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 & Fees $	Contract Payments $	Superannuation $	Shares [1]	Unlisted Options [2] $	Total $	At Risk %
NON-EXECUTIVE DIRECTORS								
Dudley Kingsnorth [3]	2021	–	–	–	25,000	17,680	42,680	–%
Independent Chairman	2020	–	–	–	–	–	–	–%
Bryn Jones	2021	–	–	–	19,000	30,783	49,783	–%
Non independent Director	2020	–	–	–	–	–	–	–%
EXECUTIVE DIRECTOR								
Rickie Pobjoy	2021	–	–	–	19,000	47,042	66,042	–%
Non independent Director	2020	–	–	–	–	–	–	–%
OTHER KEY MANAGEMENT PERSONNEL								
Damien Connor [4]	2021	–	40,000	–	15,000	3,252	58,252	–%
Company Secretary/CFO	2020	–	–	–	–	–	–	–%
2021 TOTAL	**2021**	**–**	**40,000**	**–**	**78,000**	**98,757**	**216,757**	
2020 TOTAL	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	

[1] *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 subdivision 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).

[2] *Expense recognised for unlisted options issued during the year ended 30 June 2021.*

[3] *Mr Kingsnorth was appointed as a Non-Executive Chairman on 11 December 2020.*

[4] *Contract payments are made to Damien Connor Consulting – an entity associated with Damien Connor.*

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:

NAME	BASE REMUNERATION	UNIT OF MEASURE	TERM OF AGREEMENT	NOTICE PERIOD [1]	TERMINATION BENEFITS
Rickie Pobjoy *Executive (Technical) Director*	$200,000 (exclusive of statutory superannuation), together with an additional salary component of $50,000 per annum (exclusive of statutory superannuation) until such time as the Company appoints a Managing Director or Chief Executive Officer.	Salaried employee	Indefinite	3 months	None
Damien Connor *Company Secretary /CFO*	Variable	Hourly rate contract	As required	3 months	None

[1] *Either party may terminate by providing 3 months' notice.*

D. Share-Based Remuneration

Unlisted 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 options.

The Group has established an Incentive Employee Option Plan for the benefit of Directors, officers, senior executives and consultants. Under the Employee Option Plan, 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:

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

There were no unlisted options issued as remuneration during the prior year ended 30 June 2020.

Shares

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 agreements with the Company.

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

2021 SHARES	**NUMBER ISSUED**	**ISSUE DATE**	**FAIR VALUE**	
ISSUED TO			$/share	Full value ($)
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 subdivision 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).

There were no shares issued as remuneration during the prior year ended 30 June 2020.

E. Other Information

Option Holdings of Key Management Personnel as at 30 June

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:

2021 KEY MANAGEMENT PERSONNEL	HELD AT 30 JUNE 2020	GRANTED	EXERCISED	LAPSED/ CANCELLED	HELD AT 30 JUNE 2021	VESTED AND EXERCISABLE AT 30 JUNE 2021
D. Kingsnorth [1]	–	1,600,000	–	–	1,600,000	1,600,000
B Jones [1]	–	3,450,000	–	–	3,450,000	3,450,000
R Pobjoy [1]	–	4,700,000	–	–	4,700,000	4,700,000
D Connor [2]	–	250,000	–	–	250,000	250,000
Total	**-**	**10,000,000**	**-**	**-**	**10,000,000**	**10,000,000**

[1] *On 25 January 2021, shareholders approved the granting of unlisted options to the Directors, consisting of:*
- *2,000,000 unlisted options, in aggregate, exercisable at $0.30 each and expiring on 25 January 2025; and*
- *3,750,000 unlisted options, in aggregate, exercisable at $0.45 each and expiring on 29 June 2024;*

On 15 April 2021, shareholders approved a subdivision of the Company's share capital on a 3 for 1 basis, including approval for the subdivision of the above mention 2,000,000 unlisted options to directors (exercisable at $0.30 each and expiring on 25 January 2021) on the same 3 for 1 basis (resulting in 6,000,000 unlisted options exercisable at $0.30 and expiring on 25 January 2025).

All unlisted options issued to Directors during the year vested on 10 February 2021, being the date they were issued.

[2] *250,000 unlisted options issued on 12 March 2021, exercisable at $0.45 each and expiring on 29 June 2024. All options vested immediately upon the date of issue.*

Share Holdings of Key Management Personnel as at 30 June

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:

2021 KEY MANAGEMENT PERSONNEL	HELD AT 30 JUNE 2020	FEES SETTLED IN SHARES	OPTIONS EXERCISED	OTHER MOVEMENTS DURING THE YEAR	HELD AT 30 JUNE 2021
D. Kingsnorth	–	750,000	–	1,342,668	2,092,668
B Jones	2	570,000	–	14,699,998	15,270,000
R Pobjoy	2	570,000	–	13,499,998	14,070,000
D Connor	–	450,000	–	16,667	466,667
Total	**4**	**2,340,000**	**-**	**29,559,331**	**31,899,335**

On 25 January 2021, shareholders approved the issue of 630,000 fully paid ordinary shares to directors in lieu of cash fees owing to them for the period to 30 June 2021. These shares were issued on 10 February 2021. On 12 March 2021, a further 150,000 fully paid ordinary shares were issued to the Company Secretary in lieu cash fees owing to him 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 subdivision 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 the at $78,000.

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. Outstanding balances are unsecured and are repayable in cash.

Amounts paid to Director related entities:

RELATED PARTY	RELATIONSHIP TO KEY MANAGEMENT PERSONNEL/ DIRECTOR	SERVICES PROVIDED	2021 $	2020 $
Inception Group	A business of which Bryn Jones is a greater than 20% shareholder of.	Serviced corporate office lease and geological consulting fees	122,979	–
Damien Connor Consulting Pty Ltd	A business of which Damien Connor is a Director	CFO/Company Secretary consulting fees	52,853	–

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 [1]	10/02/2021	25/01/2021	6,000,000	$0.30	25/01/2025
DIRECTORS [1]	10/02/2021	25/01/2021	3,750,000	$0.45	29/06/2024
COMPANY SECRETARY [1]	12/03/2021	25/01/2021	250,000	$0.45	29/06/2024
CONSULTANT [2]	23/04/2021	16/04/2021	180,000	$0.45	29/06/2024
BROKER [3]	16/06/2021	11/06/2021	2,417,200	$0.45	29/06/2024
			12,597,200		

[1] *Issued to members of key management personnel as remuneration.*
[2] *Issued to a consultant as compensation for services provided during the period.*
[3] *Issued to the Lead Manager in respect of fees pursuant to a mandate with the Company for services associated with the Company's initial public offering.*

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

Following the Company's admission to the Official List of the Australian Securities Exchange (ASX) on Tuesday, 29 June 2021, official quotation of the Company's securities on ASX commenced on Thursday, 1 July 2021.

The Directors are not aware of any other matter or circumstance that has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Indemnity and insurance of officers

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

During financial period ended 30 June 2021, the Company has paid a premium in respect of a contract to insure the directors and officers of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Company

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

Corporate Governance

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

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

Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 30 and forms part of the director's report for the financial period ended 30 June 2021.

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

Dudley J. Kingsnorth
Non-executive Chairman

Perth
Dated this 22nd day of September 2021

AUDITOR'S INDEPENDENCE DECLARATION

Level 3, 170 Frome Street
Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666

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 2021, 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 AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 22 September 2021

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FINANCIAL REPORT 2021

For the year ended 30 June 2021

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STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME

(For the year ended 30 June 2021)

	NOTES	30 JUNE 2021	15 MONTH PERIOD FROM INCORPORATION TO 30 JUNE 2020
		$	$
REVENUE			
Other income - Loans from related parties forgiven		4,000	20,000
EXPENSES			
Corporate Consulting/Accounting expense		(79,177)	(1,390)
Exploration expenditure expensed		(68,554)	(23,187)
Share based payments expense	14	(176,918)	–
Other expenses	2	(266,115)	(1,080)
LOSS BEFORE INCOME TAX EXPENSE		**(586,764)**	**(5,657)**
Income tax benefit		–	–
LOSS FOR THE YEAR/PERIOD		**(586,764)**	**(5,657)**
LOSS ATTRIBUTED TO MEMBERS OF THE PARENT ENTITY		**(586,764)**	**(5,657)**
Other comprehensive income		–	–
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY		**(586,764)**	**(5,657)**
LOSS PER SHARE		Cents	Cents
Basic and diluted loss per share	12	(2.37)	(0.02)

The accompanying notes form part of the financial statements.

STATEMENT OF FINANCIAL POSITION

(As at 30 June 2021)

	NOTES	AS AT 30 JUNE 2021	AS AT 30 JUNE 2020
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	12,081,355	5,373
Prepayments		30,373	–
Other receivables - GST		88,099	851
Total current assets		12,199,827	6,224
NON-CURRENT ASSETS			
Restricted cash – term deposit for exploration bond		10,000	–
Property, plant and equipment		478	–
Exploration and evaluation expenditure	8	940,265	–
Total non-current assets		950,743	–
TOTAL ASSETS		**13,150,570**	**6,224**
CURRENT LIABILITIES			
Trade and other payables	10	1,177,644	11,877
Total current liabilities		1,177,644	11,877
TOTAL LIABILITIES		1,177,644	11,877
NET ASSETS / (LIABILITIES)		**11,972,926**	**(5,653)**
EQUITY			
Issued capital	11	12,204,685	4
Share based payment reserve	13	360,662	–
Retained losses		(592,421)	(5,657)
TOTAL EQUITY		**11,972,926**	**(5,653)**

The accompanying notes form part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

(For the year ended 30 June 2021)

	ISSUED CAPITAL	RETAINED LOSSES	SHARE BASED PAYMENT RESERVE	TOTAL
	$	$	$	$
BALANCE AT INCORPORATION	–	–	–	–
Shares issued during the period	4	–	–	4
Total comprehensive loss for the period	–	(5,657)	–	(5,657)
BALANCE AT 30 JUNE 2020	**4**	**(5,657)**	**–**	**(5,653)**

	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 issued 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**

The accompanying notes form part of the financial statements.

STATEMENT OF CASH FLOWS

(For the year ended 30 June 2021)

	30 JUNE 2021	FOR THE 15 MONTH PERIOD FROM INCORPORATION TO 30 JUNE 2020
	$	$
CASH FLOW FROM OPERATING ACTIVITIES		
Payments to suppliers	(214,903)	(3,321)
NET CASH USED IN OPERATING ACTIVITIES	**(214,903)**	**(3,321)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash – term deposit for exploration bond	(10,000)	–
Payments for exploration expenditure	(883,162)	(11,310)
Payments for property, plant and equipment	(478)	–
NET CASH USED IN INVESTING ACTIVITIES	**(893,640)**	**(11,310)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	13,300,000	4
Share issue costs	(119,475)	–
Proceeds from loans received from related parties	4,000	20,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	**13,184,525**	**20,004**
Net increase in available cash held	12,075,982	5,373
Available cash at beginning of year/period	5,373	–
AVAILABLE CASH AT THE END OF THE YEAR/PERIOD	**12,081,355**	**5,373**

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.

Incorporation

The Company was incorporated on 1 April 2019. Prior period comparative references for the period to 30 June 2020 reflect the financial period from 1 April to 30 June 2020.

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 7 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 includes 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.

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

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST).

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

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

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

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

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

Comparative figures

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

Critical accounting estimates and judgements

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

Key estimates

(i) Impairment

The Company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using fair value less cost of disposal calculations which incorporate various key assumptions. No impairment expense was recognised for the year ended 30 June 2021 or for the prior period ended 30 June 2020.

(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.

Adoption of new and revised Accounting Standards

At the date of authorisation of these financial statements, several new Standards and amendments to existing Standards, and Interpretations have been published by the AASB.

Management have adopted all relevant pronouncements, as applicable, for the first period beginning on or after the effective date of the pronouncement.

The financial report was authorised for issue on 22 September 2021 by the Board of Directors.

NOTE 2 – OTHER EXPENSES

	30 JUNE 2021	30 JUNE 2020
	$	$
Compliance	121,011	1,080
Legal, insurance and registry	118,812	–
Office and website expenses	15,031	–
Other expenses	11,261	–
Total other expenses	**266,115**	**1,080**

NOTE 3 – INCOME TAX BENEFIT / (LOSS)

	30 JUNE 2021	30 JUNE 2020
	$	$
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: 30% (2020: 30%):		
Net loss from continuing operations	(586,764)	(5,657)
Income tax rate	30%	30%
Prima facie tax benefit on loss from activities before income tax	(176,029)	(1,697)
Tax effect of temporary differences not brought to account as they do not meet the recognition criteria	176,029	1,697
Deferred tax asset not realised as recognition criteria not met	(176,029)	
Income tax attributable to operating loss	–	–
c) Unused tax losses for which no deferred tax asset has been recognised at 30%	178,115	2,086

NOTE 4 – 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:

Mr Dudley Kingsnorth (Non-executive Chairman)	appointed 11 December 2020
Mr Bryn Jones (Non-executive Director)	appointed 1 April 2019
Mr Rickie Pobjoy (Executive (Technical) Director)	appointed 28 February 2020
Mr Damien Connor (CFO & Company Secretary)	appointed 12 November 2020

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 2021	30 JUNE 2020
	$	$
Short term benefits	40,000	–
Termination benefits	–	–
Post-employment benefits	–	–
Share - based payments	176,757	–
	216,757	**-**

NOTE 5 – AUDITOR REMUNERATION

During the year ended 30 June 2021, total fees paid or payable for services provided by Grant Thornton Ltd and its related practices were as follows:

	30 JUNE 2021	30 JUNE 2020
	$	$
Audit Services		
Audit and review of Financial Reports	32,000	–
Other Services		
Tax compliance and advisory services	3,100	–
Financial Due Diligence [1]	20,000	–
	55,100	**-**

[1] *A portion of these costs relate to expenses associated with the IPO and have been apportioned to the Statement of Profit or Loss and Equity (cost of capital) accordingly.*

NOTE 6– CASH AND CASH EQUIVALENTS

	30 JUNE 2021	30 JUNE 2020
	$	$
Available cash at bank and on hand	12,081,355	5,373
	12,081,355	**5,373**

The Group's exposure to interest rate risk is summarised at Note 19. The Company has a short-term bank deposit for $10,000 are held as security for exploration licence bond purposes which is classified as restricted cash in the Statement of Financial Position. The effective interest rate on the short-term bank deposit as at 30 June 2021 is 0.30%. This deposit has 12 month maturity term.

NOTE 7– INVESTMENT IN CONTROLLED ENTITIES

		Percentage Owned	
		30 JUNE 2021	30 JUNE 2020
	Country of Incorporation	%	%
PARENT ENTITY			
- Australian Rare Earths Limited[1]	Australia		
SUBSIDIARIES OF AUSTRALIAN RARE EARTHS LIMITED:			
- RDBD Developments Pty Ltd[2]	Australia	100	–
- QRDBD Developments Pty Ltd[3]	Australia	100	–

[1] *On 9 March 2021 the Company converted to a public company limited by shares and changed its name from Tawel Exploration Pty Ltd to Australian Rare Earths Limited.*
[2] *RDBD Developments Pty Ltd was incorporated on 17 December 2020.*
[3] *QRDBD Developments Pty Ltd was incorporated on 18 June 2021.*

NOTE 8 – EXPLORATION AND EVALUATION EXPENDITURE

	30 JUNE 2021	30 JUNE 2020
	$	$
Costs carried forward in respect of areas of interest in:		
Exploration and evaluation at cost	940,265	–
MOVEMENTS IN CARRYING AMOUNTS:		
Balance at the beginning of the year	–	–
Amounts capitalised during the year	940,265	–
Balance at 30 June 2021	**940,265**	**-**

A summary by tenement is included at Note 9. No impairment was recognised for the year ended 30 June 2021 (prior period ended 30 June 2020: none)

The Company has 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, Victorian EL007254 and any EL issued pursuant to South Australian ELA 2020/129 , and any tenements 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.

NOTE 9 – TENEMENT INTERESTS

All tenement interests are 100% owned by AR3.

The Company's tenement interests as at 30 June 2021 are as follows:

EXPLORATION LICENCES

Tenement	Grant Date	Location	Commodity	Project	Jurisdiction	2021 CARRYING VALUE	2020 CARRYING VALUE
						$	$
EL 6509	15 Sept 2020	Naracoorte	Rare earths	Koppamurra	South Australia	932,302	–
EL007254	29 Apr 2021	Apsley	Rare earths	Koppamurra	Victoria	7,963	–
						940,265	–

EXPLORATION LICENCE APPLICATIONS

Application	Application Date	Location	Commodity	Project	Jurisdiction
ELA 2020/00239	24 Dec 2020	Keith	Rare earths	Koppamurra	South Australia
ELA 2020/00240	24 Dec 2020	Bordertown	Rare earths	Koppamurra	South Australia
ELA 2020/00129	01 SEP 2020	Frances	Rare earths	Koppamurra	South Australia

NOTE 10 – TRADE AND OTHER PAYBLES

	30 JUNE 2021	30 JUNE 2020
	$	$
Trade payables	988,798	–
Other creditors and accruals	188,846	11,877
	1,177,644	**11,877**

NOTE 11 – ISSUED CAPITAL

	30 JUNE 2021	30 JUNE 2020
	$	$
110,680,000 (2020: 4) fully paid ordinary shares	12,234,403	4

30 JUNE 2021	NUMBER OF SHARES	30 JUNE 2021
		$
(a) 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 – share subdivision (28 October 2020) [1]	8,999,996	–
Shares issued - seed investors (19 November 2020)	13,000,000	1,300,000
Shares issued - fee relating to seed funds raised (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 subdivision 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.*

30 JUNE 2020	NUMBER OF SHARES	30 JUNE 2020
	$	$
(a) issued and paid up capital		
Fully paid ordinary shares	4	4
(b) Movements in fully paid shares		
Balance as at Incorporation	–	–
Shares issued – new shareholder (28 February 2020)	4	4
Balance as at 30 June 2020	**4**	**4**

NOTE 11 – ISSUED CAPITAL - *CONTINUED*

(b) Options on issue

All options on issue are unlisted options (Options). Details of the 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 2021	30 JUNE 2020
DIRECTORS	10/02/2021	25/01/2021	6,000,000	$0.30	25/01/2025	6,000,000	–
DIRECTORS	10/02/2021	25/01/2021	3,750,000	$0.45	29/06/2024	3,750,000	–
COMPANY SECRETARY	12/03/2021	25/01/2021	250,000	$0.45	29/06/2024	250,000	–
CONSULTANT	23/04/2021	16/04/2021	180,000	$0.45	29/06/2024	180,000	–
BROKER	16/06/2021	11/06/2021	2,417,200	$0.45	29/06/2024	2,417,200	–
			12,597,200			**12,597,200**	–

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 Options

On 10 February 2021, the Company issued 5,750,000 unlisted options, in aggregate, to Directors following shareholder approval on 25 January 2021. 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:

- 2,000,000 Options, exercisable at $0.30 each and expiring on 25 January 2025.
- 3,750,000 Options, exercisable at $0.45 each and expiring on 29 June 2024.

On 15 April 2021, shareholders approved a subdivision of the Company's shares on issue and also the 2,000,000 Options issued to Directors (as detailed above) on a three for one basis. This resulted in the 2,000,000 Options exercisable at $0.30 each and expiring on 25 January 2025, becoming 6,000,000 Options exercisable at $0.30 each and expiring on 25 January 2025.

Options issued to Directors were issued as remuneration pursuant to their respective employment agreements with the Company. The options vested on the date of grant and had a fair value of $95,505 which was expensed to the statement of profit or loss and other comprehensive income during the year.

Company Secretary Options

On 12 March 2021, 150,000 Options were issued to the Company Secretary as consideration for providing financial and company secretarial services to the Company. The Options are exercisable at $0.45 each and expire on 29 June 2024.

Options issued to the Company Secretary were issued as remuneration pursuant to a services agreement with the Company. The options vested on the date of grant and had a fair value of $3,252 which was expensed to the statement of profit or loss and other comprehensive income during the year.

Consultant Options

On 23 April 2021, 180,000 Options were issued to a third party consultant for providing services to the Company. The Options are exercisable at $0.45 each and expire on 29 June 2024. The options vested on the date of grant and had a fair value of $161 which was expensed to the statement of profit or loss and other comprehensive income during the year.

Broker Options

On 16 June 2021, 2,417,200 Options were issued Taylor Collision Limited (or nominee), pursuant to the terms of a mandate with the Company for the provision of lead manager services associated with the Company's initial public offering. The Options are exercisable at $0.45 each and expire on 29 June 2024.

The options vested on the date of grant and had a fair value of $261,744 was recorded against issued capital within the Statement of Financial Position (being a cost of raising capital).

(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 12 – EARNINGS PER SHARE

	30 JUNE 2021	30 JUNE 2020
	$	$
Reconciliation of loss to Statement of Profit or Loss and other Comprehensive Income		
Loss for year used to calculate basic EPS	(586,764)	(5,657)
	NUMBER	***NUMBER***
a) Weighted average number of shares outstanding during the year used in calculation of basic EPS	24,796,933	18,049,315
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 13 – RESERVES

	30 JUNE 2021	30 JUNE 2020
	$	$
Share based payment reserve	360,622	–
Movement associated with Options during the year:		
Opening balance	–	–
Issued	360,662	–
Forfeited/Lapsed	–	–
Closing balance	**360,622**	**–**

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 June2021 (period ended 30 June 2020: None).

An amount of $98,918 was expensed to the statement of profit or loss and other comprehensive income for the year ended 30 June 2021 in respect of unlisted options that were issued to Directors, the Company Secretary and third party service providers (30 June 2020: nil).

Additionally, an amount of $261,744 relating to Options issued to advisor Taylor Collision Limited during the year, pursuant to the terms of a mandate with the Company for the provision of lead manager services associated with the Company's initial public offering, was recorded against issued capital within the Statement of Financial Position (being a cost of raising capital).

Refer Note 14 for further details regarding the fair value of Options issued during the year ended 30 June 2021.

NOTE 14– SHARE BASED PAYMENTS

A) UNLISTED OPTIONS

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

	NUMBER OF SHARES	30 JUNE 2021	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
		$	
Opening Balance	–	–	–
Granted to KMP as remuneration	10,000,000	98,757	$0.36
Granted to third party advisors and consultants	2,597,200	261,905	$0.45
Exercised	–	–	–
Forfeited/Lapsed	–	–	–
Closing balance	**12,597,200**	**360,622**	**$0.38**

Weighted average remaining contractual life of Options at 30 June 2021 is 3.19 years (30 June 2020: n/a)

30 JUNE 2021

Options granted during the year

Director Options

On 10 February 2021, the Company issued 5,750,000 unlisted options, in aggregate, to Directors following shareholder approval on 25 January 2021. 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:

- 2,000,000 Options, exercisable at $0.30 each and expiring on 25 January 2025.
- 3,750,000 Options, exercisable at $0.45 each and expiring on 29 June 2024.

On 15 April 2021, shareholders approved a subdivision of the Company's shares on issue and also the 2,000,000 Options issued to Directors (as detailed above) on a three for one basis. This resulted in the 2,000,000 Options exercisable at $0.30 each and expiring on 25 January 2025, becoming 6,000,000 Options exercisable at $0.30 each and expiring on 25 January 2025.

Options issued to Directors were issued as remuneration pursuant to their respective employment agreements with the Company.

The Options vested on the date of issue and had a fair value at the grant of $95,505.

Company Secretary Options

On 12 March 2021, 150,000 Options were issued to the Company Secretary as consideration for providing financial and company secretarial services to the Company. The Options are exercisable at $0.45 each and expire on 29 June 2024.

Options issued to the Company Secretary were issued as remuneration pursuant to a services agreement with the Company.

The Options vested on the date of issue and had a fair value at the grant of $3,252.

Consultant Options

On 23 April 2021, 180,000 Options were issued to a third party consultant for providing services to the Company. The Options are exercisable at $0.45 each and expire on 29 June 2024.

The Options vested on the date of issue and had a fair value at the grant of $161.

Broker Options

On 16 June 2021, 2,417,200 Options were issued Taylor Collision Limited (or nominee), pursuant to the terms of a mandate with the Company for the provision of lead manager services associated with the Company's initial public offering. The Options are exercisable at $0.45 each and expire on 29 June 2024.

The Options vested on the date of issue and had a fair value at the grant of $261,744.

Details of the 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	VESTING DATE	EXPIRY DATE
DIRECTORS	10/02/2021	25/01/2021	6,000,000	$0.30	10/02/2021	25/01/2025
DIRECTORS	10/02/2021	25/01/2021	3,750,000	$0.45	10/02/2021	29/06/2024
COMPANY SECRETARY	12/03/2021	25/01/2021	250,000	$0.45	12/03/2021	29/06/2024
CONSULTANT	23/04/2021	16/04/2021	180,000	$0.45	23/04/2021	29/06/2024
BROKER	16/06/2021	11/06/2021	2,417,200	$0.45	16/06/2021	29/06/2024
			12,597,200			

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 the grant using the following assumptions:

ASSUMPTION	DIRECTOR OPTIONS	DIRECTOR OPTIONS	COMPANY SECRETARY OPTIONS	CONSULTANT OPTIONS	BROKER OPTIONS
Exercise price ($)	0.30	0.45	0.45	0.45	0.45
Share price at date of grant ($)	0.10	0.10	0.10	0.033	0.30
Historic volatility (%)	66.3	67.5	67.5	70.1	71.4
Risk free interest rate (%)	0.38	0.11	0.11	0.10	0.01
Expected life of Options (days)	1,461	1,251	1,251	1,170	1,114

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.

NOTE 14– SHARE BASED PAYMENTS - *CONTINUED*

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

An amount of $98,918 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 2021 (30 June 2020: nil) relating to the fair value of options issued to the Directors, Company Secretary and consultant.

An amount of $261,744 has been included in the Statement of Financial Position for the year ended 30 June 2021, under 'issued capital' (being a cost of raising capital) relating to the fair value of Options issued to Taylor Collision Limited (or nominee), pursuant to the terms of a mandate with the Company for the provision of lead manager services associated with the Company's initial public offering.

Options exercised during the period

No Options issued as remuneration or as payment for services provided to the Company, have been exercised during the year ended 30 June 2021 (30 June 2020: n/a), or as at the date of this report.

Options lapsed/forfeited during the period

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 2021 (30 June 2020: n/a), or as at the date of this report.

30 JUNE 2020

No Options were issued or outstanding during the prior period ended 30 June 2020.

B) SHARES

30 June 2021

Shares issued to KMP

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/service agreements with the Company.

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 subdivision 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).

An amount of $78,000 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 2021.

The table below details shares issued as remuneration to each KMP during the year:

2021 SHARES	NUMBER. ISSUED	ISSUE DATE	FAIR VALUE	
ISSUED TO			$/SHARE	FULL VALUE ($)
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**

Shares issued to Broker

On 19 November 2020, 780,000 Shares were issued, in aggregate, to Taylor Collision Limited (or nominee) in lieu of cash fees associated with raising seed capital, pursuant to the terms of a mandate with the Company for the provision of lead manager services associated with the Company's initial public offering. The fair value of the shares issued was $78,000.

On 15 April 2021, shareholders approved a subdivision 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).

An amount of $78,000 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 2021.

30 June 2020

There were no shares issued as remuneration during the prior year ended 30 June 2020.

NOTE 15 – CASH FLOW INFORMATION

a) Reconciliation of cash flows from operations with Loss after Income Tax	30 JUNE 2021	30 JUNE 2020
	$	$
Loss after income tax	(586,764)	(5,657)
Exploration expenditure expensed	68,554	23,187
Share based payments expense	176,918	–
Loan from related parties forgiven	(4,000)	(20,000)
Changes in assets and liabilities:		
- Increase in trade and other receivables	(117,621)	(851)
- Increase in trade and other payables	248,010	–
Net cash used in operating activities	**(214,903)**	**(3,321)**

NOTE 16 – OPERATING SEGMENTS

The Directors have considered the requirements of AASB 8 - Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources have concluded at this time there are no separately identifiable segments.

NOTE 17 – 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.

	30 JUNE 2021	30 JUNE 2020
	$	$
EXPLORATION EXPENDITURE COMMITMENTS		
Expenditure Commitment	533,295	–

Other than the commitments disclosed above, the Group does not have any further commitments at 30 June 2021 (30 June 2020: Nil).

b) Contingent Assets/Liabilities

Contingent assets

The Group did not have any contingent assets as at 30 June 2021 (30 June 2020: Nil).

Contingent Liability

The Company has procured an unconditional bank guarantee from the Commonwealth Bank of Australia for an amount of $10,000, in respect of a rehabilitation bond required as part of the licence conditions associated with the granting of EL007254 in Victoria. The bank guarantee is cash backed by a short-term deposit of the same value (refer Note 6).

The Company had no contingent liabilities during the prior period ended 30 June 2020.

NOTE 18–RELATED PARTY TRANSACTIONS

a) Subsidiaries

Interests in subsidiaries are disclosed in Note 7.

b) Key Management Personnel

Disclosures relating to Key Management personnel are set out in Note 4 and the Remuneration Report contained within the Directors' Report.

c) Other transactions with related parties

During the 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 the 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.

During the prior period ended 30 June 2020, Directors of the Company, Mr Jones and Mr Pobjoy, each loaned $10,000 to the Company (Debt) to fund its operations ($20,000 in aggregate). Mr Jones and Mr Pobjoy (Lenders) each determined to release the Company from their respective Debt owing the them by the Company as at 30 June 2020, in accordance with the terms of a Deed of Release between each of the Directors and the Company.

NOTE 19 – FINANCIAL INSTRUMENTS

a) Financial Risk Management Policies

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

b) Non-Cash Financing and Investing Activities

There were no non-cash financing and investing activities undertaken during the current or prior reporting periods.

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 consolidated group 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.

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.

	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE		INTEREST BEARING		NON-INTEREST BEARING		TOTAL	
	2021 %	2020 %	2021 $	2020 $	2021 $	2020 $	2021 $	2020 $
FINANCIAL ASSETS								
Cash at bank	–	–	12,081,355	5,373	–	–	12,081,355	5,373
Deposits	0.30%	–	10,000	–	–	–	10,000	–
Receivables			–	–	88,099	851	88,099	851
TOTAL FINANCIAL ASSETS			**12,091,355**	**5,373**	**88,099**	**851**	**12,179,454**	**6,224**
FINANCIAL LIABILITIES								
Payables			–	–	–	–	(1,177,644)	(11,877)
TOTAL FINANCIAL LIABILITIES			**-**	**-**	**(1,177,644)**	**(11,877)**	**(1,177,644)**	**(11,877)**
TOTAL NET FINANCIAL ASSETS /(LIABILITIES)			**12,091,355**	**5,373**	**(1,089,545)**	**(11,026)**	**11,001,810**	**(5,653)**

b) Sensitivity Analysis

Interest Rate and Price Risk

The Group 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.

Interest Rate Sensitivity Analysis

At 30 June 2021, 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:

	2021	2020
	$	$
Change in loss		
- Increase in interest rates by 2%	200	–
- Decrease in interest rates by 2%	(200)	–
Change in equity		
- Increase in interest rates by 2%	200	–
- Decrease in interest rates by 2%	(200)	–

c) Net Fair Value of Financial Assets and Liabilities

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

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

d) 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.

NOTE 20 – EVENTS SUBSEQUENT TO REPORTING DATE

Following the Company's admission to the Official List of the Australian Securities Exchange (ASX) on Tuesday, 29 June 2021, official quotation of the Company's securities on ASX commenced on Thursday, 1 July 2021.

The Directors are not aware of any matter or circumstance that has arisen since 30 June 2021 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 21 – AUSTRALIAN RARE EARTHS LIMITED PARENT COMPANY INFORMATION

PARENT ENTITY	30 JUNE 2021	30 JUNE 2020
	$	$
ASSETS		
Current assets	12,199,825	6,224
Non-current assets	950,743	–
Investments in subsidiaries	2	–
TOTAL ASSETS	**13,150,570**	**6,224**
LIABILITIES		
Current liabilities	1,177,644	11,877
Non-current liabilities	–	–
TOTAL LIABILITIES	**1,177,644**	**11,877**
EQUITY		
Issued capital	12,204,685	4
Share based payments reserve	360,662	–
Retained losses	(592,421)	(5,657)
TOTAL EQUITY	**11,972,926**	**(5,653)**
FINANCIAL PERFORMANCE		
Loss for the year	(586,764)	(5,657)
Other comprehensive income	–	–
TOTAL LOSS	**(586,764)**	**(5,657)**

Guarantees in 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 and QRDBD Developments Pty Ltd.

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 17, the Company has no contingent assets, liabilities or commitments as at 30 June 2021.

Rick Pobjoy (Technical Director) and Professor Dudley Kingsnorth (Non-Exectuive Chairman) reviewing the latest drilling data on-site at Koppamurra

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the Financial Statements and Notes as set out on pages 32 to 61 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 2021 and of the performance for the period ended on that date of the Consolidated Group;
2. the Managing Director and the Chief Financial Officer have each declared that:
   a) the financial records of the Company for the year ended have been properly maintained in accordance with section 286 of the Corporations Act 2001
   b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   c) the financial statements and notes give a true and fair view;
3. in the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Dudley J. Kingsnorth
Non-executive Chairman

Perth
Dated this 22nd day of September 2021

Level 3, 170 Frome Street
Adelaide SA 5000

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Adelaide SA 5001

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Independent Auditor's Report

To the Members of Australian Rare Earths Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Australian Rare Earths Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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 2021 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 8	
At 30 June 2021 the carrying value of exploration and evaluation assets was $940,265 In accordance with AASB 6 Exploration for and Evaluation of Mineral Resources, the Group is required to assess at each reporting date if there are any triggers for impairment which may suggest the carrying value is in excess of the recoverable value. The process undertaken by management to assess whether there are any impairment triggers in each area of interest involves an element of management judgement. This area is a key audit matter due to the significant judgement involved in determining the existence of impairment triggers.	Our procedures included, amongst others: • obtaining the management reconciliation of capitalised exploration and evaluation expenditure and agreeing to the general ledger; • 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 financial report for the year ended 30 June 2021, 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.

Grant Thornton

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: https://www.auasb.gov.au/auditors_responsibilites/ar2_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 pages 21 to 28 of the Directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Australian Rare Earths Limited, for the year ended 30 June 2021 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, 22 September 2021

ADDITIONAL INFORMATION

Compiled as at 1 September 2021

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

SHAREHOLDER INFORMATION

Substantial Shareholders

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

Shareholder	*Number ordinary shares held*	*% Ordinary shares held*
BEECHCREST INVESTMENTS PTY LTD <JONES FAMILY A/C> and MR BRYN LLYWELYN JONES + MRS KELLIE NICOLE JONES <TAWEL SUPERANNUATION A/C>	15,270,000 shares	13.79%
ACORN CAPITAL LTD	15,267,419 shares	13.79%
TOO UP HOLDINGS PTY LTD <POBJOY FAMILY A/C>	14,070,000 shares	12.71%

Distribution of equity securities

Number of security holders by size of holding:

Range	*Ordinary Shares*	*Unlisted Options*
1 - 1,000	258	–
1,001 - 5,000	395	–
5,001 - 10,000	180	–
10,001 - 100,000	323	–
100,001 and over	103	6
TOTAL	**1,259**	**6**

Unmarketable Parcels	*Minimum parcel size*	*Holders*	*Ordinary Shares*
Minimum $500.00 parcel at $1.02 per share	491 shares	51	17,815

Voting Rights

At meeting of members or classes of members.

Ordinary shares

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

Unlisted options

No voting rights.

Twenty largest holders of each class of quoted equity security

Ordinary Shares

Rank	Name	Shares	% Issued capital
1	BEECHCREST INVESTMENTS PTY LTD <JONES FAMILY A/C>	14,070,000	12.71
2	TOO UP HOLDINGS PTY LTD <POBJOY FAMILY A/C>	14,070,000	12.71
3	BNP PARIBAS NOMINEES PTY LTD <DRP A/C>	8,666,668	7.83
4	BNP PARIBAS NOMS PTY LTD <DRP>	6,788,506	6.13
5	NEO PERFORMANCE MATERIALS INC	3,333,333	3.01
6	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,649,966	2.39
7	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,608,019	2.36
8	TAYCOL NOMINEES PTY LTD <211 A/C>	2,340,000	2.11
9	MAXIMUS FLANNERY PTY LTD <FINCO INVESTMENT A/C>	1,466,667	1.33
10	DAD'S MONEY PTY LTD <TOM PORTER SUPER FUND A/C>	1,333,334	1.20
11	KHAZA NOMINEES PTY LTD	1,333,334	1.20
12	LOTAKA PTY LTD	1,333,334	1.20
13	UBS NOMINEES PTY LTD	1,315,515	1.19
14	MR MICHAEL ANDREW WHITING + MRS TRACEY ANNE WHITING <WHITING FAMILY S/F A/C>	1,200,000	1.08
15	AJSM SUPER PTY LTD	1,066,667	0.96
16	GP SECURITIES PTY LTD	1,066,667	0.96
17	MR BRYN LLYWELYN JONES + MRS KELLIE NICOLE JONES <TAWEL SUPERANNUATION A/C>	1,066,667	0.96
18	STUART MORGAN BROWN <STUART BROWN FAMILY A/C>	983,333	0.89
19	CALAMA HOLDINGS PTY LTD <MAMBAT SUPER FUND A/C>	933,333	0.84
20	EQUITY TRUSTEES LIMITED <LOWELL RESOURCES FUND A/C>	833,333	0.75
Total		**68,458,676**	**61.85**

Corporate Governance Statement

For the Year Ended 30 June 2021

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

CORPORATE DIRECTORY

DIRECTORS

Dudley Kingsnorth – Non-Executive Chairman
Bryn Jones – Non-Executive Director
Rickie Pobjoy – Non-Executive Director

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

Damien Connor

REGISTERED OFFICE

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SOLICITOR

O'Loughlins Lawyers
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BANKERS

Commonwealth Bank of Australia
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AUSTRALIAN SECURITIES EXCHANGE

The Company is listed on the Australian Securities Exchange

ASX CODE: AR3

AUSTRALIAN RARE EARTHS

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