

CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF-YEAR ENDED

31 DECEMBER 2022



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DIRECTORS REPORT – FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Rare Earths Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2022.

Directors

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

- M Southey
- G Lockyer
- C Tonkin
- Q Zhang
- C Moises
- D Cuzzubbo

REVIEW OF OPERATIONS

During the six months ended 31 December 2022, Arafura incurred a net loss of \$26,862,813 (2021: \$12,176,550). This increase in the company's net loss position resulted from a continuation of front-end engineering and design (**FEED**) throughout the reporting period and an acceleration of project development activities as the Company ramps up toward a final investment decision (**FID**) and commencement of construction for the Nolans Rare Earth Project (**Nolans** or **Project**) in Q1 of 2023 calendar year.

Strong alignment of Nolans with the world's key priorities for diversification of supply chains from a sustainable source enables Australia to play a critical role as an alternate supplier. With strong project economics confirmed in the Company's Project Update (refer to ASX Announcement dated 11 November 2022) coupled with a strengthening NdPr price, the Company continues to advance its additional offtake and project funding discussions.

CORPORATE

Funding

Arafura completed a \$41.5 million (before costs) placement during August 2022. A total of 156.7 million shares were issued at a price of \$0.265 per new share with an additional 1 free attaching option for every 2 new shares subscribed that will be exercisable at \$0.34 and expire on 29 February 2024. Following this on 5 December 2022, the Company received firm commitments from Australian and international institutional, sophisticated and professional investors to raise approximately A\$121 million (before costs) under a two-tranche placement at an issue price of A\$0.37 per share (refer to ASX announcements dated 5 December 2022). Tranche 1 completed on 12 December 2022 to raise \$95.9 million, and Tranche 2 completed on 25 January 2023 to raise \$25.1 million following shareholder approval obtained at a general meeting held on 18 January 2023.

DIRECTORS REPORT – FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

Hancock Prospecting Pty Ltd acted as cornerstone investor in the Placement, investing \$60 million across the two tranches resulting in a post-completion interest of ~10% in Arafura (refer to ASX announcement dated 27 January 2023).

The Company also launched a share purchase plan (**SPP**) to raise an additional \$20 million (before costs). As announced on 5 January 2023, the SPP was heavily oversubscribed with a total of 5,510 applications being received, representing a total application value of approximately \$81.5 million. Approximately \$1.2m was received from ineligible shareholders whose 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. Valid applications were scaled back to approximately 26% of the application amount.

The combined funds raised under the placement and SPP totalling \$141 million (before costs) are intended to be used to accelerate the development of Nolans by:

- completion of an early contractor involvement (ECI) phase to optimise Nolans and agree a contract for the construction of the hydrometallurgical plant;
- placement of orders for long lead or near critical path items;
- commencement of fabrication in readiness for main plant construction;
- commencement of early works construction, including for the accommodation village, project water supply, earthworks and other associated items;
- continuation of detailed design and tender activities to advance the design and procurement of Nolans across all areas;
- ongoing marketing and sales negotiations in the US, Asia and Europe and financing activities; and
- general working capital.

Annual General Meeting

The Company's annual general meeting was held at BDO's offices at Level 9, Mia Yellagonga Tower 2, 5 Spring Street, Perth WA 6000 at 10.00am WST on 20 October 2022. All resolutions were passed by way of a poll.

Change of Company Name

The Company's shareholders passed a resolution, at the Annual General Meeting, to change the Company's name from Arafura Resources Limited to Arafura Rare Earths Limited, which has now been officially changed with the Australian Securities and Investments Commission.

OFFTAKE

On 7 November 2022, the Company announced the signing of a binding offtake agreement with its key foundation offtake partner, South Korean based Hyundai Motor Company (Hyundai). Kia Corporation (Kia) can make orders under the offtake agreement in its own right. This followed the signing of the non-binding Memorandum of Understanding with Hyundai earlier in 2022 (refer to ASX Announcement dated 19 May 2022).

DIRECTORS REPORT – FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

The offtake agreement is for the supply of NdPr from Nolans to Hyundai over a seven-year term (which may be extended for a further five years by mutual agreement). Under the offtake agreement, the buyer may choose whether to be supplied with Neodymium and Praseodymium (**NdPr**) Oxide or its equivalent in NdPr Metal. Contract volumes (per contract year) for NdPr Oxide are 600 tonnes per annum (**tpa**) in year one, increasing to 1,500 tpa in years four to seven to align with ramp up of the Project.

On 12 July 2022, the Company announced the signing of a non-binding memorandum of understanding (**MoU**) entered into with Arafura. The MoU relates to collaboration in the establishment of a sustainable supply chain for NdPr for the manufacture of offshore wind turbines and energy transition. GE and Arafura have agreed to negotiation of a long-term sale and purchase agreement for GE to purchase NdPr from Nolans.

Negotiations with additional parties continue to progress well and Arafura is aiming to conclude the remaining binding offtake agreements during 2023, to align with FID.

PROJECT FUNDING

The release of the November 2022 “Nolans Project Update” provided revised capital costs, operating costs and projected financial outcomes from Nolans (refer to ASX announcement dated 11 November 2022). The Independent Technical Expert, SRK Consulting (Australia) Pty Ltd is also using the information from the update to complete the technical review of Nolans to support the financiers in the completion of their due diligence. Arafura in conjunction with its debt advisors HCF International Advisors, used the “Nolans Project Update” to prepare a revised project funding strategy incorporating the latest capital costs and operating costs. The Company continues to advance the negotiation of draft terms and due diligence for the debt financing facilities.

Positive offtake engagement has continued to enable the Company to engage with export credit agencies (**ECAs**) domestically and in the home markets of potential offtake partners. Arafura continues to execute its offtake and project funding strategy, aligning with parties who seek to create an alternative rare earths value chain with direct links from the oxide producer to the end user.

Discussions with offtake partners also incorporates the potential for strategic equity investment in the upstream value chain, which is viewed positively by the ECAs and lenders and if secured, will provide a useful cornerstone for Project equity. The MoU signed with GE in July 2022 also outlines a potential strategic investment by GE in Arafura to be negotiated in conjunction with the NdPr sale and purchase agreement. Additionally, a non-binding heads of agreement (**HoA**) for potential strategic investment with Hyundai and its affiliates. Any funds raised by the Company are intended to be applied towards funding a portion of the equity component of the development funding required for the Project. Arafura will make a further announcement to the ASX if definitive and binding subscription agreements are finalised and executed in the future.

As the geographic makeup of the offtake partners for NdPr becomes more certain, Arafura has increased its engagement with ECAs in the relevant jurisdictions. Arafura is targeting ECA guarantees to the commercial lenders as a means of creating sufficient liquidity for the targeted debt financing facilities.

Advancement and negotiation of the finance facilities are targeted to allow for FID in March 2023 with contractual close on project financing to follow in mid-2023. The debt financing will be conditional on completion of a successful due diligence process, agreement of terms and conditions, credit approvals and entry into binding facility agreements.

OPERATIONAL LICENCING

As part of the Northern Territory mining authorisation process, a mining management plan and associated environmental management plans (EMPs) for Nolans were submitted to the Northern Territory Department of Industry, Tourism and Trade (DITT) in Q4 2021. These draft documents were updated incorporating comments and queries from DITT and were accepted as final by DITT in Q3 2022.

These plans were submitted to the Northern Territory Parliament for approval with the Company receiving the Mining Authorisation for Nolans on 15 November 2022.

Additionally, in mid-2022 the Company applied for various Access Authorities to provide access to the various Mineral Leases that house Nolans and associated infrastructure. These Access Authorities were approved and granted by the Northern Territory government on 21 November 2022. A small number of additional Access Authorities, which are required to accommodate minor changes to proposed road alignments, are currently being applied for with the Northern Territory government.

ESG

Arafura worked to finalise the greenhouse gas reduction pathway for Nolans' fixed power generation, including the power station and process plant steam generation. The reduction pathway considered various options for reaching zero emissions by 2050 in-line with the Company's aim of achieving net-zero carbon footprint in that timeframe. The study utilises the methodologies adopted by the Clean Energy Finance Corporation and the Minerals Research Institute of Western Australia to develop a decarbonisation pathway including options such as:

- Solar PV.
- Wind power generation.
- Battery and other electrical storage.
- Concentrated solar thermal generation.
- Thermal energy storage.
- Steam turbines for electrical generation from thermal storage.
- Electric boilers and heat pumps.
- Bio-fuels and synthetic fuels.
- Green hydrogen production, storage and use.

The results of this greenhouse gas reduction pathway were released to the ASX subsequent to the end of the reporting period on 31 January 2023.

NOLANS PROJECT

Arafura effectively completed FEED for the Project during the period moving towards “approved for detailed design” status and achieving “scope lock” for the design. Other key activities completed during the period include the following:

- “Nolans Project Update” released with revised capital costs, operating costs and financial evaluation that confirmed improved forecast financial outcomes for the Project (refer to ASX announcement dated 11 November 2022).
- Monadelphous selected as preferred construction contractor for the hydrometallurgical plant. Monadelphous has entered into an early contractor involvement phase with Arafura and Hatch to work collaboratively on the design of the hydrometallurgical plant, as well as commencing detailed construction planning in advance of commencement of construction of the hydrometallurgical plant in the third quarter of 2023.
- The commercial and technical contract with Chemetics for the design and supply of the sulphuric acid plant, including the associated oxygen plant, was executed during the quarter.
- The tender package for the beneficiation plant was issued, on a fixed price EPC basis, to three shortlisted tenderers. Tender submissions are due in the first quarter of 2023 and will be adjudicated ready for award prior to FID.
- Significant progress on tendering of other construction and supply contracts - ready for commencement of enabling works construction in Q1 2023 and early works construction in Q2 2023.

The “Nolans Project Update” provided an updated project delivery schedule for Nolans which included the following key dates. All dates presented are contingent on FID, securing funding for the activities as required and successful construction and commissioning of the Project.

- Commencement of the ECI engagement with the construction contractor for the hydrometallurgical plant in November 2022.
- Commitment to long lead equipment procurement, particularly for sulphation equipment, with orders placed early 2023.
- FID in March 2023 allowing continuation of long lead equipment procurement and commencement of early works construction.
- Early works construction period of six month focussing on the construction accommodation village, construction water supply and process plant bulk earthworks.
- Financial Close of project funding mid-2023.
- Main construction period of 24 months from October 2023, with overlapping commissioning period of up to 10 months.
- Mining contractor mobilisation in March 2025 and pre-production mining of four to five months prior to commencement of ore processing.
- First ore processing in late-September 2025 and first production towards the end of 2025.

TECHNOLOGY PROGRAMS

During the period, bench scale phosphoric acid purification testing was conducted by New Logic Research (NLR) using their vibratory shear enhanced processing (VSEP) technology, which offers significant cost benefits over traditional nano-filtration. The key advantage relates to its capacity to operate in the presence of solids and with the formation of solids within the system which allows for removal of ultra-filtration and operation with calcium sulphate saturation greatly reducing the need for dilution and later evaporation.

Results from this bench scale testing was incorporated into the design of the phosphoric acid purification vendor package as well as preparations for pilot testing of the phosphoric acid purification flowsheet. A minor program of vendor filtration testing of rare earth sulphate precipitate was also completed with results incorporated into the design of filters, materials handling, and dryer in the rare earth sulphate precipitation area.

Later, minor test work programs were progressed to provide key design information for the Project's processing plant. These included:

- Corrosion test work on the materials of construction for the rare earth sulphate precipitation reboiler aimed at reducing the cost of this package by confirming the suitability of alternate, lower cost, materials of construction.
- Testing of alternate membranes for the phosphoric acid purification to improve flux rates and phosphate recovery.
- Finalisation of the large-scale test program for the phosphoric acid purification following the completion of modelling of this area of the plant based on the bench scale testing. The large-scale testing will be used to confirm the performance of the process and for the vendor to provide performance warranties.
- Planning for testing of an alternate diluent for the solvent extraction following the removal from sale of the diluent used in previous pilot test work

EXPLORATION

Refinements to the Company's exploration database and re-modelling of the central part of the Nolans orebody continued. This work forms part of readiness for detailed auditing and due diligence, as well as developing a block model that is more mine planning friendly to allow better short-term production planning once mining commences. The detailed gravity survey of the orebody and surrounding area was completed with processing of the data gathered currently underway. Once complete, the gravity survey will be used to confirm the geological interpretation of aspects of the geological model.

DIRECTORS REPORT – FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

EVENTS OCCURRING AFTER THE REPORTING DATE

On 5 January 2023 the Company announced results of the SPP which closed at 5.00pm (Sydney time) on Friday 30 December 2022. The SPP was heavily oversubscribed with a total of 5,510 applications being received, representing a total application value of approximately \$81.5 million. The Board agreed to increase the amount offered to shareholders by over 65% to \$20 million accepting \$8 million in oversubscriptions. Valid applications were scaled back to approximately 26% of the application amount. Following the scale-back and acceptance of oversubscriptions of \$8 million, a total of approximately 54 million new shares were issued on 6 January 2023.

On 24 January 2023 the Company announced Tranche 2 of the A\$121 million placement announced on 5 December 2022 was complete with the Company issuing 67,910,280 new fully paid ordinary shares to institutional and sophisticated investors, raising A\$25.1 million (before costs). Tranche 2 was the final tranche of the placement and the issue of shares under Tranche 2 was approved by shareholders at the general meeting on 18 January 2023.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect:

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

AUDITORS' INDEPENDENCE DECLARATION

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

Signed in accordance with a resolution of the Directors.



Gavin Lockyer
CEO & Managing Director

Perth
15 February 2023

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

As lead auditor for the review of Arafura Rare Earths Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

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

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



Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth

15 February 2023

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

		31-Dec-22	31-Dec-21
	Notes	\$	\$
Non-capitalised portion of R&D tax incentive rebate		-	14,098
Other income		564,388	67,985
Employee benefits expense	3	(1,791,858)	(1,367,883)
Project development	3	(22,195,089)	(8,771,554)
Other expenses	3	(3,262,108)	(1,792,355)
Depreciation and amortisation	3	(197,455)	(159,009)
Finance costs	3	(17,703)	(9,037)
Share based payments	3, 8	37,012	(158,795)
Loss before income tax		(26,862,813)	(12,176,550)
Income tax benefit		-	-
Net (loss) after income tax for the period		(26,862,813)	(12,176,550)

Total comprehensive (loss) for the half year attributable to owners of Arafura Rare Earths Limited

(26,862,813) (12,176,550)

Loss per share attributable to owners of Arafura Rare Earths Limited

Basic loss per share (cents per share)

(1.6) (0.8)

Diluted loss per share (cents per share)

(1.6) (0.8)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	31-Dec-22 \$	30-Jun-22 \$
CURRENT ASSETS			
Cash and cash equivalents		125,209,175	24,680,222
Trade and other receivables	4	1,237,538	747,370
Total Current Assets		126,446,713	25,427,592
NON-CURRENT ASSETS			
Property, plant and equipment		282,347	235,779
Right-of-use assets		333,877	471,537
Deferred exploration and evaluation costs	5	117,913,198	116,598,800
Other assets		587,806	587,806
Total Non-Current Assets		119,117,228	117,893,921
TOTAL ASSETS		245,563,941	143,321,514
CURRENT LIABILITIES			
Trade and other payables		6,231,043	9,720,070
Lease liabilities		257,962	264,930
Provisions		838,944	750,806
Total Current Liabilities		7,327,949	10,735,806
NON-CURRENT LIABILITIES			
Lease liabilities		84,737	209,286
Provisions		13,190	8,348
Total Non-Current Liabilities		97,927	217,634
TOTAL LIABILITIES		7,425,876	10,953,440
NET ASSETS		238,138,065	132,368,074
EQUITY			
Contributed equity	6	420,398,116	287,728,300
Reserves	7	13,098,589	13,135,601
Accumulated losses		(195,358,640)	(168,495,827)
TOTAL EQUITY		238,138,065	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 PERIOD ENDED 31 DECEMBER 2022**

Consolidated	Contributed equity \$	Equity reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2021	242,257,542	12,701,115	(132,937,607)	(122,021,050)
Loss for the period	-	-	(12,176,550)	(12,176,550)
Total comprehensive loss for the period	-	-	(12,176,550)	(12,176,550)
Contributions of equity, net of transaction costs and tax	43,601,758	-	-	43,601,758
Share based payments – value of employee services	-	158,795	-	158,795
Balance at 31 Dec 2021	285,859,300	12,859,910	(145,114,157)	153,605,052
Balance at 1 July 2022	287,728,300	13,135,601	(168,495,827)	132,368,074
Loss for the period	-	-	(26,862,813)	(26,862,813)
Total comprehensive loss for the period	-	-	(26,862,813)	(26,862,813)
Contributions of equity, net of transaction costs and tax	132,669,816	-	-	132,669,816
Share based payments – value of employee services	-	(37,012)	-	(37,012)
Balance at 31 Dec 2022	420,398,116	13,098,589	(195,358,640)	238,138,065

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2022

Cash flows from operating activities

Payments to suppliers and employees

Payments for project development

Interest received

Interest paid

Net cash (outflow) from operating activities

31-Dec-22 \$	31-Dec-21 \$
(5,103,425)	(3,985,026)
(25,801,304)	(5,295,771)
564,244	68,934
(17,703)	(9,037)
(30,358,188)	(9,220,900)

Cash flows from investing activities

Payment for property, plant and equipment

Payments for exploration and evaluation

Deposits and bonds for tenements

Net cash (outflow) from investing activities

(106,362)	(82,065)
(1,534,622)	(2,947,942)
-	(5,646)
(1,640,984)	(3,035,653)

Cash flows from financing activities

Proceeds from share issue

Capital raising expenses

Repayment of lease liability

Net cash inflow from financing activities

138,428,734	45,321,939
(5,758,918)	(1,987,526)
(141,776)	(126,614)
132,528,040	43,207,799

Net increase in cash and cash equivalents

100,528,868	30,951,246
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Cash at the beginning of the period

Effects of exchange rate changes on cash and cash equivalents

Cash and cash equivalents at the end of the period

24,680,222	10,787,548
85	166
125,209,175	41,738,960

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

NOTE 1: BASIS OF PREPARATION OF HALF-YEAR REPORT

BASIS OF PREPARATION

This consolidated interim financial report for the half-year reporting period ended 31 December 2022 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reports and the Corporations Act 2001.

The interim report does not include all the notes of the type normally included in the annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by Arafura Rare Earths Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

NEW AND AMENDED STANDARDS ADOPTED

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

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

NOTE 2: SEGMENT INFORMATION

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

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

NOTE 3: EXPENSES

Expenses

Depreciation

Depreciation – plant & equipment	
Depreciation – leasehold improvements	
Depreciation – right-of-use assets	
Total depreciation	

31-Dec-22	31-Dec-21
\$	\$

59,245	39,451
550	1,570
137,660	117,988
197,455	159,009

Finance costs

Interest expense – lease liability	
Interest expense - other	
Total finance costs	

10,258	3,418
7,445	5,619
17,703	9,037

Employee benefits expense

Employee benefits expense	
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1,791,858	1,367,883
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Share based payments

Share-based employee benefits	
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(37,012)	158,795
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Other expenses

Accounting and other professional fees	
Audit fees	
Loss on disposal of assets	
Consultants fees	
Insurance	
Legal fees	
Share registry and stock listing fees	
Other expenses	
Total other expenses	

10,250	-
25,463	21,383
59	-
1,617,117	817,333
181,871	105,422
324,422	142,925
177,079	157,716
925,847	547,576
3,262,108	1,792,355

Project Development

Consultants	
Employee benefits expense	
Computer Software	
Other project development costs	
Total Project Development ¹	

20,855,809	7,953,450
881,932	471,046
137,120	208,622
320,228	138,436
22,195,089	8,771,554

Total expenses

27,427,201	12,258,634
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¹ Expenditure relates to FEED.

NOTE 4: TRADE AND OTHER RECEIVABLES

Trade and other receivables

Sundry debtors
Goods & services tax paid
Prepayments
Balance at end of period

31-Dec-22	30-Jun-22
\$	\$
-	6,748
752,577	597,134
484,961	143,488
1,237,538	747,370

NOTE 5: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation costs carried forward

Balance at beginning of period
Capitalised exploration expenditure
Capitalised evaluation expenditure ¹
R&D Tax Incentive rebate receipted against capitalised evaluation costs
Balance at end of period

31-Dec-22	30-Jun-22
\$	\$
116,598,800	113,714,145
358,723	726,438
955,675	2,537,532
-	(379,315)
117,913,198	116,598,800

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

NOTE 6: EQUITY – CONTRIBUTED EQUITY

	31 Dec 2022 Shares	30 June 2022 Shares	31 Dec 2022 \$	30 June 2022 \$
Share capital				
Fully Paid Ordinary Shares	1,986,656,078	1,566,242,332	420,398,116	287,728,300

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

Date	Details	Number of shares	Issue Price	\$
30-Jun-22	Balance	1,566,242,332		287,728,300
21-Jul-22	Performance Rights	1,550,000	-	-
15-Aug-22	Placement	156,779,233	0.265	41,546,497
21-Oct-22	Exercise of options	2,873,425	0.34	976,965
12-Dec-22	Placement	259,116,748	0.37	95,873,197
23-Dec-22	Exercise of options	94,340	0.34	32,075
31-Dec-22	Capital Raising Costs	-	-	(5,758,918)
31-Dec-22	Balance	1,986,656,078		420,398,116

NOTE 7: EQUITY – RESERVES

	31-Dec-22 \$	30-Jun-22 \$
Reserves		
Share based payments reserve	13,098,589	13,135,601

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

	31-Dec-22 \$	30-Jun-22 \$
Share based payments reserve		
Balance at beginning of period	13,135,601	12,701,115
Vesting of options and performance rights	266,090	434,486
Reversal of cumulative expense recognised for expired options and performance rights ¹	(303,102)	-
Balance at end of period	13,098,589	13,135,601

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

NOTE 8: SHARE BASED PAYMENTS

a) 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 employee share options to staff and the Managing Director under the Arafura Employee Share Option Plan. The issue of share options to the Managing Director was subject to shareholder approval which was obtained at the Annual General Meeting on 20 October 2022. The options were issued as Premium Priced Options under which the value of the options issued was approved by the Board, rather than the number of options. The value was calculated for each staff member and the Managing Director based on a percentage of their total fixed remuneration.

The staff options were issued on 5 September 2022. The Managing Director options were approved at the AGM on 20 October 2022 and were subsequently issued on this day. The company has internally measured the fair value of options granted by adopting a Black-Scholes pricing model.

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

Term	Staff Options	Managing Director Options
Grant Date	5/09/2022	20/10/2022
Date of Expiry	5/09/2026	20/10/2026
Number of Options Granted	5,597,000	2,118,000
Vesting condition	3 years from grant date	3 years from grant date
Share price at grant date	\$0.30	\$0.30
Exercise Price	\$0.43	\$0.43
Risk free interest rate	3.30%	3.62%
Volatility	88.29%	85.77%
Fair value per option	\$0.1737	\$0.1699
Total fair value ¹	\$972,199	\$359,836

¹ Figures may not compute due to rounding.

In accordance with AASB 2 *Share Based Payments*, the total fair value of the options shown above has been probability weighted at 60% for accounting purposes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

b) 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. The issue of performance rights to the Managing Director was subject to shareholder approval which was obtained at the Annual General Meeting on 20 October 2022. The Board approved the value of performance rights to be issued, rather than the number of performance rights. The value was calculated for each staff member and the Managing Director based on a percentage of their total fixed remuneration.

The staff performance rights were issued on 2 September 2022. The Managing Director performance rights were approved at the AGM on 20 October 2022 and were subsequently issued on this day. The performance rights will vest upon the Company achieving financial close of the debt financing for the Nolans Project by the expiry date of 31 December 2023 (**Performance Condition**).

Key terms of the Performance Rights are as follows:

Term	Staff Performance Rights	Managing Director Performance Rights
Grant Date	2/09/2022	20/10/2022
Date of Expiry	31/12/2023	31/12/2023
Number of Performance Rights Granted	2,671,000	677,000
Vesting condition	The Performance Condition	The Performance Condition
Share price at grant date	\$0.30	\$0.30
Exercise Price	Nil	Nil
Fair value per performance right	\$0.3010	\$0.2987
Total fair value ¹	\$804,044	\$202,223

¹ Figures may not compute due to rounding.

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*, the total fair value of the performance rights shown above has been probability weighted at 50% for accounting purposes 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.

NOTE 9: RELATED PARTY TRANSACTIONS

During the period key management personnel were issued with the following options and performance rights:

Key Management Personnel	Options	Performance Rights	Total Fair Value
Gavin Lockyer (Manager Director)	2,118,000	677,000	562,059
Peter Sherrington (Chief Financial Officer)	944,000	476,000	307,262
Stewart Watkins (General Manager Projects)	944,000	476,000	307,262
Total¹	4,006,000	1,629,000	1,176,583

¹ Refer to Note 8 for the valuation of options and performance rights.

NOTE 10: COMMITMENTS

Since the release of the 30 June 2022 financial statements there has been no significant changes to commitments or contingencies.

NOTE 11: EVENTS OCCURING AFTER THE REPORTING DATE

On 5 January 2023 the Company announced results of the SPP which close at 5.00pm (Sydney time) on Friday 30 December 2022. The SPP was heavily oversubscribed with a total of 5,510 applications being received, representing a total application value of approximately \$81.5 million. The Board agreed to increase the amount offered to shareholders by over 65% to \$20 million accepting \$8 million in oversubscriptions. Valid applications were scaled back to approximately 26% of the application amount. Following the scale-back and acceptance of oversubscriptions of \$8 million, a total of approximately 54 million new shares were issued on 6 January 2023.

On 24 January 2023 the Company announced that Tranche 2 of the A\$121 million placement announced on 5 December 2022 was complete with the Company issuing 67,910,280 new fully paid ordinary shares to institutional and sophisticated investors, raising A\$25.1 million (before costs). Tranche 2 was the final tranche of the placement and the issue of shares under Tranche 2 was approved by shareholders at the general meeting on 18 January 2023.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect:

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

**DIRECTOR'S DECLARATION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2022**

In the Directors' opinion:

- a) the financial statements and notes set out on pages 11-21 are in accordance with the Corporations Act 2001; and
- i. complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - ii. give a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the half-year ended on that date.
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Gavin Lockyer
CEO & Managing Director

Perth
15 February 2023

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Directors of Arafura Rare Earths Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Arafura Rare Earths Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

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

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

Responsibility of the directors for the financial report


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

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit (WA) Pty Ltd

The image shows a handwritten signature in black ink. Above the signature, the letters 'BDO' are handwritten in a simple, blocky style.

Glyn O'Brien

Director

Perth

15 February 2023