ARAFURA
RARE EARTHS LIMITED

ANNUAL REPORT 2023

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30 June 2023

Arafura Rare Earths Limited

ABN 22 080 933 455

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ARAFURA
RARE EARTHS LIMITED

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For enquiries specific to shares,
please contact our Share Registry:
Link Market Services
T: 1300 554 474

CORPORATE DIRECTORY

Directors	Mark Southey | Chairman & Non-Executive Director Gavin Lockyer | Managing Director & Chief Executive Officer Chris Tonkin | Non-Executive Director Quansheng Zhang | Non-Executive Director (resigned 18 May 2023) Cathy Moises | Non-Executive Director Darryl Cuzzubbo | Non-Executive Director
Company Secretary	Catherine Huynh
Annual General Meeting to be held at	BDO Audit (WA) Pty Ltd Level 9, Mia Yellagonga Tower 2 5 Spring Street Perth WA 6000
Time	10:00am (WST)
Date	Thursday, 19 October 2023
Closing date of director elections	30 August 2023 Nominations must be received at Company's registered office by 5:00pm (AWST) on this day.
Principal registered office in Australia	Level 6, 432 Murray Street Perth WA 6000
Share Registry	Link Market Service Ltd QV1 Building, Level 12, 250 St Georges Terrace Perth WA 6000
Auditors	BDO Audit (WA) Pty Ltd Level 9, Mia Yellagonga Tower 2 5 Spring Street Perth WA 6000
Solicitors	Johnson Winter and Slattery Level 49, 152-158 St Georges Terrace Perth WA 6000
Bankers	Westpac Banking Corporation Tower 2, Level 3 123 St Georges Terrace Perth WA 6000
Stock Exchange Listings	Arafura Rare Earths Limited shares are listed on the Australian Stock Exchange under the ticker code "ARU".
Website	www.arultd.com

CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of my Board colleagues, it is my pleasure to present the Arafura Rare Earths 2023 Annual Report.

The past year has been one of significant maturation for Arafura, with our team taking important strides forward in establishing the Company as the world's major new rare earths producer.

While offtake and funding activities remain centre stage for the business, our steady advance along the critical path toward construction means we can now clearly demonstrate progress at the Nolans Project to our customers and other stakeholders.

Our current and prospective offtake partners remain focused on their requirements for a sustainable supply of responsibly mined and produced Neodymium and Praseodymium (NdPr). Continued turbulence in the global geopolitical landscape combined with the rapid evolution of efforts by leading economies to decarbonise and reach net zero positions, ensures that the Nolans Project's role as a truly unique, globally significant and near-term supplier of critical rare earths endures.

Despite the easing of global economic volatility experienced through 2020 to 2022, new challenges have emerged in our project development environment. In this context, our commercial and operational progress during the 2023 financial year focused on mitigating potential risks to the critical path for the Nolans Project associated with costs, labour, equipment and other supply chain issues.

This year saw the commencement of on-country works, beginning with enabling works that included the establishment and rehabilitation of more than 25 kilometres of site access roads, earthworks for the site construction camp and installation of the site fly-camp to house 48 contractors.

This was followed by early construction works focused on establishing a permanent water supply via a major arterial pipeline, and installation and commissioning of the first two stages of a 400-person construction village plus associated site services and infrastructure.

The company is now positioned to move into full construction, with a focus on meeting our schedule for first production. With sights set firmly on this exciting next phase, your Board is increasingly focussed on the market, economic, supply chain and sustainability factors required to finalise the funding requirements and make a final investment decision to commence construction of the Nolans Project in this financial year.

CHAIRMAN'S REPORT

Offtake

Significantly, this year was marked by the signing of binding offtake agreements with foundation customers Hyundai Motor Company and Kia Corporation, and Siemens Gamesa Renewable Energy. These arrangements directly connect Arafura to three of the world's leading electric vehicle and renewable energy technology brands – household names that are universally recognised as trailblazers in their fields.

Our team continues to engage in advanced negotiations with several other global Tier 1 businesses and OEMs to round out the remainder of the Company's offtake target – including the progression of negotiations with General Electric Company (GE), following the signing of a Memorandum of Understanding last financial year – with the goal of finalising remaining binding offtake agreements during the 2023 calendar year.

Project Financing

A highlight of this year was the successful completion in January of a placement and Share Purchase Plan (SPP) that raised a combined $141 million before costs.

We received firm commitments from Australian and international investors for approximately A$121 million under a placement of fully paid ordinary shares over two tranches at an issue price of A$0.37 per share (refer to ASX announcements dated 5 December 2022 and 12 December 2022).

The placement included a cornerstone A$60 million investment by Hancock Prospecting, which resulted in a post-completion interest of 10.01% in Arafura – welcome recognition of Hancock 's interest in our vision to be the world's next significant rare earths supplier.

To augment the capital raising we launched an SPP for eligible shareholders to raise A$12 million (before costs). In a clear demonstration of shareholder support for Arafura, the SPP was heavily oversubscribed; to recognise the commitment of shareholders, the Board approved an increase in the amount offered to shareholders, to A$20 million – A$8 million in oversubscriptions.

Funds from the successful raising enabled us to take steps to de-risk the Nolans development path, including enabling and early construction works on site, continued engineering, procurement of long-lead and critical path items, commencement and optimisation of fabrication, and advanced contract development for the construction of the hydrometallurgical plant.

The debt-led funding strategy for the Nolans Project continued to develop over the course of the year with the receipt of indicative support from export credit agencies in jurisdictions aligned with our offtake partners and targets. This included the receipt of in-principle support for an untied loan guarantee of up to US$600 million from Germany's Euler Hermes Aktiengesellschaft (Euler Hermes) conditional on offtake by German companies; and a Letter of Interest from Canadian export credit agency Export Development Canada (EDC) for the provision of potential financing of up to US$300 million, facilitated via a strategic arrangement between EDC and GE.

Locally, the Northern Australia Infrastructure Facility (NAIF) increased its in-principle support for the Nolans Project from A$100 million to A$150 million, taking combined indicative domestic export credit agency support from NAIF and Export Finance Australia to A$350 million.

This critical support for the Nolans Project is clear demonstration of the strategic significance of the project and its capacity to provide critical NdPr to meet the needs of major businesses in key global jurisdictions.

Market Fluctuations

This financial year has seen a significant increase in the volatility of the NdPr price, from early highs of more than US$140 per kilogram at the start of the year to lower levels of around US$60 per kilogram. This softening has been attributed to ongoing demand weakness for sintered magnets used in the downstream manufacturing and industrial sectors, along with a macro-economic slowdown in China.

Encouragingly, end markets for NdPr experienced strong growth, with global electric vehicle sales reaching record highs toward the end of the year. This demand trajectory underpins Arafura's positioning as a future supplier capable of meeting significant demand for NdPr.

CHAIRMAN'S REPORT

Sustainability and Our Path to Net Zero

For Arafura, ESG performance and sustainability initiatives are at the core of our business, recognising the direct relationship between our ability to meet our targets and the commercial success of our offtake partners.

Arafura's second Sustainability Report was published in October 2022, detailing the ways in which the Company continued to demonstrate an enduring commitment to sustainable project development and responsible mining.

Our stated sustainability targets are aligned to and benchmarked against the World Economic Forum's global framework for ESG performance. Our reporting against the framework will steadily expand in detail and sophistication as we progress the development of the Nolans Project and move into production, along with attaining membership of the Initiative for Responsible Mining Assurance and supporting the advancement of broader responsible mining through independent third-party certification and verification of social and environmental performance.

Reflecting Arafura's commitment to a 2050 net zero target, we released the greenhouse gas (GHG) emissions reduction pathway for the Nolans Project in January 2023. This critical document details the Company's chosen route to achieve our emissions targets through solar, wind, battery storage and concentrated solar thermal generation.

As a summary of our 2050 net zero emissions approach, we are seeking 50% of project power from solar and wind with battery storage by 2030; a transition to concentrated solar thermal generation, with thermal energy storage for steam generation, from 2030; and the use of renewable fuels for firming power commencing in 2040.

Importantly, analysis demonstrates that our reduction pathway is likely to reduce total energy costs over the first 14 years of production, and only result in a minor increase in costs over the Nolans Project life of mine.

The public release of our emissions reduction pathway has provided our offtake partners, investors and stakeholders with a sound understanding of how we intend to meet our net zero 2050 target. It is important to acknowledge that rare earths processing is an energy intensive process, and we will need to address various challenges in decarbonising our activities. Nonetheless, we have a target, a plan to get there, and a strong commitment to steady progress, innovation and adopting new technologies as they arise and are proven.

Looking Forward

After many years of progressing the Nolans Project there is no doubt that all that has been achieved this year - signing major off-take agreements, progression of our debt and financing activities, continuing maturity in our approach to sustainability and ESG performance, and boots on the ground at site – continue to provide significant confidence to Arafura's growing team and the Board.

Progress continues apace, and I am absolutely confident that the coming year is set to be transformational for Arafura as we get set to realise our long-held aspiration of moving into full construction at the Nolans Project.

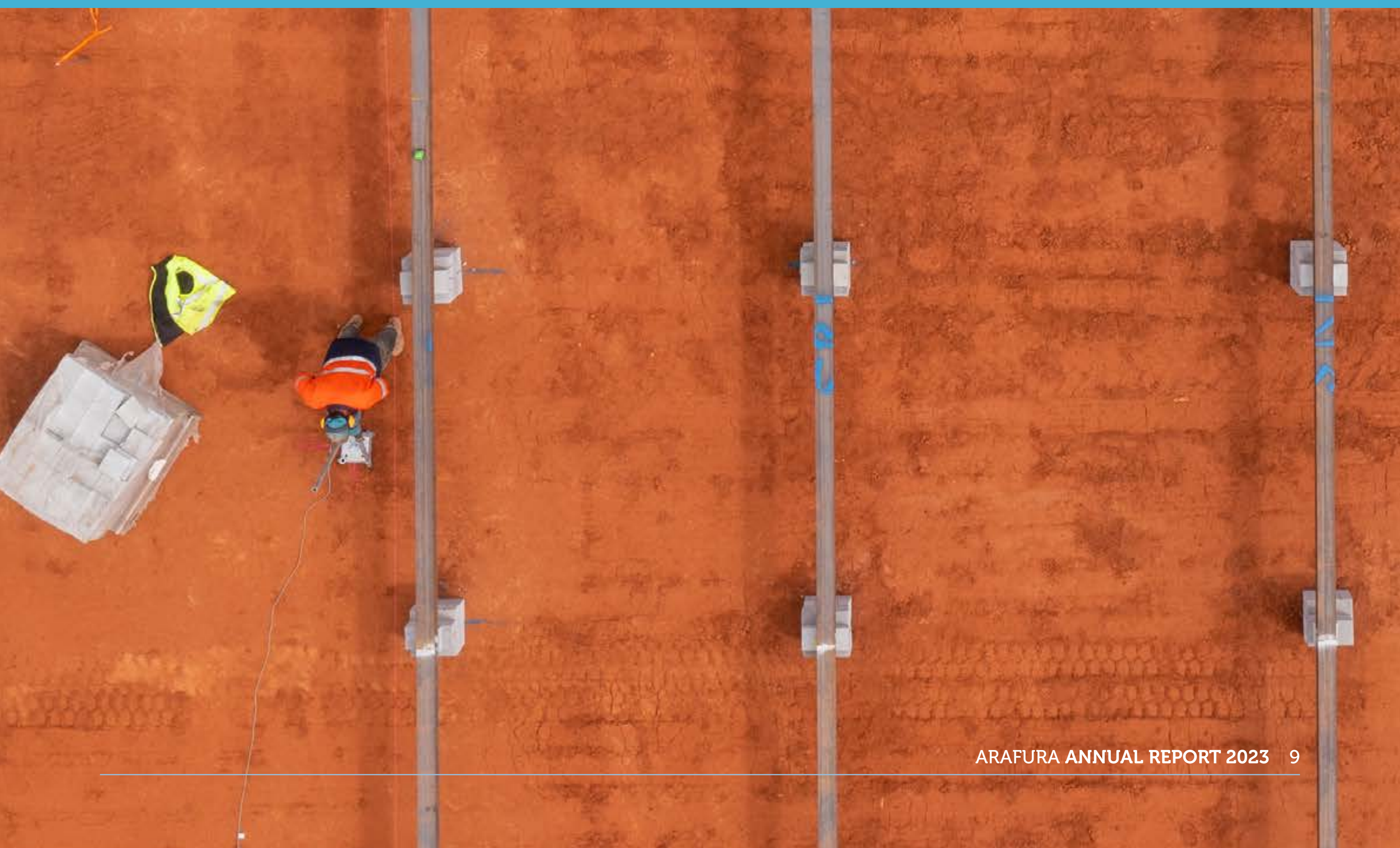
In closing I wish to thank my fellow Directors, Managing Director Gavin Lockyer, and the entire Arafura team for their continued hard work, and their unwavering commitment to realising the immense opportunity that the Nolans Project represents.

I look forward to sharing the successes of the coming year with you, our shareholders, as we advance the world's next major rare earths project into full construction and ultimately production.

Mark Southey

Chairman

RARE EARTHS ARE AN ESSENTIAL PART OF TODAY'S LIFESTYLE & THE MODERN ECONOMY.



MANAGING DIRECTOR'S REVIEW

I am very pleased to report to Shareholders that the recently ended financial year has been one of our strongest and most fruitful to date.

Significant efforts to progress project financing, offtake arrangements, procurement and early construction activities at site have meant that the Company is now positioned strongly to move into full construction at our Nolans Project.

Of course, growth and forward momentum of this scale are never without challenges and there have been economic and commercial factors that had to be managed throughout the year. In the steady hands of a committed Board and talented team, the Company is now in a state of readiness for the next critical phase of project development.

Project Financing

In total, strategic funding activities during the year raised more than A$180 million from new and existing investors. This reflected significant and ongoing equity market interest in Arafura's tier one asset and vertically integrated corporate strategy.

A placement of fully paid shares in December 2022 occurred in two tranches. Tranche one involved the issue of 259 million shares at A$0.37 per share to raise A$95.9 million pursuant to the Company's existing placement capacity under ASX Listing Rule 7.1; tranche two involved the issue of a further 67.9 million shares at the same price to raise A$25.1 million.

A concurrent Share Purchase Plan (SPP) for eligible shareholders raised an additional A$20 million before costs. The SPP was heavily oversubscribed with a total of 5,510 applications received, representing a total application value of approximately A$81.5 million. Of this, about A$1.2 million was received from ineligible shareholders and those applications were rejected. The Company also used its discretion to reject applications from shareholders who held less than or equal to 100 shares at record date.

While separate, these two funding activities raised a combined A$141 million before costs.

An earlier placement in August 2022 raised A$41.5 million before costs from domestic and overseas institutional and professional investors under a placement of fully paid ordinary shares at an issue price of A$0.265 per share. Approximately 156.7 million new shares were issued as part of the placement.

We were very pleased to see Hancock Prospecting emerge as a cornerstone investor, respectful of the business's significant mining sector experience and project delivery expertise.

In January 2023 KfW Ipex-Bank (KfW) was appointed as an additional Mandated Lead Arranger (MLA) and bookrunner to arrange and syndicate the debt financing facility for the Nolans Project, joining existing MLA Société Generale who was appointed in 2022. KfW is a leading specialist financier dedicated to project and export finance with six decades of experience; the appointment also includes KfW providing export credit agency (ECA) structuring advice.

As detailed in the Chairman's Review, the receipt of in-principle debt funding support during the year included up to US$600 million from German ECA Euler Hermes Aktiengesellschaft

MANAGING DIRECTOR'S REVIEW

(Euler Hermes) tied to offtake by German companies, and a Letter of Interest from Canadian ECA Export Development Canada (EDC) for the provision of potential debt financing of up to US$300 million. Locally, indicative support from domestic ECAs the Northern Australia Infrastructure Facility and Export Finance Australia increased to a combined A$350 million.

Separate to our comprehensive activities to progress debt and equity financing, we executed our Modern Manufacturing Initiative Grant Agreement with the Commonwealth Government for A$30 million and received our first grant payment of A$6 million before the end of the year.

Cash Position

The August and mid-year capital raisings significantly improved our end of year cash position. Arafura finished 30 June 2023 with A$128.8 million cash at bank or equivalents, compared with A$24.6 million at 30 June 2022. This cash position represents sufficient funds to continue Arafura's current progress up to and including targeted financial contractual close and a final investment decision for the Nolans Project.

Offtake Achievements

Arafura has remained rigorously focused on delivering the long-term offtake strategy for the Nolans Project. The signing of binding offtake agreements during the year with South Korea's Hyundai Motor Company (Hyundai) and Kia, and Germany's Siemens Gamesa Renewable Energy (Siemens), represents approximately 53% of our target to secure 85% of annual production under long-term sale arrangements. Together the agreements represent a significant achievement by our marketing team and reflect many years of effort on their part.

Our offtake agreement with Hyundai is for the supply of NdPr from Nolans over a seven-year term, with the option to extend for a further five years by mutual agreement. Under the terms of the agreement, Hyundai or Kia may choose whether to be supplied with NdPr oxide or equivalent in NdPr metal. Contract volumes (per contract year) for NdPr oxide are 600 tonnes per annum (tpa) in year one, increasing to 1,500tpa in years four to seven to align with ramp up of production at the Nolans Project.

The offtake agreement with Siemens is for a five-year term, with the option to extend by a further two years by mutual agreement. Contract volumes (per contract year) for NdPr metal to Siemens are 200tpa in year one, increasing to 360tpa in year two and 400tpa in years three to five to align with the ramp up of the Nolans Project.

Hyundai, Kia and Siemens are household names and pioneers in their respective industries. With a presence in nearly every country in the world, Hyundai is focused on global leadership and commitment to an electric vehicle future by transforming its vehicle production and supply chain, including securing critical minerals such as NdPr to de-risk its permanent magnet supply chain. Siemens has been a leader in the global wind industry for more than 40 years, with a leading commercial position in the provision of onshore and offshore wind energy projects.

The offtake agreements signed this year align with Arafura's strategy to form offtake relationships with Tier 1 manufacturers and OEMs, primarily in the automotive and renewable energy sectors, from geographic regions with supportive ECAs. In our ongoing negotiations with prospective offtake partners, we seek to secure agreements with customers that are strategically aligned with our value proposition of supply chain diversification, product traceability and security of supply with high ESG standards.

Following the signing of a Memorandum of Understanding with General Electric Company (GE) last year, we continued detailed negotiations this year with a view to finalising an offtake agreement that will contribute to GE's wind turbine manufacturing activities, supporting the global transition to renewable power and decarbonisation.

Our engagement with GE during the year was multifaceted. In addition to the receipt of EDC's Letter of Interest for up to US$300 million in in-principle debt funding support – linked to a strategic arrangement between EDC and GE – our independent power provider APA Group will work to implement cogeneration power plant technology supplied by GE at the Nolans Project.

Procurement Progress

It is worth recapping that at the end of the 2022 financial year, the front-end engineering and design (FEED) program for the Nolans Project had advanced engineering and equipment procurement to allow Arafura to tender for fixed price construction contracts. In parallel our integrated project management team had progressed other elements necessary for project execution and to enable identification of key suppliers and commencement of procurement, including local Indigenous business involvement in Nolans.

MANAGING DIRECTOR'S REVIEW

This critical preparation work for development continued throughout the 2023 financial year, with steady progress ensuring best practice in procurement through competitive tender processes, due diligence, and mitigation of a range of risks through early and long-lead procurement to reduce cost and supply challenges.

During the year Monadelphous was selected as the preferred construction contractor for the Nolans Project hydrometallurgical plant and commenced ECI engagement with Arafura.

More recently, MACA Interquip was selected as the preferred contractor for the Project's beneficiation plant and similarly engaged to complete an ECI phase to optimise the plant's design.

Shortly after the end of the year, APA Group was appointed as our preferred independent power provider for the Nolans Project and awarded the early works contract for the proposed high efficiency cogeneration plant.

Early Construction

A wide range of enabling works and early construction activities on site at the Nolans Project commenced in the second half of the year. In effect, Arafura has 'broken ground' on site and established the infrastructure and services required to support an ongoing construction workforce, setting the stage for a move to full construction. The range of activities undertaken during the year encompassed accommodation and services, infrastructure, water supply, site access and site preparation. These are detailed in the following Operations Report.

Exploring Options for a Diversified Rare Earths Supply Chain

During the year Arafura signed a non-binding Co-operation Agreement to investigate the joint development of the Minhub Mineral Sands Processing Facility (the Minhub Project) in Darwin, in partnership with FYI Resources. The Minhub Project seeks to establish an innovative, potentially high return independent rare earths processing plant for use by emerging projects, with the potential to significantly expand the supply of rare earths feedstocks to the Nolans Project and reduce barriers to entry of other rare earths projects in Australia. The Company will continue to explore the opportunities associated with the Minhub Project over the coming year.

Emissions Reduction Pathway

The Chairman's message outlines the public release of our greenhouse gas emissions reduction pathway for the Nolans Project to achieve our 2050 net zero commitment. The reduction pathway covers electrical power and thermal power as steam generation, which together account for approximately 85% of the Nolans Project's forecast emissions.

Arafura adapted a methodology developed by the Clean Energy Finance Corporation and the Minerals Research Institute of Western Australia (MRIWA) to develop the emissions reduction pathway for the Project. This approach is based on the development of several different greenhouse gas emissions reduction pathways for comparison that represent a broad range of approaches to achieving decarbonisation goals.

Five different potential pathways were evaluated for reduction of emissions from stationary power and steam generation. All candidate pathways had emissions profiles which achieved net zero by 2050 for stationary energy generation, through a combination of the deployment of zero emissions generation technologies and the phasing in of renewable fuels. Importantly, our selected pathway provides a sensible, staged approach to achieving our emissions pathway, with a demonstration scale, proof of concept, concentrated solar thermal system, combined with thermal energy storage, planned prior to 2030.

Our reduction pathway is a detailed document and I encourage shareholders with an interest in this critical area of our future activities to refer to the associated ASX Announcement dated 31 January 2023.

MANAGING DIRECTOR'S REVIEW

Stakeholder Engagement

This year we continued an extensive history of engagement with our broad stakeholder group, maintaining productive and proactive dialogue across government at all levels and with agencies and regulatory bodies, prospective contractors and workforce participants, and our local communities.

We are proud to maintain positive engagement with the Nolans Project's Traditional Owners and neighbouring communities and continue to nurture these relationships, recognising that it is only through engagement with these stakeholders that we can truly realise meaningful long-term success in so many areas of our project aspirations.

Arafura's commitment to optimising economic and social opportunities is unwavering. A series of ongoing workshops and on-country meetings were held to support and inform key areas of work including workforce development planning, training and work preparedness initiatives, and community investment and program development.

Regular contact was maintained with both the Federal and Northern Territory governments at Ministerial and departmental levels. Federally, our team engaged on subjects including the introduction of the new Critical Minerals Strategy and the critical role of rare earths in this context, to opportunities associated with new domestic downstream processing initiatives. At a Territory level, dialogue ranged from the granting of our Mining Authorisation and proposed changes to royalties, to regional development and our plans to maximise opportunities for our First Nations stakeholders.

Embracing Growth

The Arafura team expanded significantly during the year – the result of increasing activity within several areas of the business, including the commencement of early works at site. Managing rapid growth in team numbers, with the implementation of all the systems, processes and infrastructure required, is never simple. It has been vital for us to continue to focus on developing and sustaining our company culture, and to ensure that we implement initiatives with a focus on safety, health and wellbeing for teams across our offices and at the Nolans Project site.

Finally, it is worth noting again that the Company formally changed its name following a shareholder vote at our last Annual General Meeting. As a result of shareholder support for this move, we have proudly operated under the name Arafura Rare Earths this year – a reflection of our singular focus on becoming a major global producer in this sector.

In closing I would like to express my sincere thanks to Arafura's leadership and our talented team members – both those who have been part of the business long term, and those who have joined us this year. The collective effort to progress the Nolans Project during the year has been immense and positioned us strongly for the next critical phase of the project's development.

I look forward to a fulfilling year ahead for the Company, those that we work with, and our shareholders.

Gavin Lockyer
Managing Director

OPERATIONS REPORT

Nolans Project Update

In November 2022 Arafura released the Nolans Project Update to provide the market with an overview of progress in the Project's development, along with updated cost estimates and financial outcomes including a project pre-production capital cost estimate of A$1,394 million (plus A$196 million contingency, representing 14%).

The Nolans Project Update built upon the Nolans definitive feasibility study (DFS) delivered in early 2019, an extensive metallurgical pilot program, a Feasibility Study Update released in 2021, and front-end engineering and design (FEED) work carried out by Hatch. It was prepared by the Project's integrated project management team comprised of KBR, Wave International and Arafura's geological, metallurgical and project team members. Input was also received from consultants utilised in the development of the DFS, and those with specialist input on mine planning, design, scheduling and cost estimation; updates to hydrometallurgical plant and sulphuric acid plant design, material take-offs and equipment costing; updates to beneficiation plant design and costing; and financial modelling.

The Nolans Project Update outlined Base Case and Upside Case scenarios that provided a strong foundation for project financing. The updated Base Case pricing scenario included average life of mine NdPr pricing of US$130 per kilogram, with a net present value (8% discount rate) of A$2.4 billion (an increase of 68%), internal rate of return of 19.3%, and average EBITDA of A$573 million (an increase of 62%) over a 38-year life of mine. The Upside Case pricing scenario outlined in the Nolans Project Update included average life of mine NdPr pricing of US$190 per kilogram, with a net present value (8% discount rate) of A$4.2 billion (an increase of 198%), internal rate of return of 24.1%, and average EBITDA of A$912 million (an increase of 158%) over a 38-year life of mine.

Key project information and financial metrics from the Nolans Project Update are detailed in the table[1] below.

[1] Numbers may not compute because of rounding. Product prices during the offtake period refer to the first seven years of production when offtake agreements will include discounts and other contract mechanisms put in place to underpin project finance for up to approximately 85% of NdPr oxide production with averages calculated as the weighted average over the specified period. Average revenue, costs and EBITDA are calculated as the arithmetic annual average following the anticipated two year ramp up period and excluding the final years of production from low grade stockpiles.

OPERATIONS REPORT

Key Project Information		
Mining and Production		
Mine Life (years)	38	
NdPr Oxide (tpa)	4,440	
SEG/HRE Oxide (tpa)	474	
Phosphoric Acid (tpa 54% P_2O_5 MGA)	144,393	
Product Pricing		
US$/kg NdPr Oxide price – offtake period	125.50	
US$/kg NdPr Oxide price – LOM	130.10	
Financial	**US$**	**A$**
Capital Cost		
Pre-production Capital ($m)	995	1,394
Contingency ($m)	140	196
Total ($m)	1,135	1,590
Revenue		
Rare Earth Sales Revenue ($m/annum)	587	822
Phosphoric Acid Sales Revenue ($m/annum)	65	91
Operating Costs		
Mining Costs ($m/annum)	(31)	(44)
Processing Costs ($m/annum)	(138)	(193)
General and Administration Costs ($m/annum)	(26)	(36)
EBITDA ($m/annum)	409	573
KPI Analysis	**US$**	**A$**
Operating Cost $/kg NdPr	43.95	61.60
Operating Cost $/kg NdPr net of P_2O_5 credit	34.64	48.52
NPV_8 after tax ($m)	1,693	2,358
IRR after tax (%)	19.3%	

OPERATIONS REPORT

Project Execution

Through a range of activities this year, Arafura continued to position itself to ensure readiness ahead of a decision being made by the Board to advance the Nolans Project to full construction.

Activities throughout the year, including the start of on-country works, were undertaken with a singular goal in mind – to best position the Company and the Nolans Project's contractors and suppliers to commence development in a timely, efficient and effective manner once a final investment decision is made.

The key factor impacting the Project's execution schedule remains the outcome of financing activities. These activities were ongoing throughout the year, and the Company continues to target financial contractual close in the second half of the 2023 calendar year.

In the interim, refinement of the Nolans Project execution schedule continued during the year. This included fine tuning of engineering and construction schedules for the hydrometallurgical plant, beneficiation plant, sulphuric acid plant and non-process infrastructure, and incorporation of individual schedules into the overall project schedule to confirm project resourcing requirements, including village accommodation and services requirements.

Procurement and early works construction activities during the year focused on de-risking the final construction schedule and project execution costs. Key de-risking activities included advancement of detailed engineering; securing equipment vendors and delivery of certified vendor data; early contractor involvement (ECI) phases to fully define execution strategies and identify cost-reductions; and commencement of engineering on non-process infrastructure packages with suppliers to allow work to be forward loaded on site, reducing peak accommodation requirements and associated risks.

Development Update

As the Company moved into early works construction, engineering design and procurement continued at pace for all key elements of the Nolans Project's development.

Hydrometallurgical plant

During the year, Monadelphous was selected as the preferred construction contractor for the Nolans Project hydrometallurgical plant and commenced ECI engagement with Arafura. With the completion of FEED during the year, detailed design of the hydrometallurgical plant focused on critical path areas to allow early commencement of procurement and fabrication of tankage and structural steel, along with the commencement of concrete installation in line with the proposed construction schedule developed by Monadelphous.

By the end of the year there had been progressive completion of Hazard and Operability (HAZOP) studies for vendor equipment packages and areas of the facility where significant changes had occurred since the completion of initial HAZOP workshops in 2022; finalisation of individual area layouts; technical and commercial conformance of supply contracts for long lead and critical mechanical equipment in readiness to place orders, as well as placement of interim orders for certified vendor data to allow detailed design to progress in advance of order placement; and additional value engineering activities.

Sulphuric acid plant

Following the signing of the contract for supply of the sulphuric acid plant, selected supplier Chemetics – a wholly owned subsidiary of Worley – commenced preliminary engineering to confirm the design and scope of supply. At the close of the year, detailed engineering and procurement by Chemetics was awaiting approval to proceed in line with progress on Project funding.

The Chemetics plant is significantly smaller than a traditional sulphur-burning acid plant, allowing increased use of modularisation reducing the volume of site installation labour. The plant will utilise Chemetics proprietary CORE-SO2 process to reduce capital and maintenance costs and sulphur dioxide emissions from the plant.

Monadelphous also began preparing a construction methodology, schedule and estimate of costs for the installation of the sulphuric acid plant.

OPERATIONS REPORT

Beneficiation plant

Following the tendering of the beneficiation plant, MACA Interquip (Interquip) was selected as the preferred contractor for the engineering and construction of the plant under an EPC contract arrangement. To facilitate finalisation of the design and pricing, Interquip commenced an ECI phase of engagement to investigate potential design optimisation.

Power Station

As the year closed, Arafura entered into a cooperation agreement with GE for the supply of a cogeneration power plant using aeroderivative LM2500 gas turbines to provide for the Project's electrical power and steam requirements. This design is anticipated to reduce carbon dioxide emissions from gas consumption by approximately 29%[2] while paving the way for future integration of renewables into the Project's energy mix.

In parallel, the Company confirmed the appointment early in the new financial year of independent power provider (IPP) APA Group, for power and steam generation utilising GE's technology. At the close of the year an agreement was being put in place with APA Group to deliver preliminary engineering for the facility and ensure that power and steam are available in line with the Project development schedule and requirements.

Non-Process Infrastructure

Throughout the year a range of tenders and site works or supply contracts were issued or awarded for non-process infrastructure and services including: earthworks for site access roads, the Nolans village site and processing facility site and associated areas; installation and commissioning of the Nolans fly-camp and stages one and two of the construction camp; camp catering, cleaning and other services; a range of structural, mechanical, electrical and other packages; and site information and communications technology.

Enabling and Early Works Construction

Enabling works on country in the third quarter of the year comprised the rehabilitation of the site access track, installation of the 48-person fly-camp and establishment of temporary construction water supply. This activity was immediately followed by early works construction throughout the final quarter of the year.

Early construction results achieved by the end of the financial year included:

- Occupancy of the 48-person fly-camp.
- Village area bulk earthworks for the construction and permanent village areas.
- Plant site bulk earthworks to develop the laydown area and concrete batch plant footprint.
- Welding and installation of approximately 21km of the 25km-long, 450mm diameter arterial water pipeline from the borefield to the plant site.
- Construction of the site raw water storage pond at the plant site, and associated pipeline to the village area.
- Installation of phases one and two of the construction village comprising central facilities and accommodation for approximately 250 workers.
- Drilling of additional production bores required for construction activities and commencement of headworks.
- Drilling of groundwater monitoring bores across the borefields and in the vicinity of the residue storage facility and the process plant site.

Construction activities commenced during the year that will continue into the new financial year include:

- Construction of the Stuart Highway intersection, Amadeus Gas Pipeline crossing and site access road.
- Commissioning of phases one and two of the construction village.
- Installation and commissioning of the potable water treatment plant and wastewater treatment plant for the village.
- Completion and commissioning of the water pipeline and Borefield D headworks which will provide construction water for the remainder of construction.
- Completion of the earthworks for the initial process plant laydown and concrete batch plant area.
- Drilling of mining area groundwater monitoring bores.
- Infrastructure installation for permanent site communications links.

[2] Estimate developed by Arafura based in part on information provided by GE for efficiencies and emissions from a cogeneration solution when compared to reciprocating gas engines and package steam boilers.

OPERATIONS REPORT

Geology and Mineral Resources

Re-modelling of the central part of the Nolans orebody was completed and incorporated into the mine planning process during the year. This work was aimed at supporting the mine design and mining schedule for the initial period of mining for the Project and feeding into the tender process for the initial mining contract.

A detailed gravity survey of the orebody and surrounding area was also concluded during the year. This will be used to confirm the geological interpretation of aspects of the geological model, as well as providing information on exploration targeting in the search for similar orebodies to Nolans in the Company's exploration leases.

Environment and Sustainability

The release of the Company's 2022 Sustainability Report and Greenhouse Gas Emissions Reduction Pathway are highlighted earlier in this report.

The pathway outlines both the strategy and implementation activities for Arafura to meet its 2050 net zero commitment. Operational activities to progress the pathway during the year included:

- Investigation of the impact of moving to a gas turbine-based co-generation power station solution considering both up front emissions and the impact as renewable generation is introduced over the life of mine.
- Continued collection of wind data from site using the SODAR installed in mid-2022.
- Early-stage engagement around the implementation of renewables for electricity generation with the IPP, APA Group.
- Commencement of a desktop study with the CSIRO Renewable Heat and Industrial Decarbonisation group to complete an assessment of renewables implementation, with a particular focus on thermal generation.

Domestic Stakeholder Engagement

Reflecting the Nolans Project's position as a strategic significant resources project for Australia and an economically important development for the Northern Territory, Arafura continued to engage with key Project stakeholders including the Northern Territory and Federal governments, Traditional Owners, the Central Land Council, Alice Springs community, and the Project's surrounding pastoralists and local communities.

Community and stakeholder engagement activities included:

- Community engagement sessions in Alice Springs and communities local to the Nolans project area to understand interest, capabilities and opportunities for training and development.
- Consultation to inform the development of a focused program to facilitate First Nations employment opportunities, including pathways to employment, long-term retention initiatives and wrap around services to support participation and success.
- Attendance at a wide range of relevant industry and Government meetings and events throughout the year to discuss the project and promote its commercial and other opportunities.

Engagement with local communities also focused on safety at the Nolans Project as on-country works commenced, due to the significant presence of contractors and equipment at the site for the first time.

OPERATIONS REPORT

Operational Licencing

During the year the Northern Territory Government issued several approvals critical to the Project's progress including:

- Mining Authorisation, with approval of the Project's Mining Management Plan which provided the final environmental approval for commencement of construction in early 2023.
- The groundwater extraction licence for the Project's production borefield and water supply to allow extraction of water for construction from Borefield D.
- The groundwater extraction licence for pit dewatering from the Nolans orebody aquifer.
- The extractive mineral permits (EMPs) for the Nolans Project (EMP33078 - EMP33085) which support construction activities by allowing the Company to extract construction materials including sand, rock and gravel.
- An updated access authority for the site access road, accommodating realignments at the Stuart Highway to match the final intersection design and the final crossing of the Amadeus Gas Pipeline, enabling construction work to commence early in the new financial year. The authority was issued following receipt of approval from the Central Land Council and the receipt of a Sacred Site Clearance Certificate for additional areas of impact.

Compliance Statements

Forward Looking Statements

This annual report includes forward-looking statements. These statements relate to the Company's expectations, beliefs, intentions or strategies regarding the future. These statements can be identified by the use of words like "will", "progress", "anticipate", "intend", "expect", "may", "seek", "towards", "enable" and similar words or expressions containing same.

The forward-looking statements reflect the Company's views and assumptions with respect to future events as of the date of this announcement and are subject to a variety of unpredictable risks, uncertainties, and other unknowns. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, many of which are beyond our ability to control or predict. Given these uncertainties, no one should place undue reliance on any forward-looking statements attributable to the Company, or any of its affiliates or persons acting on its behalf.

The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Neither the Company nor any other person, gives any representation, warranty, assurance, nor will guarantee that the occurrence of the events expressed or implied in any forward-looking statement will actually occur. To the maximum extent permitted by law, the Company and each of its advisors, affiliates, related bodies corporate, directors, officers, partners, employees and agents disclaim any responsibility for the accuracy or completeness of any forward-looking statements whether as a result of new information, future events or results or otherwise.

OPERATIONS REPORT

Nolans Project Exploration Results, Mineral Resources and Ore Reserves

The information in this report that relates to Exploration Results was released in an announcement dated 9 March 2020 (Drilling Confirms Deep Extensions to Mineralization) and was completed in accordance with the guidelines of the JORC Code (2012). The information in this report that relates to Mineral Resources was released in an ASX announcement dated 7 June 2017 (Detailed Resource Assessment Completed) and was completed in accordance with the guidelines of the JORC Code (2012). The information in this report that relates to Ore Reserves was released in an ASX announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project) and was completed in accordance with the guidelines of the JORC Code (2012).

Arafura confirms that it is not aware of any new information or data that materially affects the information included in these original market announcements and that all material assumptions and technical parameters underpinning the estimates in the original market announcements continue to apply and have not materially changed. Arafura confirms that the form and context in which the Competent Person's findings are represented have not been materially modified from the original market announcements.

Mineral Resources

	Tonnes (m)	Rare Earths TREO %	Phosphate P205 %	NdPr Enrichment %
Measured	4.9	3.2	13	26.1
Indicated	30	2.7	12	26.4
Inferred	21	2.3	10	26.5
TOTAL	**56**	**2.6**	**11**	**26.4**

As announced on 7 June 2017. 1.0% TREO cut-off grade. Numbers may not compute exactly due to rounding. "NdPr enrichment" is the proportion of TREO comprising Nd2O3 and Pr6O11.

The stated TREO grade is based on the sum of the estimated grades for La_2O_3, CeO_2, Pr_6O_{11}, Nd_2O_3, Sm_2O_3, Eu_2O_3, Gd_2O_3, Tb_4O_7, Dy_2O_3, Ho_2O_3, Er_2O_3, Tm_2O_3, Yb_2O_3, Lu_2O_3 and Y_2O_3.

The Mineral Resources were further classified by geometallurgical material types based on logging and analysis. Details of the material classification are contained in the DFS.

Ore Reserves

	Tonnes (m)	Rare Earths TREO %	Phosphate P205 %	NdPr Enrichment %
Proved	5.0	3.0	13	26.2
Probable	24.6	2.8	13	26.5
TOTAL	**29.5**	**2.9**	**13**	**26.4**

As announced on 16 March 2020. Numbers may not compute exactly due to rounding. "NdPr enrichment" is the proportion of TREO comprising Nd2O3 and Pr6O11.

OPERATIONS REPORT

Mineral Resources and Ore Reserves

The information in this report that relates to Mineral Resources is extracted from the Company's ASX announcement dated 7 June 2017 (Detailed Resource Assessment Completed) and was completed in accordance with the guidelines of the JORC Code (2012). The information in this report that relates to Ore Reserves is extracted from the Company's ASX announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project) and was completed in accordance with the guidelines of the JORC Code (2012). Arafura confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all material assumptions and technical parameters underpinning the estimates in the original market announcements continue to apply and have not materially changed. Arafura confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcements.

Production Targets and Forecast Financial Information

The information in this report that relates to production targets and forecast financial information is extracted from the Company's ASX Announcement dated 11 November 2022 (Nolans Project Update). The production target is based on 12% Proved Reserves, 62% Probable Reserves and 26% inferred resources as reported in the Company's ASX Announcement dated 11 November 2022. There is a low level of geological confidence associated with inferred mineral resources and there is no certainty that further exploration work will result in the determination of indicated mineral resources or that the production target itself will be realised. Arafura confirms that all material assumptions underpinning the production target and forecast financial information derived from the production target set out in the Company's ASX Announcement dated 11 November 2022 (including any assumptions referred to in the Company's ASX Announcement dated 11 November 2022 that were sourced from the DFS as set out in the Company's ASX Announcement dated 7 February 2019 (Nolans Project Definitive Feasibility Study) or from the Updated Mining Study as set out in the Company's ASX Announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project), continue to apply and have not materially changed.

DIRECTOR'S REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Rare Earths Limited and the entities it controlled at the end of, or during, the year ended 30 June 2023.

Directors

The following persons were Directors of Arafura Rare Earths Limited during the financial year or up to the date of this report:

- M. Southey
- G. Lockyer
- C. Tonkin
- Q. Zhang[3]
- C. Moises
- D. Cuzzubbo

Principal activities

During the year, the principal continuing activities of the Group consisted of:

- Advancement of Nolans Project engineering and design;
- Advancement of Nolans Project funding and offtake negotiations;
- Social and environmental studies and evaluations on the Project; and
- Mineral exploration, definition and development.

Dividends – Arafura Rare Earths Limited

No dividends were paid during the year and the Directors do not recommend the payment of a dividend.

Operating and financial review

Arafura Rare Earths Limited incurred a group loss of $96,379,764 for the year ended 30 June 2023 (2022: 35,558,220). The loss is higher than 2022 primarily due:

- A ramp up of engineering work across various aspects of the Project including the commencement of detailed design on the Project's hydrometallurgical plant.
- The commencement of enabling and early works construction which is being expensed to the profit and loss under AASB 116 Property, Plant and Equipment.

[3] *Q Zhang resigned on 18 May 2023.*

Significant changes in the state of affairs

During the period the Group:

- Raised a total of $182.5 million through two placements and a share purchase plan to advance development of the Project.
- Completed FEED and commenced detailed design on the Project's hydrometallurgical plant and progressed engineering activities on other aspects of the Project.
- Commenced enabling and early works construction to establish key on-site infrastructure for the Project.
- Signed a binding offtake agreement with Hyundai Motor Company for contract quantities of NdPr that increase to 1,500 tonnes per annum of NdPr Oxide or its equivalent in NdPr Metal when the Project reaches nameplate capacity.
- Signed a binding offtake agreement with Siemens Gamesa Renewable Energy A/S for contract quantities of NdPr metal that increase to 400 tonnes per annum (520 tonnes per annum NdPr oxide equivalent) when the Project reaches nameplate capacity.

There were no other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

Likely developments and expected results of operations

During the upcoming financial year, the Group intends to focus on:

- Securing the required level of funding to deliver the Project.
- Securing the balance of the Company's long-term offtake target.
- Advance development of the Project through the continuation of engineering and construction activities.

These activities are subject to various risk factors which are detailed in the section titled 'Material Business Risks'.

DIRECTOR'S REPORT

Environmental regulation

The Group is subject to and is compliant with all aspects of environmental regulation of its exploration and mining activities. The Directors are not aware of any environmental law that is not being complied with.

Greenhouse gas and energy data reporting requirements

The Directors have considered compliance with the *National Greenhouse and Energy Reporting Act 2007* which requires entities to report annual greenhouse gas emissions and energy use. The Directors have assessed that there are no current reporting requirements, but Arafura may be required to do so in the future.

Material Business Risks

For the purposes of section 299A(1) of the *Corporations Act 2001* (Cth), this section summarises the material business risks and uncertainties that the Group considers could adversely affect the operating and financial performance or position of the Group, and which are relevant to the expectations of the directors that the Group has adequate financial resources to continue as a going concern.

The risk and uncertainties described below are not an exhaustive list of the risks facing the Group. Additional risk and uncertainties may also become important factors that adversely affect the Group's operating and financial performance or position.

Company Specific Risks

Communicable disease outbreaks

The outbreak of communicable diseases around the world (such as COVID-19) may lead to interruptions in operations, exploration, development and production activities, inability to source supplies or consumables and higher volatility in the global capital markets and price of rare earth elements or demand for the Group's product, which may materially and adversely affect the Group's business, financial condition and results of operations.

In addition, such outbreaks may result in restrictions on travel and public transport and prolonged closures of facilities or other workplaces which may have a material adverse effect on the Group and the global economy more generally. Any material change in the Group's operating conditions, the financial markets or the economy as a result of these events or developments may materially and adversely affect the Group's business, financial condition and results of operations.

Access to financial markets and project debt financing

The Nolans Project is a large and complex project with total capital expenditure currently estimated at more than A$1.5 billion (refer to ASX announcement "Nolans Project Update" dated 11 November 2022) and the business of the Group relies on access to debt and equity funding.

As rare earths (including Neodymium-Praseodymium (**NdPr**)) are not traded on any commodity exchange, traditional debt market sources may not be available which may make it difficult for financiers to assess and understand market risk. In particular, the Group understands that traditional debt market sources are not always available to finance rare earths projects, and therefore the Group is seeking to fund a significant portion of the Nolans Project's capital expenditure through Export Credit Agencies. There can be no assurance that sufficient debt, equity or other forms of funding will be available to the Group (over any timeframe) on favourable terms or at all.

Failure to obtain additional funding may cause the Group to postpone any development plans, forfeit rights to some or all of its projects or reduce its operating structures, including staff and overhead levels, which may delay or suspend the Group's business strategy and could have a material adverse effect on the Group's activities or require the Group to sell down an interest in its projects or assets. Any additional equity financing may dilute existing shareholdings.

Exploration, production and project development

The future profitability of the Group is directly related to the results of exploration, development and production activities as well as costs and prices. Exploration, project development and production involves significant risk.

Exploration is a speculative endeavour with an associated risk of discovering or finding NdPr and other products in economic quantities and/or grades and risks associated with development of a project to exploit any such discovery. No assurances can be given that funds spent on exploration and development will result in discoveries or projects that will be commercially viable. During each stage of a project's development there is a risk that forecast capital or operating expenditure estimates may increase, rendering a discovery uneconomic.

DIRECTOR'S REPORT

Development and production of NdPr and other mining projects may be exposed to low side reserve outcomes, cost overruns, production decreases or stoppages, which may be the result of commissioning, facility shutdowns, mechanical or technical failure, scheduling disruptions, technical risks and other unforeseen events. Outside of China there have not been many rare earth processing plants constructed and commissioned and, as a result, there may be increased execution risk for the Nolans Project. A significant poor development outcome or failure to maintain production could result in the Group lowering reserve and production forecasts, loss of revenue, increased working capital requirements, and additional operating costs to restore production.

In some instances, a loss of production may incur significant capital expenditure, which could require the Group to seek additional funding. The Group may fail to meet product quality requirements and material specifications required by buyers.

Volatility of the price of rare earth elements

NdPr and other rare earth products are not exchange traded commodities. The Group will require contracts for sale of these mineral commodities. There is no guarantee the Group will secure contracts on terms favourable to the Group.

NdPr and other rare earth product prices will depend on available markets at acceptable prices and distribution and other costs. Pricing of NdPr can also be impacted by government intervention in NdPr markets, such as through direct or indirect support of producers and exporters of NdPr, stockpiling of NdPr, and trade policies, barriers and sanctions. Historically (and at present), the supply of NdPr has been dominated by producers in the People's Republic of China. Policy changes, actions or events that affect that supply may have a significant effect on NdPr prices.

Additionally, technological developments may result in substitution risk and decrease the demand (and therefore the price) for NdPr and other rare earth products. Demand for NdPr and other rare earth products may also be impacted by demand for downstream products incorporating rare earths, including hybrid and electric vehicles, wind turbines, robotics, medical equipment, military equipment and other high-growth advanced motion technologies as well as demand in the general automotive and electronic industries.

Any substantial variation in the price of NdPr and other rare earth products or an increase in the distribution costs could have a material impact on the Group.

Metallurgy and Hydrometallurgy

Metallurgical testwork is used to develop the mineral processing and hydrometallurgical processes required to convert ore into final products. Scale up, technology and materials handling risks remain as the Group moves from development to construction, commissioning and production. Product recoveries are dependent upon the mineral processing and hydrometallurgical processes, and by its nature contains elements of significant risk such as:

- developing and identifying mineral processing and hydrometallurgical processes through testwork to produce a saleable product;
- the representative nature of the samples used for the metallurgical testwork of the ore that is mined for processing over the life of mine;
- developing an economic process route to produce a saleable product; and
- changes in mineralogy in the ore deposit result in inconsistent product recovery, adversely affecting the economic viability of the Nolans Project.

Capital cost risk

While the Group has completed Front End Engineering and Design (FEED) activities and is continuing detailed design and tendering activities for procurement and construction contracts as part of advancing the design and cost of the Nolans Project, until such time a design definition is complete and construction contracts are signed, there is a risk that the capital expenditure for the Nolans Project increases above the capital requirements detailed in ASX announcement "Nolans Project Update" dated 11 November 2022 due to various macro-economic factors that have directly or indirectly impacted the construction industry. In addition, even following the completion of design and execution of construction contracts, there is a risk of a cost overrun on the Nolans Project given the inflationary environment which may impact on labour costs, supply costs, transport costs and other costs associated with the construction of the Nolans Project.

DIRECTOR'S REPORT

Operating risks

Industry operating risks include, but are not limited to, fires, explosions, environmental hazards, technical failures, unusual or unexpected geological conditions, adverse weather conditions and other accidents. The occurrence of any of these risks could result in substantial losses to the Group due to injury or loss of life, damage to or destruction of property, natural resources or equipment; pollution or other environmental damage; clean-up responsibilities; regulatory investigation and penalties; or suspension of operations. Damages occurring to third parties as a result of such risks may also give rise to claims against the Group.

The occurrence of any of these circumstances could result in the Group not realising its operational or development plans or in such plans costing more than expected or taking longer to realise than expected. Any of these outcomes could have an adverse effect on the Group's financial and operational performance.

Reliance on key personnel and advisors

The ability of the Group to achieve its objectives depends on the engagement of key employees, directors and external contractors that provide management and technical expertise.

If the Group cannot secure external technical expertise (for example to carry out development activities) or if the services of the present management or technical team cease to be available to the Group, this may affect the Group's ability to achieve its objectives either fully or within the timeframes and the budget that it has forecast. Additionally, industrial disruptions, work stoppages and accidents in the course of operations may adversely affect the Group's performance.

Reliance on third party infrastructure

The Group will rely on third party transportation and other infrastructure, primarily in order to deliver its products to the market and incoming reagents and supplies to the Nolans Project site. Any delay or failure to access or properly maintain operating infrastructure or shared facilities may have a material adverse effect on the Group.

Reserves and resource estimates

Mineral reserve and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates may change or become uncertain when new information becomes available on the tenements through additional exploration, investigations, research, testing or engineering over the life of a project. This applies equally to the Group's production targets in relation to the Nolans Project and any forecast financial information derived from a production target.

In addition, reserve and contingent resource estimates (and production targets and forecast financial information derived from a production target) are necessarily imprecise and depend to some extent on interpretations, which may prove inaccurate. The actual reserves or contingent resources may differ from those estimated which may result in the Group altering its plans which could have either a positive or negative effect on its operations.

Changes in reserve or resource estimates could also impact the Group's ability to maintain its borrowing capacity with lenders.

Native Title

The Native Title Act 1993 (Cth), Northern Territory Native Title legislation, Aboriginal land rights and Aboriginal heritage legislation may affect the Group's ability to gain access to prospective exploration areas or obtain any additional Mineral Leases required. The Group has entered into a Native Title Agreement with the Nolans Project's native title holders and the Central Land Council under which the native title holders provide their consent to the grant of the primary mineral lease, ancillary mineral leases and related access authorities for the Nolans Project (refer to ASX Announcement "Native Title Agreement Executed for Nolans Project" dated 26 June 2020). On 22 July 2020, the Company announced that the mineral leases for the Nolans Project had been granted by the Northern Territory government and on 9 February 2021 the Company announced that the mineral leases for areas supporting the Nolans Project (which will host the Nolans borefield) had been granted by the Northern Territory Government (refer to ASX Announcements "Nolans Mineral Leases granted by NT Government" dated 22 July 2020 and "Mineral Leases granted by NT Government secures Borefield" dated 9 February 2021). The Group will need to comply with the Native Title Agreement to avoid any potentially adverse consequences.

The Group may, from time to time, need to negotiate with native title claimants for access rights to certain tenements, or for certain activities or granting of additional leases, outside those covered by the Native Title Agreement. There may be significant delays and costs associated with these negotiations and to reach agreement acceptable to all relevant parties. At this stage, it is not possible to quantify the potential impact that these developments may have on the operations of the Group.

Environmental

The Group's exploration, development and production activities are subject to legislation regarding environmental matters.

The legal framework governing this area is complex and constantly developing. Three is a risk that the environmental regulations may become more onerous, making the Group's operations more expensive or cause delays. The Group may become subject to liability for pollution or other hazards against which it is not insured or cannot insure, including those in respect of past activities for which it was not responsible.

The Group's operations are subject to the Northern Territory and Commonwealth laws and regulations regarding the environment, including hazards and discharge of hazardous waste and materials. The mining and processing of Normally Occurring Radioactive Materials (NORM) and the disposal of radioactive waste is subject to additional laws and regulations regarding environmental matters. The cost of compliance with these laws and regulations may impact the cost of exploration, development, construction, operation of the production facilities and mine closure costs and may result in these costs exceeding what has been allowed for in the estimates used to develop forward looking statements around the economic performance of the Nolans Project.

Title

Securing and maintaining tenure over mining tenements is critical to the future development of the Group's projects. All mining tenements which the Group may acquire either by application, sale and purchase or farm-in are regulated by the applicable state or territory mining legislation.

There is no guarantee that future applications for ungranted tenements will be granted as applied for (although the Group has no reason to believe that any tenements required for the Nolans Project or identified as being required in the future will not be granted in due course). Various conditions may also be imposed as a condition of grant. In addition the relevant minister may need to consent to any transfer of a tenement to the Group.

Renewal of titles is made by way of application to the relevant department. There is no guarantee that a renewal will be automatically granted other than in accordance with the applicable state or territory mining legislation. In addition, the relevant department may impose conditions on any renewal, including relinquishment of ground.

Under the *Mineral Titles Act 2010* (NT) (**MT Act**), a 'person who has an interest in land' (as defined in the MT Act) is entitled to compensation from the holder of a mineral title for:

- damage to the land, and any improvements on the land, caused by activities conducted under the title; and
- any loss suffered as a result of that damage.

The compensation to which a person is entitled depends upon the type of land in question (for example, whether it is freehold land or a pastoral lease) and the nature of the activities that caused the damage to the land (for example, whether they were exploration activities or mining activities). There is no requirement under the MT Act that landholder agreements need to be in place between the Group and all or any of the persons who have interests in the land the subject of the mineral titles under the MT Act held by the Group in respect of the Nolans Project mine and associated infrastructure prior to the commencement of development of, or operations for, the Nolans Project.

The Group has a right of access to its mineral titles and a right to occupy and uses its mineral titles in accordance with their terms, the MT Act and the *Mining Management Act 2001* (NT). Should the Group not be able to enter into a landholder agreement with a person who has an interest in any relevant land, that person will be entitled to compensation as described above and will be able to apply to the Northern Territory Civil and Administrative Tribunal for a decision in respect of the compensation payable to the person (and associated matters) in the event that the parties are unable to reach agreement on the compensation payable by the Group to the person. There is the risk the compensation payable to the persons who have interests in the relevant land may exceed the estimates included in the operating cost estimates used to develop forward looking statements around the Nolans Project economic performance.

DIRECTOR'S REPORT

Legislative changes, government policy and approvals

The Group requires government regulatory approvals for its operations. Changes in government, monetary policies, taxation and other laws in Australia or internationally may impact the Group's operations.

The impact of actions by state, territory and federal governments may affect the Group's activities including such matters as access to lands and infrastructure, compliance with environmental regulations, production and exploration activities. This may from time to time affect timing and scope of work to be undertaken. No guarantee can be given that all necessary permits, authorisations, agreements or licences will be provided to the Group by government bodies, or if they are, that they will be renewed or not revoked if already granted.

The Group has received environmental approval from the Australian Government and the Northern Territory Environment Protection Authority under the *Environment Protection and Biodiversity Conservation Act 1999* (Cth).

The Group has received approval from the NT Government for its Mining Management Plan, which provides its Mining Authorisation for the Nolans Project (refer ASX Announcement "Nolans receives Mining Authorisation from NT Government" dated 15 November 2022. There is a risk that the Group may not be in a position to comply with all conditions attached to the approval. As the Mining Management Plan is required to be updated for re-approval at regular intervals or when there are changes to the proposed activities, there is also a risk that the Authority to carry out mining activity may not be renewed or that additional conditions may be placed on such an approval which the Group is not in a position to comply with.

Similarly, the Group's Groundwater Extraction Licence relating to the water supply for the Nolans Project was approved in March 2023 for a period of 10 years after which extension of the approval is required. There is a risk that the Group may not be in a position to comply with all conditions attached to the approval, that an extension to the approval may not be granted, or that additional conditions will be attached to the extension of the approval which the Group may not be in a position to comply with.

Occupational health and safety

Exploration and production activities may expose the Group's staff and contractors to potentially dangerous working environments. Occupational health and safety legislation and regulations differ in each jurisdiction. If any of the Group's employees or contractors suffers injury or death, compensation payments or fines may be payable and such circumstances could result in the loss of a licence or permit required to carry on the business. Such an incident may also have an adverse effect on the Group's business (including financial position) and reputation.

Third party risk

The Group will rely significantly on strategic relationships with other entities and on a good relationship with regulatory and government departments and other interest holders. The Group will also rely on third parties to provide essential contracting services. There can be no assurance that its existing relationships will be maintained, or that new ones will be successfully formed. The Group could be adversely affected by changes to such relationships or difficulties in forming new ones.

Insurance

Insurance of all risks associated with mineral exploration and production is not always available and, where available, the cost can be high. The Group maintains insurance within a coverage range that it considers to be consistent with industry practice and appropriate for its needs and will update this insurance as required as Group activities evolve through the development and operation of the Nolans Project. The occurrence of an event that is uninsurable, not covered, or only partially covered by insurance could have a material adverse effect on the Group's business and financial position.

DIRECTOR'S REPORT

Litigation risks

The Company is exposed to possible litigation risks including native title claims, tenure disputes, environmental claims, occupational health and safety claims and employment claims. Further, the Company may be involved in disputes with other parties in the future which may result in litigation. Any such claim or dispute if proven, may impact adversely on the Company's operations, financial performance and financial position. The Company is not currently engaged in any litigation.

Climate change risk

Climate change is a risk the Group has considered, particularly related to its operations in the mining industry. The climate change risks particularly attributable to the Group include:

- the emergence of new or expanded regulations associated with transitioning to a lower-carbon economy and market changes related to climate change mitigation. The Group may be impacted by changes to local or international compliance regulations related to climate change mitigation efforts, or by specific taxation or penalties for carbon emissions or environmental damage. These examples sit amongst an array of possible restraints on industry that may further impact the Group and its profitability. While the Group will endeavour to manage these risks and limit any consequential impacts, there can be no guarantee that the Group will not be impacted by these occurrences; and
- climate change may cause certain physical and environmental risks that cannot be predicted by the Group, including events such as increased severity of weather patterns and incidence of extreme weather events and longer-term physical risks such as shifting climate patterns.

All risks associated with climate change may significantly change the industry in which the Group operates.

Financial risks

The Group's activities expose it to a variety of financial risks, including:

- *Market risk:* The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, interest rate risk, price risk, credit risk and liquidity risk (maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities). The Group's future activities will be subject to volatility and fluctuations in those particular areas.
- *Foreign exchange/currency risk*: The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures with respect to changes in foreign exchange rates. The Group's future commercial transactions include product sales, capital expenditure, purchase of foreign sources inputs and debt facilities. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.
- *Interest rate and credit risk*: This relates to the risk that interest rates applicable to the Group may fluctuate and have an impact on the value of the Group's assets and liabilities.
- *Liquidity risk*: This relates to the ability of the Group to maintain sufficient cash and the availability of funding through an adequate amount of committed credit facilities to support the Group's operations.

DIRECTOR'S REPORT

General risks

General market and economic factors

The operating and financial performance of the Group is influenced by a number of general economic and business conditions.

Generally applicable factors which may affect the operating and financial performance of the Group include:

- general movements in Australian and international stock markets;
- investor sentiment;
- Australian and international economic conditions and outlook;
- commodity prices;
- changes in interest rates and the rate of inflation;
- changes in government legislation and policies, including taxation laws and foreign investment legislation;
- announcement of new technologies; and
- geo-political instability, including international hostilities and acts of terrorism.

Further, the effect of these conditions on the Group's ability to obtain new debt financing, and the terms on which any such financing can be obtained, is uncertain. If these conditions result in the Group being unable to obtain new debt financing, or to do so on reasonable terms, this may have an adverse impact on its financial position, financial performance and/or share price. The Group's operational and financial performance and position may be adversely affected by a worsening of international economic and market conditions and related factors. It is also possible that new risks might emerge as a result of global markets experiencing extreme stress, or existing risks may manifest themselves in ways that are not currently foreseeable.

Dividends

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors. No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.

Taxation

In addition to the normal level of income tax imposed on the Group, the Group may be required to pay government royalties, indirect taxes, goods and services tax. Industry profitability can be affected by changes in government taxation policies.

Force majeure

The Group's projects now or in the future may be adversely affected by risks outside the control of the Group, including fires, labour unrest, civil disorder, war, subversive activities or sabotage, floods, pandemics, explosions or other catastrophes, epidemics or quarantine restrictions.

Competition

The Group will compete with other companies, including major mining companies in Australia and internationally. Some of these companies will have greater financial and other resources than the Group and, as a result, may be in a better position to compete for future business opportunities. There can be no assurance that the Group can compete effectively with these companies.

Data and information technology

The Group's computer systems are subject to the risks of unauthorised access, computer hackers, computer viruses, malicious code, organised cyber-attacks and other security problems and system disruptions, including possible unauthorised access to proprietary or classified information. Any of these events could damage the Group's reputation and have a material adverse effect on its business, reputation, results of operations and financial condition. There is also a risk that the Group's systems for capturing data and intellectual property for project development are ultimately not effective.

DIRECTOR'S REPORT

Information on Directors

MARK SOUTHEY

Non-Executive Chairman

Qualifications: BSc (Hons) in Engineering with Business Studies, an MBA from the University of Sydney Business School and is a Graduate of the Australian Institute of Company Directors (GAICD) and a member of Engineers Australia (MIEAust).

Mr Southey has extensive global experience in the industrial and natural resources sectors covering all aspects of asset management, maintenance, design and engineering, and major capital project development and execution. He is well versed in public company board and institutional investor engagement and has a background in both senior operational and financial roles.

Mr Southey has previously held senior executive positions with Honeywell and ABB both in Australia and internationally and was a long-term member of the global executive leadership team within Worley, a leader in the engineering, procurement and construction of projects in the energy and resources sector where he held the position of Group Managing Director for the Minerals, Metals and Chemicals Sector. Mr Southey is also a Non-Executive Director of Fleetwood Corporation (ASX: FWD) and an advisory board member for Gas Cleaning Technologies LLC (Dallas).

Mr Southey was appointed as the Chairman of Arafura Resources Limited on the 14th of February 2019.

First Appointed

30 January 2018

Other current Directorships

Fleetwood Corporation (ASX:FWD) – Independent Non-Executive Director

Former Directorships in the last 3 years

None

Special responsibilities

Chairman of the Remuneration and Nomination Committee

Member of the Risk Management Committee

Member of the Sustainability Committee

Interests in shares, performance rights and options

232,140 ordinary shares in Arafura Rare Earths Limited (Direct)
393,260 ordinary shares in Arafura Rare Earths Limited (Indirect)

GAVIN LOCKYER

Managing Director and Chief Executive Officer

Qualifications: BBus, ACA, FTA

Gavin graduated with a Bachelor of Business in Accounting and Finance in Western Australia in 1987 and has subsequently become a member of both Chartered Accountants Australia and New Zealand and the Finance & Treasury Association of Australia.

He joined Arafura in 2006 as Chief Financial Officer and Company Secretary after previously holding several senior finance and treasury positions in global mining companies including Newcrest and Newmont following a successful international investment banking career in Australia and London.

Gavin's diverse, global experience has provided management and leadership opportunities in a range of disciplines including; Accounting, Financial & Investment Banking, Major Resource Development & Operations, and Global Bank Treasuries. Over the past 20 years his career has exposed him to business practices in North America, Europe, and Australasia.

First Appointed

23 July 2013

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

None.

Interests in shares, performance rights and options

3,358,000 unlisted options in Arafura Rare Earths Limited (Indirect)

5,292,403 ordinary shares in Arafura Rare Earths Limited (Indirect)

677,000 performance rights in Arafura Rare Earths Limited (Direct)

DIRECTOR'S REPORT

CHRIS TONKIN

Non-Executive Director

Qualifications: BSc (Hons) Metallurgy and Chemistry, BA Economics and Politics, MBA

Chris Tonkin has over 40 years' experience as a senior business executive with a broad multiple industry background in resources, telecommunications and banking and finance covering project finance, business generation, management, technical and strategy development roles. He began his career as a metallurgist and environmental specialist, diversifying into commercial roles at several major industrial companies and subsequently into project finance, corporate and project advisory roles at AIDC, The Chase Manhattan Bank, KPMG Corporate Finance and ANZ, where he was instrumental in the successful financing of many resources, telecommunications and infrastructure projects within Australia and globally. Chris was Head of Natural Resources Project Finance at ANZ for a number of years, leading a highly successful team of project financiers.

In early 2012, Chris was appointed Chief Executive Officer and Managing Director of Arafura Rare Earths Limited and assisted the Company through a difficult period before stepping down to concentrate on his project advisory activities as Executive Director of Capital Advisory Services Pty Ltd and Managing Director of Catalyst Capital Solutions Pty Ltd.

Chris is a Graduate Member of the Australian Institute of Company Directors. He is Chairman of Arafura Rare Earths' Audit and Risk Committee, a Member of its Nomination and Remuneration Committee and a Member of the Risk Management Committee.

First Appointed

1 January 2011.

Other current Directorships

None.

Former Directorships in the last 3 years

Lakes Oil N.L. - Chairman

Special Responsibilities

Chairman of the Audit Committee

Member of the Remuneration and Nomination Committee

Member of the Risk Management Committee

Interests in shares, performance rights and options

447,560 ordinary shares in Arafura Rare Earths Limited (Direct)

QUANSHENG ZHANG

Non-Executive Director

Qualifications: Doctoral degree in Engineering and Masters degree in Geophysical Prospecting

Quansheng Zhang is based in Nanjing in the People's Republic of China and is the General Manager of Hong Kong East China Non-Ferrous Mineral Resources Co Ltd (HKECE). Mr. Zhang has over 30 years of mineral prospecting and exploration experience, and expertise in mineral resource surveys and geophysics.

First Appointed

18 November 2016.

Resignation

18 May 2023.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

None.

Interests in shares, performance rights and options

None.

DIRECTOR'S REPORT

CATHY MOISES

Non-Executive Director

Qualifications: BSc (Hons) in Geology from the University of Melbourne and a Diploma of Finance and Investment from the Securities Institute of Australia.

Cathy Moises has extensive experience in the resources sector having worked as a senior resources analyst for several major stockbroking firms including McIntosh (now Merrill Lynch), County Securities (now Citigroup) and Evans and Partners where she was a partner of that firm. More recently in 2017-2019, Cathy was Head of Research at Patersons Securities Limited.

Ms Moises brings substantial experience to Arafura in company management, capital markets and institutional investor engagement. Her key areas of industry experience include gold, base metals, mineral sands and the rare earths sector.

First Appointed

1 December 2019

Other current Directorships

Pacgold Limited – Chairman

WA Kaolin Limited – Non-Executive Director

Australian Potash Limited - Non-Executive Director

Podium Minerals Ltd – Non-Executive Director

Former Directorships in the last 3 years

Pearl Gull Iron Ltd – Non-Executive Director

Eastern Metals – Non-Executive Director

Special Responsibilities

Chairman of the Sustainability Committee

Member of the Audit Committee

Member of the Remuneration and Nomination Committee

Interests in shares, performance rights and options

363,601 ordinary shares in Arafura Rare Earths Limited (indirect)

DARRYL CUZZUBBO

Non-Executive Director

Qualifications: BEng Mechanical (Hons 1), Masters of Science (Total Quality Management), MBA

Darryl has over 30 years' experience in global roles in multi-commodity resources, services and manufacturing, holding both Senior Executive and Executive Director roles over a very successful career. He brings a wealth of knowledge and experience in both the resources and manufacturing sectors having run major operational assets and led the development and execution of significant breakthrough strategies to deliver major projects.

Darryl was formerly CEO and Managing Director of SolGold Plc. Prior to that Darryl was Group Executive and President of Auspac Asia and then Chief Manufacturing and Supply Officer at Orica. Prior to Orica, Darryl had a 24-year career with BHP where he held senior positions including 3 years as President of Olympic Dam with responsibility for operations, expansion projects and organisation wide transformational change programs. He has a broad international perspective, having experience in running operations across over 30 countries and has the ability to understand and work across diverse cultures to deliver results.

First Appointed

1 November 2021

Other current Directorships

None

Former Directorships in the last 3 years

Managing Director SolGold

Special Responsibilities

Chairman of the Risk Management Committee

Member of the Audit Committee

Member of the Sustainability Committee

Interests in shares, performance rights and options

450,000 ordinary shares in Arafura Rare Earths Limited (indirect)

DIRECTOR'S REPORT

CATHERINE HUYNH

Company Secretary

Qualifications: B.Com, CA, ACIS

Catherine commenced employment with Arafura in 2018 in the role of Financial Controller. She has over 10 years of professional experience and is a member of the Chartered Accountants Australia and New Zealand and the Governance Institute of Australia.

DIRECTOR'S REPORT

Meeting of Directors

As at 30 June 2023 the Committees of Arafura are comprised of the following:

- Mr Southey is Chairman of the Remuneration and Nomination Committee (**RNC**) and a member of the Risk Management Committee (**RMC**) and Sustainability Committee (**SC**).
- Mr Tonkin is Chairman of the Audit Committee (**AC**) and a member of the RNC and RMC.
- Ms Moises is Chairman of the SC and a member of the AC and RNC.
- Mr Cuzzubbo is Chairman of the RMC and a member of the AC and SC.

The number of meetings of the Company's Board of Directors, the number of meetings each Board Committee held, and the number of meetings attended by each Director throughout the year ended 30 June 2023 were:

			Committee Meetings							
	Board Meetings		AC		RNC		SC		RMC	
Director	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
M Southey	13	13	-	-	6	6	4	4	4	4
G Lockyer	13	12	-	-	-	-	-	-	-	-
C Tonkin	13	12	4	4	6	6	-	-	4	4
Q Zhang[4]	12	7	-	-	-	-	-	-	-	-
C Moises	13	12	4	3	6	6	4	4	-	-
D Cuzzubbo	13	13	4	4	-	-	4	3	4	4

[4] Q Zhang resigned effective 18 May 2023 following a leave of absence from Arafura's Board of Directors which commenced on 9 March 2023.

DIRECTOR'S REPORT

Remuneration Report (audited)

Dear Shareholder,

On behalf of the Nomination and Remuneration Committee I am pleased to present the Remuneration Report for the year ended 30 June 2023.

The Company has worked hard over the financial year to advance the Nolans Project and with this in mind, the Remuneration and Nomination Committee have endeavoured to align executive remuneration with shareholder value.

For Executives long term incentive structures through participation in the Employee Share Option Plan and Performance Rights Plan has been aligned with the delivery of key milestones for the Nolans Project. For the remainder of the year, the key milestone the team is working towards securing the debt funding and equity required to commit to the commencement of major construction in relation to the Nolans Project.

Non-Executive Director remuneration consists of Base Fees. During the period there was an increase in their Chairman's Base Fee from Non-Executive Base Fees from $151,200 to $172,600 Total Fixed Remuneration (**TFR**). This was proportionate to the change in Base Fees for Non-Executive Directors in the prior period. This was the first change in Base Fees for the Chairman since 2013 and takes into account no committee fees, short term incentives or long-term incentives are currently paid or provided to Non-Executive Directors.

We believe the report will assist you in understanding the objectives targeted through the remuneration strategy. Should you have any questions we would be happy to discuss these with you.

Yours Sincerely,

Mark Southey
Chairman
Nomination and Remuneration Committee

DIRECTOR'S REPORT

A list of Directors and Key Management Personnel (**KMP**) of Arafura Rare Earths Ltd during the financial year or up to the date of this report is detailed below:

Non-Executive and Executive Directors

- Mark Southey - Chairman
- Gavin Lockyer – Managing Director and Chief Executive Officer
- Chris Tonkin
- Quansheng Zhang[5]
- Cathy Moises
- Darryl Cuzzubbo

Other KMP

- Peter Sherrington – Chief Financial Officer
- Stewart Watkins – General Manager Projects

Remuneration Governance

The Remuneration and Nomination Committee is a Committee of the Board. It is primarily responsible for making recommendations to the Board on:

- the over-arching executive remuneration framework
- operation of the incentive plans which apply to the executive team, including key performance indicators and possible performance hurdles
- remuneration levels of Executive Directors and other KMP, and
- Non-Executive Directors' fees.

Its objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company and its shareholders. Further information is provided within the remuneration report.

The remuneration report is set out under the following main headings:

A ***Principles used to determine the nature and amount of remuneration***

B ***Details of remuneration***

C ***Service agreements***

D ***Share-based compensation***

E ***Additional information***

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

[5] Quansheng Zhang resigned on 18 May 2023

DIRECTOR'S REPORT

A Principles used to determine the nature and amount of remuneration

For the 2023 financial year, all compensation arrangements for Directors and the Group's Executives were determined at Board level after taking into account the competitive rates prevailing in the marketplace.

Remuneration levels of the Directors and the Group's Executives were set by reference to other similar resources and chemical companies with similar scale and risk profiles. They are set to attract and retain Executives capable of managing the Group's operations.

Remuneration of Non-Executive Directors were determined by the Board within the amount approved by shareholders. The Board undertakes an annual review of its performance. No bonuses were paid to Non-Executive Directors.

The Group's Executive remuneration framework aligns Executive remuneration with the achievement of strategic objectives and the creation of value to shareholders and conforms to market practice for delivery of reward. The Board ensures that the Executive remuneration is competitive, reasonable and acceptable to shareholders and aligned with performance.

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments were reviewed by the Nomination and Remuneration Committee. The Committee considered market conditions and independent remuneration benchmarking and, acknowledging there is no equity component to remuneration, recommended an increase in remuneration of Non-Executive Directors as shown below.

The Chairman's fee is determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. There was no change to the Chairman's remuneration for the year ended 30 June 2023.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders and currently stands at $1,000,000 per annum.

Directors are expected to serve on Board sub-committees on a reasonable and appropriate basis. No additional fees are paid in respect of these services.

Fees	Year ended 30 June 2023	Year ended 30 June 2022
Base Fees		
Chairman	$172,600	$151,200
Other Non-Executive Directors	$90,000	$78,400

The above fees are per annum and include superannuation.

The Non-Executive Directors do not receive retirement allowances or performance-based bonuses.

There is no direct link between remuneration paid to any Non-Executive Directors and corporate performance as Arafura expects Non-Executive Directors to carry out their duties to the best of their ability. There is no termination, retirement or accumulating and vesting annual leave benefits for Non-Executive Directors.

DIRECTOR'S REPORT

Executive pay

The Executive pay and reward framework has four components which comprise the Executive's total remuneration:

- base pay and benefits;
- short-term performance (cash based) incentives;
- long-term incentives through participation in the Employee Share Option Plan or Performance Rights Plan; and
- other remuneration (e.g. termination payments)

Base pay and benefits

The base pay is inclusive of statutory superannuation and is structured as a total employment cost package, which may be delivered as a mix of cash and prescribed non-financial benefits at an Executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. The Board considered prevailing market conditions and the Group's strategy going forward. Base pay for Senior Executives is reviewed annually to ensure the Executive's pay is competitive with the market. An Executive's pay is also reviewed upon promotion. There are no guaranteed base pay increases fixed in any Senior Executive's contract.

Short-term performance incentives

Short-term incentives are used to encourage and reward the performance of Executive Directors, officers and senior management for their role in achieving corporate objectives and are directly linked to the creation of shareholder wealth.

The Remuneration and Nomination Committee is responsible for assessing whether Key Performance Indicators (**KPI's**) are met. The Committee considers market rates of salaries for levels across the Group, which have been based on industry data provided by a range of employment agencies.

Long-term performance incentives

Long-term performance-linked remuneration is designed for rewarding Executive Directors, officers and senior management for their role in achieving corporate objectives and is directly linked to the creation of shareholder value.

Senior management receive long-term incentives which are provided as options or performance rights issued either under the terms and conditions of the Group's Employee Share Option Plan, Performance Rights Plan or otherwise under the terms and conditions determined at the time of issue by the Board.

Under the Group's Option Plan approved by shareholders at the general meeting held on 22 October 2020, the Board has absolute discretion to:

- invite eligible persons to apply for a specified number of options;
- set performance criteria (typically 1 year service period); and
- set option exercise prices and expiry dates.

Under the terms and conditions of the plan, options lapse in a number of circumstances including cessation as an employee or for fraudulent or dishonest actions.

Under the Group's Performance Rights Plan approved by shareholders at the general meeting held on 22 October 2020, the Board has absolute discretion to:

- invite eligible persons to apply for a specified number of performance rights;
- set performance conditions attaching to the rights (typically milestones);
- require no payment for the grant of a right and no payment on vesting or exercise of a right; and
- set expiry dates for the rights.

No bonus payments were paid during the reporting period.

Other transactions with KMP

During the 2023 financial year, there were no other transactions with the directors or other KMP at any time.

DIRECTOR'S REPORT

Use of remuneration consultants

The Remuneration and Nomination Committee utilised the Reward Practice in the year ended 30 June 2023 to appropriately benchmark the Chair, Managing Director and executives remuneration. Short and long-term incentives were issued in line with the prior year structure as recommended by the Reward Practice.

Relationship between remuneration and Company performance

Executives receive their TFR which is not linked to Company performance, however can also receive short and long-term incentives which are used to encourage and reward the performance of Executive Directors, officers and senior management for their role in achieving corporate objectives that are directly linked to the creation of shareholder wealth.

For the year ended 30 June 2023 senior staff, Executives and the Managing Director were issued with options and performance rights as disclosed under Note 25. The options will vest 3-years after grant date subject to the employee remaining employed by the Group. The performance rights will vest upon the Group securing the debt financing and equity requirement for the Nolans Project to enable the Group to commit to the commencement of major construction in relation to the Nolans Project by the expiry date of 31 December 2023. Current option and performance right interests are shown on pages 45 and 46 respectively.

B Details of remuneration

Details on the remuneration of KMP of the Group (as defined in AASB 124: *Related Party Disclosures*) are set out in the following tables.

KMP include the Directors of Arafura Rare Earths Limited and those senior executives having authority and responsibility for planning, directing and controlling the activities of Arafura, being:

- P. Sherrington – Chief Financial Officer
- S. Watkins – General Manager of Projects

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

Arafura Rare Earths Ltd received more than 95% of "for" votes on its remuneration report for the 2022 financial year.

The Group did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

DIRECTOR'S REPORT

Details of remuneration

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments		
2023	Cash salary and fees	Bonus	Non-monetary benefits	Super-annuation	Long service leave	Termination benefits	Options and Performance Rights	% share based payments	Total
Name	$	$	$	$	$	$	$		$
Non-Executive Directors									
M Southey	156,199	-	-	16,401	-	-	-	-	172,600
C Tonkin	69,231	-	-	20,769	-	-	-	-	90,000
D Cuzzubbo	81,448	-	-	8,552	-	-	-	-	90,000
Z Quansheng[6]	82,500	-	-	-	-	-	-	-	82,500
C Moises	81,448	-	-	8,552	-	-	-	-	90,000
Executive Directors									
G Lockyer	424,583	-	-	25,417	7,500	-	102,871	18.4%	560,371
Other KMP									
P Sherrington	384,609	-	-	25,391	15,734	-	59,541	12.3%	485,275
S Watkins	384,708	-	-	25,292	9,335	-	61,077	12.7%	480,412
Total	**1,664,726**	**-**	**-**	**130,374**	**32,569**	**-**	**223,489**		**2,051,158**

[6] *Quansheng Zhang resigned on 18 May 2023*

Details of remuneration

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments		
2022	Cash salary and fees	Bonus	Non-monetary benefits	Super-annuation	Long service leave	Termination benefits	Options and Performance Rights	% share based payments	Total
Name	$	$	$	$	$	$	$		$
Non-Executive Directors									
M Southey	137,455	-	-	13,745	-	-	-	-	151,200
C Tonkin	66,256	-	-	19,877	-	-	-	-	86,133
D Cuzzubbo[7]	54,545	-	-	5,455	-	-	-	-	60,000
Z Quansheng	86,133	-	-	-	-	-	-	-	86,133
C Moises	78,303	-	-	7,830	-	-	-	-	86,133
Executive Directors									
G Lockyer	422,500	-	-	27,500	13,638	-	102,570	18.1%	566,208
Other KMP									
P Sherrington	344,600	-	-	27,500	6,202	-	70,535	15.7%	448,837
S Watkins	345,599	-	-	23,568	9,209	-	67,966	15.2%	446,342
Total	**1,535,391**	**-**	**-**	**125,475**	**29,049**	**-**	**241,071**		**1,930,986**

[7] *D Cuzzubbo was appointed on 1 November 2021.*

DIRECTOR'S REPORT

C Service agreements

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Group in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office or director.

Remuneration and other terms of employment for the Managing Director and other KMP are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and other benefits including participation where eligible in the Arafura Share Option Plan and Performance Rights Plan. Other major provisions of the agreements relating to remuneration are set out below for the 2023 financial year:

G Lockyer, Managing Director

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2023 of $450,000.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to six months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

P Sherrington, Chief Financial Officer

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2023 of $410,000.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to three months of the base salary.

S Watkins, General Manager of Projects

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2023 of $410,000.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to one month of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to one month of the base salary.

DIRECTOR'S REPORT

D Share-based compensation

Employee share scheme - Options

Options over shares in Arafura Rare Earths Limited are granted by the Board under the Arafura Rare Earths Limited Share Option Plan which was last approved by shareholders at the 2020 Annual General Meeting.

Options are granted for no consideration and generally have a term of three years. For options affecting remuneration in current or future reporting period, 100% of each tranche vests and is exercisable in accordance with the table below.

Grant date	Date vested and exercisable	Expiry date	Exercise price	Model option value	% Vested
31-Jul-18	1-Jul-19	1-Jul-22	$0.12	$0.051	100%
31-Jul-18	1-Jul-20	1-Jul-22	$0.12	$0.050	100%
31-Jul-18	1-Jul-21	1-Jul-22	$0.12	$0.050	100%
22-Nov-18	1-Jul-19	1-Jul-22	$0.12	$0.023	100%
22-Nov-18	1-Jul-20	1-Jul-22	$0.12	$0.024	100%
22-Nov-18	1-Jul-21	1-Jul-22	$0.12	$0.024	100%
31-Aug-21	31-Aug-24	31-Aug-25	$0.20	$0.081	0%
21-Oct-21	21-Oct-24	21-Oct-25	$0.31	$0.114	0%
2-Sep-22	2-Sep-25	5-Sep-26	$0.43	$0.174	0%
20-Oct-22	20-Oct-25	20-Oct-26	$0.43	$0.170	0%
28-Feb-23	28-Feb-26	28-Feb-27	$0.93	$0.380	0%

Options were issued to the Managing Director and other KMP on 20 October 2022 and 2 September 2022 respectively. The number of options issued to the Managing Director and other KMP is disclosed in Section E and the key terms in Note 25.

Options granted under the plan carry no dividend or voting rights.

Vesting of the options is not subject to any conditions other than it be at or subsequent to the vesting date and before the expiry date. When exercisable, each option is convertible into one ordinary share of Arafura Rare Earths Limited.

The options expire on the earlier of their expiry date or one month after resignation of the employee (whether vested or not) or upon termination of their employment (unless the Board decides otherwise).

The Group has the option of deferral of performance-based remuneration and/or the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Group's financial statements.

DIRECTOR'S REPORT

The assessed fair value at grant date of the options given to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables in this report. Fair values at grant date are determined using the Black Scholes option pricing model that take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share and the risk-free interest rate of the term of the option. The options are probability weighted for management's best estimate of staff turnover taking into account the period of time to vesting date.

Shares provided on exercise of remuneration options

No options were converted into shares by KMP during the 30 June 2023 financial year.

Employee Share Scheme - Performance rights

During the year ended 30 June 2023, the Board approved a total of 3,430,000 performance rights to be offered to senior staff, senior management and the Managing Director. The Managing Director was issued 677,000 performance rights which was subsequently approved by shareholders at the Annual General Meeting on 20 October 2022.

The performance rights will vest upon the Group securing the debt financing and equity requirement for the Nolans Project to enable the Group to commit to the commencement of major construction in relation to the Nolans Project by the expiry date of 31 December 2023.

The fair value per right was calculated using the 5-day VWAP of the Company's share price at grant date. Details of key inputs and methodology for the valuation of these rights is provided in Note 25.

Performance rights in Arafura Rare Earths Limited are granted by the Board under the Arafura Rare Earths Limited Performance Rights Plan which was last approved by shareholders at the 2020 Annual General Meeting.

Performance rights are issued for no consideration and vest according to a set of performance criteria being met. The Board has ultimate discretion on whether the conditions have been met. The details of each grant of performance rights affecting remuneration in the current or future reporting periods are detailed in Section E.

E Additional information

Loans to Directors and Executives

During the 2022 and 2023 financial year, there were no loans to the Directors or other KMP.

Other transactions with KMP

During the 2022 and 2023 financial year, there were no other transactions with the Directors or other KMP at any time.

Movements in option interests of KMP for 30 June 2023

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested during the year	Vested and exercisable at end of year
Directors of Arafura Rare Earths Limited							
M Southey	-	-	-	-	-	-	-
G Lockyer	1,240,000	2,118,000	-	-	3,358,000	-	-
D Cuzzubbo	-	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-	-
Q Zhang[8]	-	-	-	-	-	-	-
C Moises	-	-	-	-	-	-	-
KMP of the Group							
P Sherrington	880,000	944,000	-	-	1,824,000	-	-
S Watkins	850,000	944,000	-	-	1,794,000	-	-
Total	**2,970,000**	**4,006,000**	**-**	**-**	**6,976,000**	**-**	**-**

[8] Q Zhang resigned effective 18 May 2023. Balance at end of year represents Q Zhang's holdings at resignation date.

DIRECTOR'S REPORT

Movements in performance rights of KMP for 30 June 2023

Name	Balance at the start of the year	Granted as compensation	Exercised	Other Changes	Balance at end of the year	Vested during the year	Vested and exercisable at end of year
Directors of Arafura Rare Earths Limited							
M Southey	-	-	-	-	-	-	-
G Lockyer	3,430,000	677,000	(500,000)	(2,930,000)	677,000	500,000	-
D Cuzzubbo	-	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-	-
Q Zhang[9]	-	-	-	-	-	-	-
C Moises	-	-	-	-	-	-	-
Other KMP of the group							
P Sherrington	2,140,000	476,000	(250,000)	(1,890,000)	476,000	250,000	-
S Watkins	2,000,000	476,000	(250,000)	(1,750,000)	476,000	250,000	-
Total	**7,570,000**	**1,629,000**	**(1,000,000)**	**(6,570,000)**	**1,629,000**	**1,000,000**	**-**

Movements in share interests of KMP for 30 June 2023

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades, share purchase plan and vesting of performance rights)	Balance at the end of the year
Directors of Arafura Rare Earths Limited				
M Southey	603,980	-	21,420	625,400
G Lockyer	4,770,983	500,000	21,420	5,292,403
C Tonkin	426,140	-	21,420	447,560
D Cuzzubbo	450,000	-	-	450,000
Q Zhang[9]	-	-	-	-
C Moises	342,181	-	21,420	363,601
KMP of the Group				
P Sherrington	3,695,549	250,000	(500,000)	3,445,549
S Watkins	3,375,000	250,000	(625,000)	3,000,000
Total	**13,663,833**	**1,000,000**	**(1,039,320)**	**13,624,513**

This is the end of the audited remuneration report.

[9] *Q Zhang resigned effective 18 May 2023. Balance at end of year represents Q Zhang's holdings at resignation date.*

DIRECTOR'S REPORT

Insurance of officers

During the 2022 and 2023 financial year, the Group paid an insurance premium in respect of a Directors' and Officers' Liability Insurance. The insurance premium relates to liabilities that may arise from an officer's position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain personal advantage.

The officers covered by the insurance policies are Directors and officers of the Group.

The contract of insurance prohibits the disclosure of the nature of the liabilities and the amount of premium.

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.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Directors are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* nor the principles set out in *APES110 Code of Ethics for Professional Accountants*.

As a result, the Board is satisfied that the auditor is compatible with, and did not compromise, the auditor's independence requirements of the Corporations Act 2001.

Details of the provision of audit services by BDO Audit (WA) Pty Ltd and its related entity REM-SMART Pty Ltd, can be found at Note 19 of this financial report[10].

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 49.

Signed in accordance with a resolution of the Directors.

Gavin Lockyer
Managing Director

Mark Southey
Chairman

Perth, Western Australia

16 August 2023

[10] *Effective 1 July 2023, Rem-Smart Pty Ltd will operate independently from BDO (WA) Pty Ltd.*

CORPORATE GOVERNANCE STATEMENT

The Company has established a corporate governance framework, the key features of which are set out in its Corporate Governance statement which can be found on the Company's website at arultd.com, under the section marked "Corporate Governance".

In establishing its corporate governance framework, the Company has referred to the recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 4th edition (**Principles & Recommendations**).

The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained it reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

AUDITORS INDEPENDENCE DECLARATION

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Australia

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

As lead auditor of Arafura Rare Earths Limited for the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been:

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

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

Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth

16 August 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $	2022 $
Non-capitalised portion of R&D tax incentive rebate	4(b)	34,662	14,099
Other income	4(a)	3,269,224	164,031
Employee benefits expense	5(c)	(3,698,904)	(2,791,623)
Project costs expensed	5(f)	(85,592,670)	(28,175,159)
Other expenses	5(e)	(9,341,842)	(3,996,751)
Depreciation and amortisation	5(a)	(577,030)	(318,569)
Finance costs	5(b)	(34,881)	(19,762)
Share based payments	5(d)	(438,323)	(434,486)
Loss before income tax		**(96,379,764)**	**(35,558,220)**
Net (loss) after income tax for the year		**(96,379,764)**	**(35,558,220)**
Total comprehensive (loss) for the year attributable to owners of Arafura Rare Earths Limited		**(96,379,764)**	**(35,558,220)**

Loss per share attributable to owners of Arafura Rare Earths Limited			
Basic loss per share (cents per share)	21	(5.05)	(2.33)
Diluted loss per share (cents per share)	21	(5.05)	(2.33)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Notes	2023 $	2022 $
CURRENT ASSETS			
Cash and cash equivalents	7	128,848,076	24,680,222
Trade and other receivables		789,099	747,370
Total Current Assets		**129,637,175**	**25,427,592**
NON-CURRENT ASSETS			
Property, plant and equipment		378,792	235,779
Right-of-use assets	8	7,705,058	471,537
Deferred exploration and evaluation costs	9	119,346,203	116,598,800
Other assets	10	2,464,344	587,806
Total Non-Current Assets		**129,894,397**	**117,893,922**
TOTAL ASSETS		**259,531,572**	**143,321,514**
CURRENT LIABILITIES			
Trade and other payables	11	32,377,776	9,720,070
Deferred revenue	12	5,990,795	-
Lease liabilities		970,215	264,930
Provisions	13	922,670	750,806
Total Current Liabilities		**40,261,456**	**10,735,806**
NON-CURRENT LIABILITIES			
Lease liabilities		665,481	209,286
Provisions	13	3,702,926	8,348
Total Non-Current Liabilities		**4,368,407**	**217,634**
TOTAL LIABILITIES		**44,629,863**	**10,953,440**
NET ASSETS		**214,901,709**	**132,368,074**
EQUITY			
Contributed equity	14	466,203,376	287,728,300
Reserves	15	13,573,924	13,135,601
Accumulated losses	16	(264,875,591)	(168,495,827)
TOTAL EQUITY		**214,901,709**	**132,368,074**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

Consolidated	Notes	Contributed equity $	Equity reserve $	Accumulated losses $	Total equity $
Balance at 30 June 2021		**242,257,542**	**12,701,115**	**(132,937,607)**	**122,021,050**
Loss for the 2022 financial year	16	-	-	(35,558,220)	(35,558,220)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		**-**	**-**	**(35,558,220)**	**(35,558,220)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	14	45,470,758	-	-	45,470,758
Share based payments	15	-	434,486	-	434,486
Balance at 30 June 2022		**287,728,300**	**13,135,601**	**(168,495,827)**	**132,368,074**
Loss for the 2023 financial year	16	-	-	(96,379,764)	(96,379,764)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		**-**	**-**	**(96,379,764)**	**(96,379,764)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	14	178,475,076	-	-	178,475,076
Share based payments	15	-	438,323	-	438,323
Balance at 30 June 2023		**466,203,376**	**13,573,924**	**(264,875,591)**	**214,901,709**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $	2022 $
Cash flows from operating activities			
Payments to suppliers and employees		(11,512,101)	(7,552,187)
Payments for project costs		(67,065,996)	(19,737,429)
Interest received		3,197,641	131,343
R&D Incentive rebate - non-capitalised portion		34,662	14,099
Interest paid		(46,838)	(19,762)
Government grants		5,990,796	-
Net cash (outflow) from operating activities	17	**(69,401,836)**	**(27,163,936)**
Cash flows from investing activities			
Payments for property, plant and equipment		(279,092)	(159,885)
Payments for term deposits		(371,908)	(132,000)
Proceeds from term deposits		-	116,581
Payments for security deposits		(1,504,630)	(8,646)
Proceeds from disposal of fixed assets		-	33,636
Payments for exploration and evaluation		(2,014,921)	(4,137,147)
R&D Incentive rebate - capitalised portion		116,190	379,315
Net cash (outflow) from investing activities		**(4,054,361)**	**(3,908,146)**
Cash flows from financing activities			
Net proceeds from issue of shares		185,168,572	47,190,939
Payments for transaction costs		(6,693,495)	(1,987,526)
Repayment of lease liabilities		(912,626)	(239,080)
Net cash inflow from financing activities		**177,562,451**	**44,964,333**
Net increase in cash and cash equivalents		**104,106,254**	**13,892,251**
Cash at the beginning of the financial year		24,680,222	10,787,548
Effects of exchange rate changes on cash and cash equivalents		61,599	423
Cash and cash equivalents at the end of the financial year		**128,848,076**	**24,680,222**

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

INDEX TO THE NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Arafura Rare Earths Limited and its subsidiaries.

Basis of preparation

This general-purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and the *Corporations Act 2001*. Arafura Rare Earths Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the Arafura Rare Earths Limited Group also comply with the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

Early adoption of standards

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2023.

Historical cost convention

These financial statements have been prepared on a historical cost basis.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in Note 3.

Going concern

Arafura's financial statements have been prepared on a going concern basis. There does not currently appear to be either any significant impact upon the financial position of the Group or any significant uncertainties with respect to events or conditions which may impact the financial position of the Group unfavourably as at the reporting date or subsequently.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Arafura Rare Earths Limited (**Parent Entity**) as at 30 June 2023 and the results of all controlled entities for the year then ended. Arafura Rare Earths Limited and its subsidiaries together are referred to in this financial report as the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 1: Summary of significant accounting policies (continued)

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint arrangements

Under *AASB 11 Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint Operations

Arafura recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held of incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements.

Joint Ventures

Although Arafura has no current interest in any joint venture, any interests in joint ventures will be accounted for using the equity method, after initially being recognised at cost in consolidated Statement of Financial Position.

Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 1: Summary of significant accounting policies (continued)

Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees up to the reporting date. Employee benefits that are expected to be settled 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 12 months are not discounted if the effect of discounting is immaterial. The amount for the provision is recognised in the statement of financial position.

Share-based compensation benefits are provided to employees via the Arafura Rare Earths Limited Employee Share Option Plan and Performance Rights Plan. Employee benefits received under this plan are accounted for as an option under *AASB2: Share-based Payment*. Information in relation to the scheme is set out in Note 25.

The fair value of options granted is recognised as an expense with a corresponding increase in equity over the relevant vesting period. The fair value is measured at grant date using the Black-Scholes or Binomial option pricing model. The cumulative charge to profit or loss is calculated based on the grant date fair value, the best estimate of the number of options that are likely to vest and the expired portion of the vesting period. Upon exercise of options, the balance of the share-based payments reserve in relation to those options is transferred to retained earnings.

The fair value of performance rights granted to employees is recognised as an expense with a corresponding increase in equity over the relevant vesting period, being the period over which the performance condition and any service condition is achieved. The cumulative charge to profit or loss is calculated based on the grant date fair value, the best estimate of the number of performance rights that are likely to vest and the expired portion of the vesting period. The number of rights expected to vest is estimated based on the attaching conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and equity.

The dilutive effect of outstanding vested options with an exercise price less than the market weighted average share price is reflected as additional share dilution on the computation of earnings per share.

Project Cost Expenditure

During the period the Company completed FEED and commenced detailed design for the Nolans hydrometallurgical plant, advanced engineering activities on other aspects of the Nolans Project and commenced enabling and early works construction. Expenditure associated with these activities has been expensed to the profit and loss as 'project costs' under *AASB 116 Property, Plant and Equipment*. These activities were determined to be development activities outside the scope of *AASB 6 Exploration for and Evaluation of Mineral Resources*.

Foreign currency translation

The consolidated financial statements are presented in Australian dollars, which is Arafura Rare Earths Limited's functional and presentational currency. Foreign currency transactions are translated into the foreign currency using the exchange rates prevailing at the date of transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 1: Summary of significant accounting policies (continued)

R&D Incentive Rebate

Any rebate received for eligible Research and Development activities are offset against the area where the costs were initially incurred. For R&D expenditure that has been capitalised, any claim received will be offset against 'Deferred Exploration and Evaluation Expenditure' in the Consolidated Statement of Financial Position. For R&D expenditure that has been expensed, any claim received will be recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Accounting standards and interpretations issued but not yet mandatory

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2023. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

New or amended standards adopted by the Company

The Group has not adopted any new or amended standards during the year ended 30 June 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 2: Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (which can include currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

The Group holds the following financial instruments:

	2023 $	2022 $
Financial assets		
Cash and cash equivalents	128,848,076	24,680,222
Trade and other receivables	789,099	747,370
	129,637,175	**25,427,592**
Financial liabilities		
Trade creditors	12,295,346	3,084,219
Trade and other accruals	20,036,497	6,620,473
PAYG and payroll tax liabilities	45,932	15,378
Lease liabilities	1,635,696	474,217
	34,013,471	**10,194,287**

Market risk

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from contract exposure in relation to the provisions of goods and services by outside organisations. The exposure is limited to the value of a USD bank balance, being USD$3,463 at 30 June 2023 (2022: USD$3,463).

Price risk

The Group was not exposed to equity securities price risk. This typically arises from investments held by the Group and classified on the statement of financial position as financial assets held at fair value. At 30 June 2023, Arafura had no such investments (2022: nil).

Cash flow and fair value interest rate risk

The Group has no significant long-term borrowings and hence, is not exposed to any significant interest rate risk.

Credit risk

The Group has no significant concentrations of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 2: Financial Risk Management (continued)

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external credit ratings:

	2023 $	2022 $
Cash at bank and short-term bank deposits		
Standard & Poor's rating AA-	**128,848,076**	**24,680,222**

The Group's exposure to credit risk on financial assets that cannot be assessed by reference to external credit ratings is immaterial.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities for the ability to fund future commitments. Due to the dynamic nature of the underlying businesses, the finance team aims at maintaining flexibility in funding to achieve this goal.

Financing arrangements

The Group has no financing arrangements as at the reporting date.

Maturities of financial liabilities

The table below illustrates the Group's financial liabilities at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group – At 30 June 2023	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amounts of liabilities
	$	$	$	$	$	$	$
Non-derivatives							
Non-interest bearing	32,377,775	-	-	-	-	32,377,775	32,377,775
Fixed rate	539,557	495,256	673,146	-	-	1,707,959	1,635,696
Total non-derivatives	**32,917,332**	**495,256**	**673,146**	**-**	**-**	**34,085,734**	**34,013,471**

Group – At 30 June 2022	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amounts of liabilities
	$	$	$	$	$	$	$
Non-derivatives							
Non-interest bearing	9,720,070	-	-	-	-	9,720,070	9,720,070
Fixed rate	141,776	140,419	214,005	-	-	496,200	474,217
Total non-derivatives	**9,861,846**	**140,419**	**214,005**	**-**	**-**	**10,216,270**	**10,194,287**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

Note 3: Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstance.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the following section.

Continued recognition of Exploration and evaluation expenditure

Details of the Group's policy regarding the capitalisation of mining, evaluation and development expenditure are found in Note 9.

Income taxes

The Research and Development (**R&D**) Tax Incentive is administered jointly by AusIndustry (on behalf of Innovation Australia) and the Australian Taxation Office (**ATO**).

The R&D Tax Incentive is a self-assessment program and as at the date of the signing of this report Arafura has received no notification from AusIndustry and/or the ATO rejecting the registered R&D activities as ineligible R&D or the associated eligible R&D expenditures claimed.

The Group is currently in the process of claiming for expenditure on the eligible registered R&D activities for the 2023 financial year.

Share-based payments

The Parent Entity issued share-based payments in the form of options and performance rights during the year. Assumptions and estimates made in relation to these share-based payments are detailed in Note 25.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 3: Critical accounting estimates and judgments (continued)

Incremental borrowing rate

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

Rehabilitation provision

A provision has been made for the present value of anticipated costs for future rehabilitation of land disturbed during construction of the Nolans Project. The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group recognises management's best estimate for assets retirement obligations and site rehabilitations in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Critical judgments in applying the entity's accounting policies

The following critical judgements have been made when applying the entity's accounting policies for the 2022 financial year:

Impairment assessment of Exploration and Evaluation cost carried forward

Details of the Group's impairment assessment of Exploration and Evaluation costs carried forward are found in Note 9.

Coronavirus (COVID-19) pandemic

There does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.


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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 4: Revenue

Accounting Standard

Revenue Recognition

Revenue is recognised and measured when the performance obligation has been satisfied. The performance obligation is generally considered to be satisfied when the goods are physically transferred to the buyer.

Interest revenue is recognised as earned.

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

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

	2023 $	2022 $
(a) Other Income		
Interest received	3,197,641	130,394
Foreign exchange gain	71,583	-
Gain on sale of assets	-	33,637
Total other income	**3,269,224**	**164,031**
(b) Non-capitalised portion of R&D Tax Incentive rebate		
Non-capitalised portion of R&D Tax Incentive rebate	**34,662**	**14,099**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 5: Expenses

	Notes	2023 $	2022 $
(a) Depreciation			
Depreciation – office furniture and fittings		3,586	3,280
Depreciation – office and computer equipment		116,062	78,998
Depreciation – plant & equipment		15,880	8,546
Depreciation – leasehold improvements		551	3,140
Depreciation – right-of-use assets		440,951	224,605
Total depreciation		**577,030**	**318,569**
(b) Finance costs			
Interest expense – lease liability		17,336	7,990
Interest expense – other		17,545	11,772
Total finance costs		**34,881**	**19,762**
(c) Employee benefits expense			
Employee benefits expense		**3,698,904**	**2,791,623**
(d) Share Based Payments			
Share-based employee benefits	25	**438,323**	**434,486**
(e) Other expenses			
Accounting and other professional fees		186,185	36,670
Audit fees		61,437	55,659
Consultants fees		2,935,220	1,652,019
Insurance		380,677	213,007
Legal fees		2,602,474	249,592
Share registry and stock listing fees		435,783	297,007
Other expenses		2,740,066	1,492,797
Total other expenses		**9,341,842**	**3,996,751**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 5: Expenses (continued)

	Notes	2023 $	2022 $
(f) Project costs expensed[11]			
Consultants		54,893,675	26,357,224
Employee benefits expense		1,927,945	1,174,515
Computer software		354,287	325,560
Early works		16,750,547	50,767
Equipment procurement		7,676,274	-
Rehabilitation expense		2,600,331	-
Other project development costs		1,389,611	267,093
Total project costs expensed		85,592,670	28,175,159
Total expenses		**99,683,650**	**35,736,349**

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

Note 6: Income Tax

Accounting Standard

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for by using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which any deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Arafura Rare Earths Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated Group under the Tax Consolidation Regime. Arafura Rare Earths Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated Group. The entities in the tax consolidated Group have not yet entered into a tax sharing agreement or a tax funding arrangement but may enter into these types of agreements in the future if it is considered beneficial to the Group to do so.

The reconciliation between tax expense and the product of accounting loss before tax multiplied by Group's applicable income tax rate is as follows:

Note 6: Income Tax (continued)

	2023 $	2022 $
Income tax expense		
Current tax	-	-
Loss before income tax	**96,379,764**	**35,558,220**
Income tax benefit @ 30%	28,913,929	10,667,466
Tax effect of amounts which are not deductible in calculating taxable income:		
Entertainment	(14,214)	(8,908)
Share-based payments	(131,497)	(145,501)
Sundry items not deductible (assessable)	10,399	4,230
Deferred tax assets relating to tax losses not recognised	(7,077,647)	(1,874,124)
Temporary differences not recognised	(21,700,970)	(8,643,163)
Total income tax benefit	**-**	**-**

The franking account balance at year end was nil (2022: nil).

Deferred tax assets and liabilities not recognised relate to the following:

	2023 $	2022 $
Deferred tax assets		
Tax losses	69,552,881	64,008,358
Other temporary differences	37,517,437	11,593,867
Total deferred tax assets	107,070,318	75,602,225
Deferred tax liabilities	(36,431,371)	(35,170,394)
Net Deferred tax assets	**70,638,947**	**40,431,830**

Net deferred tax assets have not been bought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

Note 7: Current assets – cash and cash equivalents

Accounting Standard

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

	2023 $	2022 $
Cash at bank and in hand	19,586,643	5,617,182
Bank deposits[12]	109,261,433	19,063,040
	128,848,076	**24,680,222**

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Reconciliation to cash at the end of the year

Balances as above and per statement of cash flows	**128,848,076**	**24,680,222**

The Group's exposure to interest rate risk is discussed in Note 2.

Note 8: Right of use assets

Accounting Standard

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

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

[12] *All bank deposits mature within three months of 30 June 2023.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

Note 8: Right of use assets (continued)

	Land, buildings and leasehold addition $	Office furniture and fittings $	Motor Vehicles $	WIP $	Total $
Consolidated					
Year ended 30 June 2022					
Opening book amount	163,562	18,172	-	-	181,735
Additions	462,966	51,441	-	-	514,406
Depreciation charge	(202,143)	(22,460)	-	-	(224,603)
Closing book amount	424,385	47,153	-	-	471,538
At 30 June 2022					
Cost or fair value	887,723	98,636	-	-	986,358
Accumulated depreciation	(463,338)	(51,483)	-	-	(514,821)
Net book amount	424,385	47,152	-	-	471,537
Year ended 30 June 2023					
Opening book amount	424,385	47,152	-	-	471,537
Additions	1,732,401	192,490	131,879	5,617,703	7,674,473
Disposals	-	-	-	-	-
Depreciation charge	(389,437)	(43,271)	(8,242)	-	(440,950)
Closing book amount	1,767,349	196,371	123,637	5,617,703	7,705,060
At 30 June 2023					
Cost or fair value	2,620,124	291,125	131,879	5,617,703	8,660,831
Accumulated depreciation	(852,775)	(94,754)	(8,242)	-	(955,771)
Net book amount	1,767,349	196,371	123,637	5,617,703	7,705,060

Note 9: Non-current assets – deferred exploration and evaluation expenditure

Accounting Standard

Exploration

Exploration expenditure incurred is accumulated in respect of each identifiable area of interest. The expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to activities in the 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 capitalised exploration expenditure in relation to an abandoned area of interest and/or an area where no mineable ore body is discovered are expensed in the period in which it is determined the area of interest has no future economic benefit.

Evaluation

Evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. The expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to activities in the 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.

When the technical feasibility and commercial viability of extracting and processing mineral resources have been demonstrated, then any capitalised evaluation expenditure will be classified to mine development and mineral processing development expenditure. Prior to reclassification, capitalised evaluation expenditure is assessed for impairment.

Accumulated capitalised evaluation expenditure in relation to an abandoned area of interest and/or an area where no mineable ore body is discovered are expensed in the period in which it is determined the area of interest has no future economic benefit. 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.

	2023 $	2022 $
Exploration, evaluation and development costs carried forward		
Balance at beginning of year	116,598,800	113,714,145
Capitalised exploration expenditure	621,236	726,438
Capitalised evaluation expenditure[13]	2,242,357	2,537,532
R&D Tax Incentive rebate receipted against capitalised evaluation costs	(116,190)	(379,315)
Balance at end of year	**119,346,203**	**116,598,800**

The ultimate recoverability of capitalised exploration and evaluation expenditure is dependent on the successful development of the area of interest and/or project or subsequent sale.

[13] Capitalised evaluation expenditure is expenditure on the Nolans Project, its proposed design and engineering including pilot plant activities, environmental impact assessments to evaluate, formulate and demonstrate the technical feasibility and commercial viability in developing a rare earths processing plant to process and treat the ore to be mined from the Nolan's Project. It excludes expenditure associated with FEED, detailed design, other such engineering programs and early works construction which have been treated as development activities under AASB 116 Property, Plant and Equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

Note 10: Non-current assets – other assets

	2023 $	2022 $
Tenement and environmental related bonds	1,701,936	447,306
Lease bonds	762,408	140,500
	2,464,344	**587,806**

Accounting Standard

Loans and receivables

The Group classifies its investments in the following categories: financial assets at fair value through the profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods, and/or services directly to a debtor with no intention of selling the receivable.

They are included in current assets, except for those with maturities greater than twelve months after the reporting date which are classified as non-current assets.

Note 11: Current liabilities – trade and other payables

Accounting Standard

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year, which are unpaid. The amounts are unsecured, non-interest bearing and are usually paid within 30 days of recognition.

	2023 $	2022 $
Current		
Trade creditors	12,295,346	3,084,220
Trade and other accruals[14]	20,036,497	6,620,473
PAYG and payroll tax liabilities	45,933	15,377
	32,377,776	**9,720,070**

Information about the Group's exposure to foreign exchange risk is provided in Note 2. Carrying amounts equal fair values due to the short-term nature.

[14] Increase in accruals over the period is reflective of the increase in the Group's Project development activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 12: Current liability: deferred revenue

	2023 $	2022 $
Current		
Modern Manufacturing Initiative (MMI) Government Grant	5,990,795	-
	5,990,795	**-**

Accounting Standard

Deferred revenue relates to funding received under the Commonwealth Government's MMI Collaboration Stream. Government grants relating to expenditure are deferred and recognised in profit or loss over the period necessary to match them with the expenditure that they are intended to compensate. Government grants relating to depreciable assets are recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

Note 13: Current and non-current liabilities – provisions

	2023 $	2022 $
Current		
Annual and long service leave	815,182	643,696
Provision for restoration of evaluation expenditure	107,488	107,110
	922,670	**750,806**
Non-current		
Long service leave	42,580	8,348
Provision for rehabilitation	2,600,331	-
Provision for demobilisation costs	1,060,015	-
	3,702,926	**8,348**

Accounting Standard

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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Note 14: Equity – contributed equity

Accounting Standard

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 from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

	2023 Shares	2022 Shares	2023 $	2022 $
Share capital				
Fully paid ordinary shares	**2,113,364,692**	1,566,242,332	**466,203,376**	287,728,300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 14: Equity – contributed equity (continued)

Movements in ordinary share capital

Movements in ordinary share capital over the past two years are as follows:

Date	Details	Number of shares	Issue Price	$
30-Jun-21	**Balance**	**1,170,780,763**		**242,257,542**
2-Jul-21	Share capital	175,617,114	0.12	21,074,054
13-Aug-21	Share capital	157,716,220	0.12	18,925,946
20-Aug-21	Share capital	45,833,235	0.12	5,499,988
31-Oct-21	Options exercised	200,000	0.12	24,000
30-Nov-21	Options exercised	270,000	0.12	32,400
23-May-22	Options exercised	3,465,000	0.12	415,800
23-May-22	Performance rights exercised	250,000	-	-
20-Jun-22	Options exercised	200,000	0.12	24,000
21-Jun-22	Options exercised	241,667	0.12	29,000
22-Jun-22	Options exercised	6,416,667	0.12	770,000
23-Jun-22	Options exercised	4,803,333	0.12	576,400
24-Jun-22	Options exercised	248,333	0.12	29,800
27-Jun-22	Options exercised	200,000	0.12	24,000
30-Jun-22	Capital raising costs			(1,954,630)
30-Jun-22	**Balance**	**1,566,242,332**		**287,728,300**
21-Jul-22	Performance rights exercised	1,550,000	-	-
15-Aug-22	Share Capital	156,779,233	0.265	41,546,497
21-Oct-22	Options exercised	2,873,425	0.34	976,965
12-Dec-22	Share Capital	259,116,748	0.37	95,873,197
23-Dec-22	Options exercised	94,340	0.34	32,076
6-Jan-23	Share Capital	54,053,370	0.37	19,999,747
20-Jan-23	Options exercised	23,281	0.34	7,916
25-Jan-23	Share Capital	67,910,280	0.37	25,126,804
2-Feb-23	Options exercised	918,868	0.34	312,415
10-Feb-23	Options exercised	1,649,947	0.34	560,982
17-Feb-23	Options exercised	500,000	0.34	170,000
10-Mar-23	Options exercised	1,354,000	0.34	460,360
21-Apr-23	Options exercised	298,868	0.34	101,615
30-Jun-23	Capital Raising Costs			(6,693,498)
30-Jun-23	**Balance**	**2,113,364,692**		**466,203,376**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 14: Equity – contributed equity (continued)

Capital risk management

The Group's objectives when managing capital is to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as current borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 15: Equity – reserves

Accounting Standard

Share-based payments compensation benefits are provided to employees via the Arafura Rare Earths Ltd Employee Share Option Plan or the Performance Rights Plan as set out in Note 25.

The fair value of options and performance rights granted is recognised as an expense with a corresponding increase in equity over the relevant vesting period. The fair value is measured at grant date using the Black-Scholes or Binomial option pricing model. The cumulative charge to profit or loss is calculated based on the grant date fair value, the best estimate of the number of options that are likely to vest and the expired portion of the vesting period. The number of options and performance rights expected to vest is estimated based on the attaching service and/or performance conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and equity. Upon exercise of options and performance rights, the balance of the share-based payments reserve in relation to those options is transferred to retained earnings.

Market vesting conditions are taken into consideration in determining fair value of the option or performance right at grant date. Non-market vesting conditions are included in assumptions about the number of options and performance rights that are expected to vest. At the end of each period, the entity revises its estimates of the number of options and performance rights that are expected to vest based on non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

	2023 $	2022 $
Reserves		
Share-based payments reserve	13,573,924	13,135,601
	13,573,924	**13,135,601**
Movements		
Share-based payments reserve		
Balance at beginning of year	13,135,601	12,701,115
Share based payments expense	438,323	434,486
Balance at end of year	**13,573,924**	**13,135,601**

Nature and purpose of reserves

The share-based payments reserve is used to recognise the fair value of options issued to employees and Directors but not exercised.

Note 16: Equity – accumulated losses

	2023 $	2022 $
Balance at beginning of year	(168,495,825)	(132,937,607)
Net loss for the year	(96,379,764)	(35,558,220)
Balance at end of year	**(264,875,591)**	**(168,495,827)**

Note 17: Statement of cash flows reconciliation

	2023 $	2022 $
Net (loss)	(96,379,764)	(35,558,220)
Adjustments for:		
Depreciation and amortisation	577,030	318,569
Disposal of fixed assets	-	(33,636)
Foreign exchange	(61,599)	(421)
Share based payments expense	438,322	434,486
Change in operating assets and liabilities:		
Government Grants	5,990,795	-
Trade & other receivables	582,894	(630,019)
Trade & other payables	16,644,438	8,281,215
Provisions	2,806,048	24,090
Net cash (outflow) from operating activities	**(69,401,836)**	**(27,163,936)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 18: Key Management personnel compensation

	2023 $	2022 $
Short-term employee benefits	1,664,726	1,535,391
Post-employment benefits	130,374	125,475
Long-term benefits	32,569	29,049
Share-based payments	223,489	241,071
	2,051,158	**1,930,986**

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 35 to 46.

Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report.

Loans to KMP

During the 2022 and 2023 financial year, there were no loans to the Directors or other KMP.

Other transactions with KMP

During the 2022 and 2023 financial year, there were no other transactions with the Directors or other KMP at any time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 19: Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the Company.

	2023 $	2022 $
1. Audit services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	111,082	55,659
2. Remuneration advice		
REM-SMART Pty Ltd [15]		
Remuneration review	44,330	-
Audit and review of financial reports	**155,412**	**55,659**

Note 20: Commitments and contingencies

Capital Commitments

	2023 $	2022 $
Within one year	67,790,584	-
Later than one year but not later than five years	80,783	-
Later than five years	-	-
	67,871,367	**-**

Lease commitments - operating

	2023 $	2022 $
Within one year	319,571	-
Later than one year but not later than five years	-	-
Later than five years	-	-
	319,571	**-**

Mining tenement commitments

	2023 $	2022 $
Within one year	147,413	139,978
Later than one year but not later than five years	409,789	406,581
Later than five years	102,372	105,505
	659,574	**652,064**

[15] *Effective 1 July 2023, REM-SMART will operate independently from BDO (WA) Pty Ltd*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 20: Commitments and contingencies (continued)

In order to maintain current rights of tenure to exploration and mining tenements, the Group has the following discretionary exploration expenditure requirements up until expiry of the tenements. These obligations are not provided for in the financial statements.

If the Group decides to relinquish certain tenements and/or does not meet these obligations, assets recognised in the statement of financial position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

Contingencies

No contingent liabilities exist at 30 June 2023 or 30 June 2022.

Note 21: Earnings per share

Accounting Standard

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 21: Earnings per share (continued)

	2023 Cents	2022 Cents
Basic loss per share		
Basic loss per share (cents per share)	(5.05)	(2.33)
Diluted loss per share		
Diluted loss per share (cents per share)	(5.05)	(2.33)

	2023 $	2022 $
Net (loss)	(96,379,764)	(35,558,220)
(Loss) used to calculate basic earnings per share	(96,379,764)	(35,558,220)
(Loss) used to calculate diluted earnings per share	(96,379,764)	(35,558,220)

	2023 Number of shares	2022 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,906,848,705	1,525,578,155
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,906,848,705	1,525,578,155
Weighted average number of ordinary shares from option conversions which are dilutive and potential ordinary shares that are not used in calculation of diluted earnings per share	-	-

The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion to these options would result in a decrease in the net loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 22: Related party transactions

Parent entity

The parent entity within the Group is Arafura Rare Earths Limited.

Subsidiaries

Interests in subsidiaries are set out in Note 23.

Key management personnel

Disclosures relating to KMP are set out in Note 18.

Transactions with related parties

There were no transactions with related parties in the year ended 30 June 2023 or 30 June 2022.

Outstanding balances arising from sale/purchases of goods and services

There were no outstanding balances at the end of the reporting period in relation to transactions with related parties.

Loans to/from related parties

Other than loans held between subsidiaries of the Group, there were no other loans entered into or agreed upon with related parties of the Group.

Terms and conditions

All transactions were made at cost. Outstanding balances with subsidiaries of the Group are unsecured and repayable in cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 23: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in Note 1(c).

Name of entity	Country of incorporation	Class of share	Equity holding 2023 %	Equity holding 2022 %
Arafura Advanced Materials Pty Ltd[16]	Australia	Ordinary	100	100
Arafura Nolans Project Pty Ltd	Australia	Ordinary	100	100
Arafura IP Pty Ltd	Australia	Ordinary	100	100
Central Australian Resources Pty Ltd	Australia	Ordinary	100	100
Nolans Operations Pty Ltd	Australia	Ordinary	100	100

Note 24: Events occurring after the reporting date

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years

[16] Subsidiary's legal name was changed from Arafura Rare Earths Pty Ltd to Arafura Advanced Materials Pty Ltd during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 25: Share-based payments

Expenses arising from share-based payment transactions

The total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2023 $	2022 $
Vesting of options and performance rights issued under the Employee Share Option Plan or Performance Rights Plan	768,729	434,485
Reversal of cumulative expense recognised for options and performance rights forfeited[17]	(330,406)	-
	438,323	**434,485**

Options

Options over shares in Arafura Rare Earths Limited are granted by the Board under the Arafura Rare Earths Limited Share Option Plan which was last approved by shareholders at the 2020 Annual General Meeting.

On 17 August 2022, the Board approved the issue of unlisted options under the Option Plan up to a maximum value of $1,002,000 for staff and $360,000 for the Managing Director. The staff options were issued on 5 September 2022 and the Managing Director's was issued on 21 October 2022 following shareholder approval at the 2022 Annual General Meeting. An additional tranche was approved for staff on 28 February 2023 up to $75,250 and issued on 1 March 2023. The Company has internally measured the fair value of options granted by adopting the Black-Scholes pricing model.

Key terms of the Options and inputs to the Black-Scholes pricing model as follows:

Term	Staff Options (Tranche 1)	Managing Director Options (Tranche 2)	Staff Options (Tranche 3)
Grant Date	5/09/2022	20/10/2022	28/02/2023
Date of Expiry	5/09/2026	20/10/2026	28/02/2027
Number of Options Granted	5,597,000	2,118,000	197,000
Vesting condition	3 years from grant date	3 years from grant date	3 years from grant date
Share price at grant date	$0.17	$0.17	$0.65
Exercise Price	$0.43	$0.43	$0.93
Risk free interest rate	3.30%	3.62%	3.63%
Volatility	88.29%	85.77%	88.85%
Fair value per option	$0.1737	$0.1699	$0.3804
Total fair value at grant date[18]	$972,199	$359,836	$74,948

[17] Relates to the reversal of the cumulative expense recognised for options or performance rights which had not vested by expiry date.
[18] Figures may not compute due to rounding.

Note 25: Share-based payments (continued)

In accordance with AASB 2 Share Based Payments, as at 30 June 2023 a 65% weighted probability of the fair value of the options has been used for Tranche 1 and 2 and 60% weighted probability for Tranche 3 to calculate the vesting of the options representing management's best estimate of the number of options that will ultimately vest based on staff turnover rates.

Options granted under the plan carry no dividend or voting rights.

The options expire on the earlier of their expiry date or one month after resignation of the employee (whether vested or not) or upon termination of their employment (unless the Board decides otherwise).

The Company has the option of deferral of performance-based remuneration and/or the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

Vesting of the options is not subject to any conditions other than it be at or subsequent to the vesting date and before the expiry date.

Set out below are summaries of options granted and still outstanding at the beginning and/or end of the financial year:

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at end of year
			Number	Number	Number	Number	Number	Number
Consolidated – 2023								
31-Jul-18	1-Jul-22	$0.120	250,000	-	-	(250,000)	-	-
31-Aug-21	31-Aug-25	$0.200	4,330,000	-	-	(50,000)	4,280,000	-
21-Oct-21	21-Oct-25	$0.310	1,240,000	-	-	-	1,240,000	-
2-Sep-22	5-Sep-26	$0.430	-	5,597,000	-	(554,000)	5,043,000	-
20-Oct-22	20-Oct-26	$0.430	-	2,118,000	-	-	2,118,000	-
28-Feb-23	28-Feb-27	$0.930	-	197,000	-	-	197,000	-
Total			**5,820,000**	**7,912,000**	**-**	**(854,000)**	**12,878,000**	**-**
Weighted average exercise price			$0.22	$0.44	-	$0.33	$0.35	-

Note 25: Share-based payments (continued)

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at end of year
			Number	Number	Number	Number	Number	Number
Consolidated – 2022								
31-Jul-18	1-Jul-22	$ 0.120	11,805,000	-	(11,555,000)	-	250,000	-
22-Nov-18	1-Jul-22	$ 0.120	4,750,000	-	(4,750,000)	-	-	-
31-Aug-21	31-Aug-25	$ 0.200	-	4,370,000	-	(40,000)	4,330,000	-
21-Oct-21	21-Oct-25	$ 0.310	-	1,240,000	-	-	1,240,000	-
Total			**16,555,000**	**5,610,000**	**(16,305,000)**	**(40,000)**	**5,820,000**	**-**
Weighted average exercise price			$0.12	$0.22	$0.12	$0.20	$0.22	

Employee Share Scheme - Performance rights

Performance rights in Arafura Rare Earths Limited are granted by the Board under the Arafura Rare Earths Limited Performance Rights Plan which was last approved by shareholders at the 2020 Annual General Meeting.

On 17 August 2022, the Board approved the issue of performance rights to staff and the Managing Director under the Arafura Employee Performance Rights Plan up to a maximum value of $807,000 for staff and $202,500 for the Managing Director. The staff performance rights were issued on 2 September 2022 and the Managing Director's was issued on 21 October 2022 following shareholder approval at the 2022 Annual General Meeting. An additional tranche was approved for staff on 28 February 2023 up to $53,750 and issued on 1 March 2023.

The performance rights will vest upon the Group securing the debt financing and equity requirement for the Nolans Project to enable the Group to commit to the commencement of major construction in relation to the Nolans Project by the expiry date of 31 December 2023 (Performance Condition).

Note 25: Share-based payments (continued)

Key terms of the Performance Rights are as follows:

Term	Staff Performance Rights	Staff Performance Rights	Managing Director Performance Rights
Grant Date	2/09/2022	28/02/2023	20/10/2022
Date of Expiry	31/12/2023	31/12/2023	31/12/2023
Number of Performance Rights Granted	2,671,000	82,000	677,000
Vesting condition	The Performance Condition	The Performance Condition	The Performance Condition
5-day VWAP at grant date	0.30	0.65	0.30
Exercise Price	Nil	Nil	Nil
Fair value per performance right	$0.3010	$0.6507	$0.2987
Total fair value at grant date[19]	$804,044	$53,360	$202,223

The fair value of the performance rights has been calculated as the 5-day volume-weighted average price at grant date. In accordance with *AASB 2 Share Based Payments*, as at 30 June 2023 a 70% weighted probability of the fair value of the performance rights has been used to calculate the vesting of the rights representing management's best estimate of the number of options that will ultimately vest based on the probability of reaching the Performance Condition and staff turnover rates.

The Board has ultimate discretion on whether the Performance Condition has been met. No issue price is payable for the performance rights, and no payment is required on vesting of a performance right. The Performance Rights will, if not vested, lapse on 31 December 2023.

Performance rights will be automatically exercised when the performance rights vest. Each performance right which vests will entitle the holder to be issued one share in the Company.

[19] *Figures may not compute due to rounding.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2023

Note 26: Segment information

The company has identified its operating segments based on the internal reports that are reviewed and used by the board of Directors in assessing performance and determining the allocation of resources. The reportable segment is represented by the primary statements forming this financial report.

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

Note 27: Parent entity financial information

The individual financial statements for the parent entity show the following aggregate amounts:

Arafura Rare Earths Ltd (Parent)	2023 $	2022 $
Total current assets	**128,167,163**	**25,348,321**
Total assets	**225,493,191**	**120,509,587**
Total current liabilities	**3,129,288**	**10,685,806**
Total liabilities	**3,279,355**	**10,903,440**
Shareholders' equity		
Issued capital	466,203,376	287,728,299
Option reserve	13,573,923	13,135,600
Accumulated loss	(257,563,463)	(191,257,752)
Total equity	**222,213,836**	**109,606,147**
Loss for the year	(66,305,711)	(36,203,249)
Total comprehensive loss	**(66,305,711)**	**(36,203,249)**

No capital commitments are held in the Parent entity. The following lease and mining tenement commitments are held in the Parent entity. Refer to Note 20 for the Group's commitments disclosure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Note 27: Parent entity financial information (continued)

Lease commitments - operating

	2023 $	2022 $
Within one year	62,122	-
Later than one year	-	-
	62,122	-

Mining tenement commitments

	2023 $	2022 $
Within one year	67,202	57,312
Later than one year but not later than five years	46,784	32,465
Later than five years	-	-
	113,986	**89,777**

DIRECTORS' DECLARATION

Declaration by Directors

1. The financial statements comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, accompanying notes are in accordance with the *Corporations Act 2001*, and:

   a. comply with Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   b. give a true and fair view of the financial position as at 30 June 2023 and of the performance for the year ended on that date for the Group.

2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. In the Directors' opinion, the financial statements and notes are prepared in compliance with IFRS and interpretations alerted by the International Accounting Standards Board.
4. The remuneration disclosures set out on pages 35 to 46 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.
5. The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed on behalf of the Directors.

Mark Southey
Chairman
16 August 2023

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INDEPENDENT AUDITOR'S REPORT

To the members of Arafura Rare Earths Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Arafura Rare Earths Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of Arafura Rare Earths Limited, is in accordance with the *Corporations Act 2001*, including:

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

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

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

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.

Accounting for Exploration and Evaluation Assets

Key audit matter	*How the matter was addressed in our audit*
At 30 June 2023, we note that the carrying value of the Deferred Exploration and Evaluation Asset is significant to the financial statements, as disclosed in note 9. As a result, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount. Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 Exploration for and Evaluation of Mineral Resources. In particular: • Whether the conditions for capitalisation are satisfied; • Which elements of exploration and evaluation expenditures qualify for recognition; and • Whether facts and circumstances indicate that the exploration and evaluation assets should be tested for impairment.	Our procedures included, but were not limited to: • Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Group's exploration budgets, ASX announcements and directors' minutes; • Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Verifying, on a sample basis, exploration and evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6; • Considering whether any facts of circumstances existed to suggest impairment testing was required; and • Assessing the adequacy of the related disclosures in Note 9 of the Financial Report.

Other information

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

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

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

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

Responsibilities of the directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has 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 (http://www.auasb.gov.au/Home.aspx) at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our auditor's report.

BDO

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 35 to 46 of the directors' report for the year ended 30 June 2023.

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

Responsibilities

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

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien

Glyn O'Brien

Director

Perth

16 August 2023

ADDITIONAL INFORMATION

Additional information included in accordance with the listing rules of the Australian Stock Exchange Limited.

Shareholder Information

Statement of issued capital at 14 August 2023:

Distribution of fully paid ordinary shareholders:

Size of holding	Number of shareholders	Number of shares
100,001 and Over	2,398	1,629,946,223
10,001 to 100,000	12,117	413,846,470
5,001 to 10,000	5,463	43,708,422
1,001 to 5,000	8,566	25,016,347
1 to 1,000	1,486	847,230
	30,030	**2,113,364,692**

There are no restrictions on voting rights attached to ordinary shares. On a show of hands, every member present in person shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

As at 14 August 2023, there existed 3,569 shareholders who held less than a marketable parcel of shares.

Fully paid ordinary shares are quoted on the Australian Stock Exchange Limited.

Substantial shareholders at 14 August 2023 as per their notices:

Name	Ordinary shares %
Hancock Prospecting Pty Ltd[20]	10.01

[20] The last notice of change of interest of substantial holder was provided to the ASX on 27 January 2023. The next notice of change of interest of substantial holder is only required where there is a change in holding greater than 1% from the previous notice.

ADDITIONAL INFORMATION

Top Twenty Shareholders

As at 14 August 2023, the twenty largest shareholders held 851,128,848 of the fully paid ordinary shares in Arafura Rare Earths Limited and they are:

No.	Name	Shares	% of issued
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	350,554,806	16.59
2	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	144,107,709	6.82
3	CITICORP NOMINEES PTY LIMITED	92,000,790	4.35
4	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	89,684,856	4.24
5	BNP PARIBAS NOMS PTY LTD	44,373,601	2.10
6	BNP PARIBAS NOMINEES PTY LTD	27,506,449	1.30
7	BNP PARIBAS NOMS PTY LTD UOB KH PL AC	22,286,500	1.05
8	NATIONAL NOMINEES LIMITED	12,008,219	0.57
9	MS DANIELLE SHARON TUDEHOPE	11,000,000	0.52
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSI EDA	6,820,000	0.32
11	SUPERHERO SECURITIES LIMITED	6,795,850	0.32
12	HINTON FAMILY HOLDINGS PTY LTD	6,278,420	0.30
13	MR DAVID JOHN HARRISON	5,460,000	0.26
14	BIRCH PCT PTY LTD	5,015,112	0.24
15	MRS LINDA CAROLYN HEADLAND & MR BARRY WESLEY HEADLAND	5,000,000	0.24
16	MR KENNETH WONG	5,000,000	0.24
17	CITICORP NOMINEES PTY LIMITED	4,576,536	0.22
18	MR KENNETH JOSEPH HALL	4,500,000	0.21
19	MR GAVIN JOHN LOCKYER & MRS TONI LOUISE LOCKYER	4,160,000	0.20
20	MR NICOLAS ANTHONY STOTT	4,000,000	0.19
		851,128,848	**40.28**

ADDITIONAL INFORMATION

Tenement Register as at 14 August 2023:

Tenement reference	Project	Holder	Nature of interest	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659 ML 30702 ML 30703 ML 30704 ML 32411 ML 32412 ML 32413 ML 32414 ML 32415 ML 32416	Nolans, NT	Arafura Nolans Project Pty Ltd	Mineral Lease	100% 100% 100% 100% 100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100% 100% 100% 100% 100%	
EL 28473 EL 28498 EL 29509 EL 31224 EL 31284 EL 31957	Aileron–Reynolds, NT	Arafura Rare Earths Ltd	Exploration Licence	100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100%	
EL 29701	Bonya JV, NT	Arafura Rare Earths Ltd	Exploration Licence	60%	60%	Thor Mining Plc 40%, Arafura Rare Earths Limited 60%
EL 32167	Jervois Vanadium, NT	Arafura Rare Earths Ltd	Exploration Licence	60%	60%	Thor Mining Plc 40%, Arafura Rare Earths Limited 60%
ML32722	Nolans, NT	Arafura Nolans Project Pty Ltd	Mineral Lease	100%	100%	Application lodged.
ML33107	Nolans, NT	Arafura Nolans Project Pty Ltd	Mineral Lease	100%	100%	
EMP33078 EMP33079 EMP33080 EMP33081 EMP33082 EMP33083 EMP33084 EMP33085	Nolans, NT	Arafura Nolans Project Pty Ltd	Extractive Exploration Licence	100%	100%	Application lodged.

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