ARAFURA
RARE EARTHS LIMITED

ANNUAL REPORT 2024

Back to Contents ›››

ANNUAL REPORT 2024

30 June 2024

Arafura Rare Earths Limited

ABN 22 080 933 455

Back to Contents ›››

Table of Contents

Back to Contents ›››

ARAFURA
RARE EARTHS LIMITED

REGISTERED OFFICE
Level 6, 432 Murray St
Perth WA 6000

PO Box 5773
St Georges Terrace
Perth WA 6831

T: +61 8 6370 2800
E: arafura@arultd.com
(All corporate and general enquiries)

E: nolansproject@arultd.com
(Nolans Project enquiries only)

DARWIN OFFICE
Unit 34, 119 Reichardt Rd
Winnellie NT 0820

PO Box 37220
Winnellie NT 0821

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

Back to Contents ›››

CORPORATE DIRECTORY

Directors	Mark Southey | Chairman & Non-Executive Director Darryl Cuzzubbo | Managing Director & Chief Executive Officer Cathy Moises | Non-Executive Director Michael Spreadborough | Non-Executive Director Roger Higgins | Non-Executive Director
Company Secretary	Catherine Huynh
Annual General Meeting to be held at	Johnson Winter and Slattery Level 49, 152-158 St Georges Terrace Perth WA 6000
Time	10:00am (WST)
Date	Thursday, 17 October 2024
Closing date of director elections	29 August 2024 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 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

Back to Contents ›››

CHAIRMAN'S REPORT

Dear Shareholders,

The past 12 months have been transformative at Arafura Rare Earths.

As we enter a new era at Arafura it gives me great pleasure to deliver the 2024 Annual Report.

People

As Arafura approaches the development phase of its Nolans Project, the Board and executive have recognised the need to ensure that Arafura has the right mix of skills and competencies in its Board and management to meet the challenges ahead. This process is evident in several new appointments in both the executive team and the renewal and strengthening of the Board.

In February 2024, Darryl Cuzzubbo commenced as Managing Director and Chief Executive Officer (CEO), having served on the Board for two years. Darryl brings to Arafura more than 30 years of experience in the global resources industry and is well positioned to lead the team to deliver the next phase of Arafura's growth.

I would like to thank former Managing Director and CEO Gavin Lockyer for his leadership and commitment to Arafura and the Nolans Project during which he progressed the Company from explorer to a project-ready organisation and for his contribution in securing Arafura's international standing and reputation. We also farewelled long-serving director Chris Tonkin on his retirement in July. Chris has been pivotal in the strategic advancement of financing the Nolans Project. Chris also served as Managing Director and CEO in 2012 where he led the company through a difficult transitional period.

We welcome two highly experienced new non-executive directors Mike Spreadborough and Roger Higgins, both bring the credentials required to steer Arafura through to a Final Investment Decision (FID) and its next phase of growth.

Funding

In July 2024, Arafura reached a significant milestone. We completed our debt-led funding strategy and announced more than US$1 billion in conditional approvals from nine export credit agencies and commercial lenders. This is an incredible achievement led by Chief Financial Officer (CFO), Peter Sherrington. We now have in place a bespoke and robust debt funding solution that includes project completion support provided by an US$80 million cost overrun facility and a subordinated standby liquidity facility of US$200 million. The significant support highlights the geostrategic importance of developing a diversified global NdPr supply chain from a Tier 1 location.

The Australian Government played a significant role in supporting Arafura with a US$533 million debt funding package based on commercial terms. This led the way for international export credit agencies to follow. Significant support for a nascent industry like ours, particularly an ore to oxide rare earths processing facility, is vital to ensure Australia is a global leader in diversification of critical mineral supply chains.

Market

The average pricing of NdPr over the past 12 months was around US$60/kg from an average of US$140/kg in 2022. This has made securing funding more challenging, but we firmly believe that a shortfall in supply and a surge in demand aligns to the ramp up of Nolans production. We know that it takes around 18 years for a resources project likes ours to move through the phases of exploration to production. We also know that the development pipeline is almost empty and Nolans is one of a few global projects on track to deliver NdPr oxide into the global market as the world transitions to a lower carbon future. The market for electric vehicles and wind turbines continues to grow with permanent magnets remaining the principal technology without the substitution and technology challenges seen in the battery technology sector. We can remain confident that there will be significant supply gaps appearing in the near future and Nolans continues to be aligned with delivery of first production into those shortfalls.

Nolans will be a key player in delivering NdPr oxide into the ex-China supply chain. This maintains our strong position as a preferred supplier into the north American, Asian and European markets, as evidenced by the strong funding support we received from Canadian, German and Korean export credit agencies, who have a mandate to underpin a safe and secure supply of essential rare earth that protects local manufacturing.

Offtake

Arafura continued to execute its offtake strategy with 58% of the 80% offtake target secured. We are deliberately leaving the remaining gap open to prioritise offtakers that may also become Cornerstone investors. Advanced negotiations continue with Tier 1 customers and global original equipment manufacturers (OEMs) with interest in more than 133% of offtake target.

Looking ahead, we are confident that product from Nolans will be in high demand as the supply deficit bites. We are predicting an incentive pricing scenario for ex-China supply based on global policy shifts. The EU Critical Raw Materials Act has brought in tariffs for >65% of strategic raw material from a single third country (i.e. China), the US Inflation Reduction Act (IRA) provides tax incentives, clean energy investment and a 25 percent tariff on Chinese imports of critical minerals, and the Future Made in Australia policy is bringing investment and government support to nascent industries like rare earths processing.

The Nolans Project aims to meet and likely exceed many of our customer ESG requirements, particularly around environmental impact management and human rights.

Project

Over the past 12 months we have invested A$40 million to complete the early works construction and we are shovel ready. We will make a final investment decision immediately upon finalising the funding strategy and intend to immediately thereafter release contracts.

We are fully engaged with our community stakeholders in the Northern Territory. We are particularly proud of our relationship with the Traditional Owners of the land on which we will operate and have ensured open and transparent engagement continues.

I was pleased to host a Board meeting in Alice Springs in May 2024, during which we met with key community stakeholders to brief them on the status of Nolans. The meeting was also attended by the Federal Minister for Resources and Northern Australia, Hon Madeleine King, to brief her on the ground in Alice Springs.

CHAIRMAN'S REPORT

ESG and Net Zero Pathway

Our commitment to responsibly deliver Nolans never waivers and ESG is core to the commercial success of our business.

We are driven by our own internal commitments, led by the sustainability committee and the environment team, but this year has demonstrated the importance of ESG credentials to our external stakeholders. The final approvals received from the lenders to achieve completion of the debt funding strategy was a culmination of an intensive process of ESG due diligence.

Rightly so, scrutiny will intensify on how rare earths are delivered into the global supply chain and our goal is that Arafura is to be recognised as a significant rare earths company with impeccable ESG credentials.

In 2023 we published our Green House Gas Emissions pathway which aims to get us to net zero by 2050 through solar, wind and battery storage and concentrated solar thermal generation with storage for steam generation, with transition targeted to commence in 2030. We also intend to transition to renewable fuels for firming power, commencing in 2040.

Looking ahead

The upcoming year promises to be Arafura's most important yet. Closing out the funding strategy to reach FID is our focus. And in the background the team will be delivering their work scopes to ensure we are ready.

We will be financially prudent as we move towards FID to ensure we have sufficient liquidity.

Most importantly we will be a values driven company. We will refresh our values and purpose over the next 12 months as we transition into construction and ultimately operations.

In closing I would like to thank my fellow Board members for their support over the past 12 months. Above all, I would like to thank our shareholders, particularly our long-term shareholders. Delivering a project as complex and significant as Nolans, understandably has many varied challenges. Our shareholders are key to our success and I thank you for your unwavering support and commitment. I firmly believe we now have the right leadership team in place and a refreshed Board to deliver the next phase of growth.

I look forward to sharing the success of the next 12 months with you.

Mark Southey
Chairman

Rare earths are essential to a lower carbon future and the electrification economy.

MANAGING DIRECTOR'S REVIEW

The value proposition of NdPr is increasingly important as the world transitions to a lower carbon future.

In my first letter to shareholders as the Managing Director and CEO of Arafura Rare Earths, I want to express my confidence in the future of the Company and our flagship Nolans Project, a large, highly strategic source of rare earths in the Northern Territory.

Having commenced in the role February 2024 it has been a busy, challenging and extremely rewarding start. The progress we've made in this short period is truly encouraging.

We have significantly advanced project financing, moved closer to a final investment decision on Nolans and we are recognised as a globally significant Neodymium-Praseodymium (NdPr) future producer.

Leadership changes

In the last six months, there has been significant change at the executive level with the successful formation of a new leadership team.

Stuart Macnaughton (Chief Operating Officer), Fiona Blakely (Chief People Officer), Shaan Beccarelli (Head of Corporate Affairs and Investor Relations) and Tanya Perry (Head of Sustainability and Environment) are highly credentialed and bring with them extensive experience in their respective fields. We are fortunate to have secured the services of these talented executives. Combined with our long-serving Chief Financial Officer Peter Sherrington, now more than ever, I believe we have the right team in place to successfully lead the execution of the Nolans Project.

Funding milestones

In July 2024, we reached one of the most significant milestones in the history of the Company with the finalisation of a debt funding package comprising more than US$1 billion. Commitments were received from no less than nine lenders across five countries, including export credit agencies (ECAs) and commercial banks.

The catalyst for the success of our debt-led funding strategy was support from the Australian government of a US$533 million debt funding package, on commercial terms, from Export Finance Australia (EFA) and the Northern Australia Infrastructure Facility (NAIF). We are extremely grateful for their backing.

Canadian, Korean and German international Export Credit Agencies (ECAs) followed suit with significant debt funding and loan guarantee commitments. This level of support from international ECAs underscores the geostrategic value of Nolans.

MANAGING DIRECTOR'S REVIEW

This was followed by confirmation of support from commercial lenders in late July which finalised the debt funding strategy.

The extensive due diligence that was undertaken by the lender syndicate has proven the robustness of our funding model, offtake strategy, project design and ESG credentials.

We are standing out as a new, long-term, ex-China source of NdPr, an essential, low-cost, high-value product necessary in electric vehicles, wind turbines, and various other applications required to achieve net zero targets.

The completion of the debt funding strategy enabled us to review the sources and uses of funds and refresh the project economics to include an incentive pricing model, reflective of the evolving external dynamics in rare earths.

We also undertook a successful capital raise in July, comprising of a $20 million institutional placement and a share purchase plan that is targeting to raise an additional $7 million with the ability to accept oversubscriptions of up to $3 million. Tranche 2 of the Placement and the SPP are subject to shareholder approval at the General Meeting of shareholders on 4 September 2024. This provides financial runway to complete the equity phase of the funding strategy, bringing new, large investors onto our register whilst accommodating existing long-term retail shareholders that have stood with us over an extended period.

Nolans Phase 2

In July 2024, we announced the completion of an in-house preliminary study on a Phase 2 expansion at Nolans.

This will potentially unlock two growth vectors for Arafura – to increase processing capacity by factors of up to a further 150 percent and establish Nolans as a third-party processing hub for other Australian rare earth companies.

This presents further opportunity for Australia to challenge China as a global leader in the rare earths sector.

Market dynamics

Our assumptions are that the current NdPr price and current market weakness cannot last for several key reasons.

We are predicting a supply gap of around 88% of current annual NdPr consumption by 2032 due to global demand for lower carbon technology. To bridge this gap, the equivalent of 12 Nolans projects are required to be producing at nameplate production capacity. This is hard to envisage given the average time to develop a project like Nolans is, from exploration to first production, 18 years.

EU trade restrictions, US tariffs and other global policy shifts will incentivise the ex-China supply of rare earths, creating a structural deficit resulting in an average incentive price of $US163/kg, more than three times today's pricing.

Today, around 90 percent of global NdPr is processed in China and the balance has largely been secured by Japan. This leaves European, Korean and US electric vehicle and wind turbine manufacturers highly vulnerable to a market dominated by just one country.

Nolans is one of the most advanced ore to oxide development projects globally and provides a unique opportunity for manufacturers and original equipment manufacturers (OEMs) to achieve long-term NdPr supply security and overcome forecast supply gaps.

MANAGING DIRECTOR'S REVIEW

Incentive pricing

We are seeing heightened concerns around rare earth supply chain ethics, traceability and the human rights and environmental conditions of mines around the world – with China outsourcing much of their rare earths mining to neighbouring countries such as Myanmar in favour of value-added processing.

The Nolans Project will operate with stringent sustainability protocols in place to assure end consumers of renewable end technology and electric vehicles that the NdPr components of these products are from a responsible and traceable source.

Arafura will also produce near battery grade phosphoric acid, an increasingly important feedstock due to the increasing dominance of Lithium Iron Phosphate (LFP) batteries, with China also currently controlling global supply of this product.

Our commitment to community

The Nolans Project will be built in Australia and the Company is expected to employ a portion of its workforce from the Northern Territory and Alice Springs region over the life of the Project, including a range of opportunities for local and Indigenous workers.

We are poised to make a difference in the communities where we will live and work, particularly in Alice Springs and the broader Northern Territory. The respect for our key stakeholders runs deep and we will continue to be open and transparent with our stakeholders. We recognise the significant role the NT community will play in our future success, and we look forward to continuing to work together as we progress Nolans.

What's Next

As we have communicated, we have been pursuing a funding strategy that consists of 50 per cent debt and 50 per cent equity, which we have settled on as the most appropriate mix.

Now that the debt portion has been finalised, our focus is on securing the equity to enable a final investment decision.

This is not a process that can be bedded down overnight, but we are making good progress with our three highly credentialled joint lead managers in UBS, Canaccord Genuity and Barrenjoey.

As mentioned, while the short-term pricing for rare earths has experienced challenges in the last year, the long-term demand is expected to be robust and we are highly confident in our funding strategy. Despite today's tough market conditions, the world needs us to meet net zero commitments and global demand for NdPr will only continue to increase.

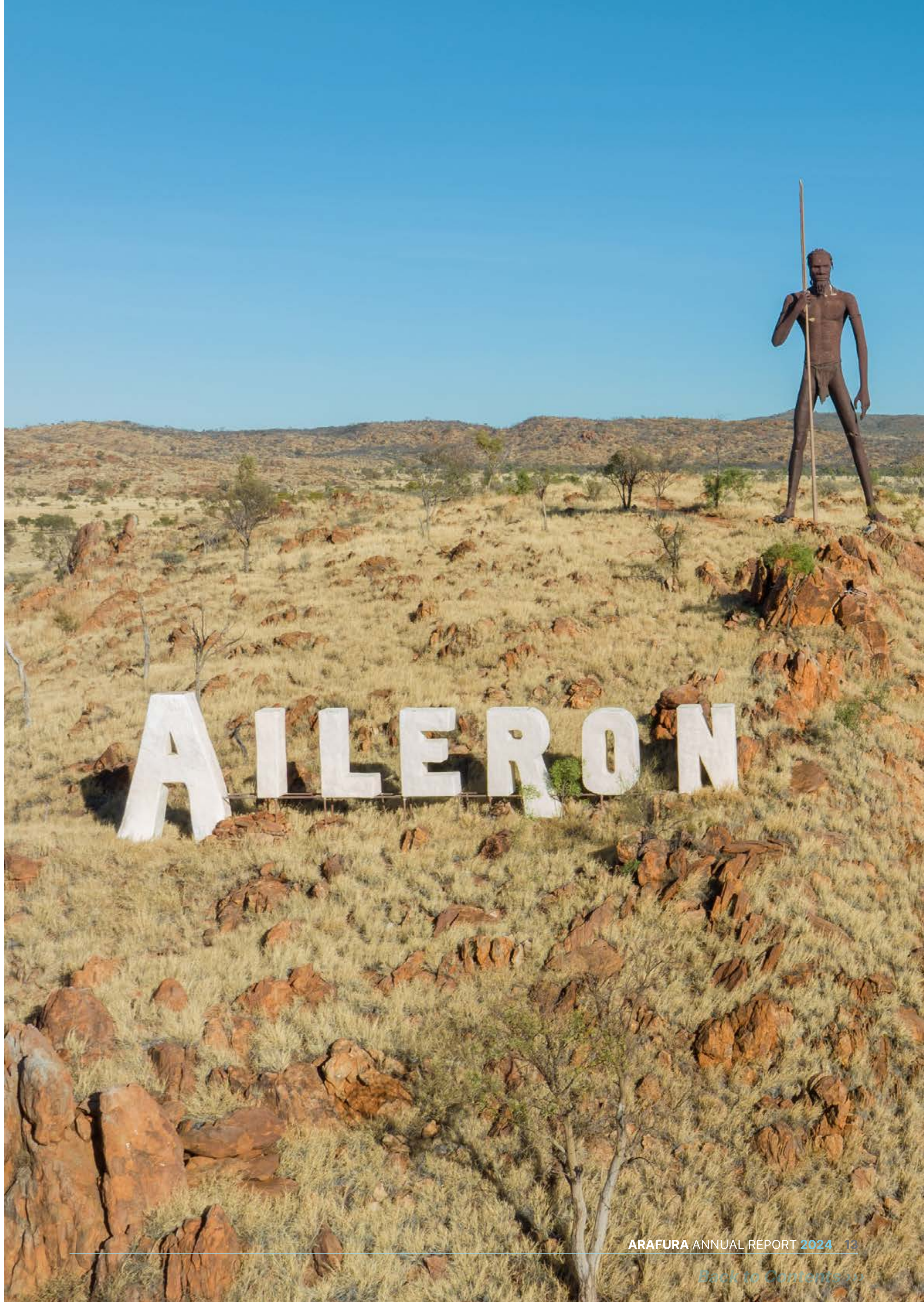
Thank you

In finishing, I would like to thank our Chair and Board for their continuing support, guidance and dedication to Arafura and the Nolans Project. The entire Arafura team, our contractors and suppliers have been instrumental to the Company's journey, and I look forward to moving to FID and into full construction.

I must also single out our retail shareholders, both longstanding and new. Without their backing and ongoing interest over many years, we wouldn't be where we are today.

NdPr is an opaque market and projects like Nolans take time, patience and a huge amount of human capital. But with the required debt funding in place, a successful interim capital raise, over 58 percent of the binding offtake target secured, construction-ready site, a clear growth trajectory and a compelling ex-China strategy, I am confident Arafura is well positioned as the world's next major rare earths producer.

Darryl Cuzzubbo
Managing Director



ARAFURA ANNUAL REPORT **2024**
Back to Contents

Nolans Project Update

The Nolans Neodymium-Praseodymium (NdPr) Project (Nolans or the Project) is shovel ready and the Company will commence construction activities immediately upon reaching a final investment decision (FID) targeted for the end of 2024.

On 23 July 2024, the Company announced it had received conditional approval for more than US$1billion in debt funding and completion support for Nolans. The Nolans project economics are robust – making it a long-life, high-margin project – and reflect capital cost guidance released in October 2023. The Project execution schedule will be firmed up when Arafura is able to enter into binding contracts post FID.

Nolans is on track to become one of Australia's first ore-to-oxide rare earths processing facilities that will deliver responsibly mined and processed products to its global customers.

The Project is based on the Nolans Definitive Feasibility Study (undertaken 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. Over the past 12 months the Company has invested A$40 million to complete the early-works construction.

The updated Base Case pricing scenario includes average life of mine NdPr pricing of US$133 per kilogram, with a net present value (8% discount rate) of US$1,729 billion, an Internal Rate of Return (IRR) of 17.2% and average EBITDA of US$460 million over a 38-year life of mine.

The Incentive Case pricing scenario includes average life of mine NdPr pricing of US$163 per kilogram, with a net present value (8% discount rate) of US$2,549 billion, internal rate of return of 20.6% and average EBITDA of US$592 million over a 38-year life of mine.

Key project information and financial metrics are detailed below.

OPERATIONS REPORT

Key Project Information[1]		
Mining and Production		
Mine Life (years)	**38**	
NdPr Oxide (tpa)	**4,440**	
SEG/HRE Oxide (tpa)	**573**	
Phosphoric Acid (tpa 54% P_2O_5 MGA)	**144,393**	
Realised Product Pricing	**BASE (US$/KG)**	**INCENTIVE (US$/KG)**
NdPr Oxide price – offtake period	**104**	**130**
NdPr Oxide price – LOM	**133**	**163**
Financial	**BASE (US$M)**	**INCENTIVE (US$M)**
Capital Cost		
Pre-Production Capital	1,044	1,044
Other Pre-Production Costs and Escalation	90	90
Contingency	92	92
Total	1,226	1,226
Revenue		
Rare Earth Sales Revenue (per annum)	610	747
Phosphoric Acid Sales Revenue (per annum)	79	79
Operating Costs		
Mining Costs (per annum)	(30)	(30)
Processing Costs (per annum)	(139)	(139)
General and Administration Costs (per annum)	(24)	(24)
Product transport, royalties and selling costs (per annum)	(35)	(40)
EBITDA (per annum)	460	592
Post Tax Free Cash Flows (LOM)	**10,229**	**13,480**
KPI Analysis	**BASE**	**INCENTIVE**
Operating Cost $/kg NdPr	**43.7**	**43.7**
Operating Cost $/kg NdPr net of P_2O_5 credit	**28.6**	**28.6**
NPV_8 after tax ($m)	**1,729.0**	**2,549.0**
IRR after tax (%)	**17.2%**	**20.6%**

[1] *Refer to ASX Presentation dated 23 July 2024 Appendix 2 for key Project Economic Assumptions*

OPERATIONS REPORT

Project Execution

With the successful completion of early works at the end of 2023, the Company is well positioned to mobilise to site and commence main construction upon reaching FID.

During 2024 and following the completion of the early works program, on-site activity scaled back, with security services remaining at site. Project activities have since been focused on those necessary to support finance, critical path activities, compliance and progressing improvement ideas that reduce capital, schedule and risk. This further reduced the forecast cash-burn rate, enabling the organisation to have sufficient funding to the end of 2024.

The Integrated Project Management Team (IPMT) continued to manage engineering, procurement activities, early contractor involvement (ECI) and environmental, social and governance due diligence requirements. This includes testing the market for supply of specific equipment packages seeking to improve prices.

Operational readiness activities progressed with a focus on optimum preparation for safe commissioning, ramp up and operations. In the last quarter, the safety case was progressed with the first Process Hazard Assessment (PHA) completed and the Notification of MHF submission drafted.

Detailed planning continued for the period immediately prior to FID, as well as the first nine months post-FID, to ensure schedule-critical activities are planned, prioritised and resourced. During the last quarter, discussions with our preferred construction contractor resumed with a focus on the terms of the Hydromet construction contract.

Geology and Mineral Resources

The Company continued to progress and refine the Nolans mining execution plan, focusing on the geology and material types of the Nolans Bore deposit and further progressing mining-related studies.

As reported in the half-year accounts, a detailed ground gravity survey covering a significant part of EL28473 was completed. This was subsequently merged with data collected from the previous gravity survey over the Nolans Bore deposit on ML26659 undertaken in 2022.

In the second half of the year, there was no on-ground exploration activity. Arafura received an updated combined gravity dataset and imagery from Southern Geoscience Consultants. The combined Phase 1 and 2 datasets, covering ML26559 (mine site) and a substantial portion of the surrounding EL28473, have identified areas for follow-up infill. These are planned to be surveyed during Phase 3 gravity acquisition, which will focus on EL28498 and EL29509 to the south of the mine site.

A review of the Company's other rare earths exploration activities is ongoing, with a view to developing a better long-term understanding of potential targets for exploration and business development.

Environment and Sustainability

Reporting, disclosures and compliance

Arafura's FY23 Sustainability Report was released on 22 November 2023 and defined the eight elements governing Arafura's approach to sustainability.

Separately, the Company commenced addressing the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations. In Q3 2023, Tetra Tech Coffey (TCC) completed Environmental and Social Due Diligence on the Nolans Project, on behalf of the lenders group. The due diligence was undertaken against internationally recognised governance standards. A final report and Environmental and Social Action Plan (ESAP) was delivered in early 2024, to identify areas of compliance and gaps to be closed at varying timeframes through the project. Arafura is on track to complete the actions in the ESAP that are listed as required prior to the commencement of construction. TTC will assess and verify closure of these actions, based on the implementation and governance plan in place.

Environmental monitoring continued on-site to collect baseline data. Dust samples were collected from passive sampling points monthly. Groundwater levels were measured in monitoring bores monthly; samples were collected and analysed for water quality on a quarterly basis.

OPERATIONS REPORT

Energy and emissions reduction

After the release of the Company's Greenhouse Gas Emissions Reduction Pathway in 2023 work continued to review and develop options for decarbonisation of the Nolans Project and play our role in a net zero future.

Arafura actively engaged with the Department of Climate Change, Energy, the Environment and Water (DCCEEW) and the Clean Energy Regulator on the establishment of an appropriate Safeguard Mechanism emissions baseline for Nolans.

Arafura submitted a suggested mechanism for establishing the baseline for a new and novel facility such as Nolans and proposed a collaborative approach to leverage internal data and expertise for setting the facility baseline. DCCEEW was receptive to this approach and Arafura continues to work with the Department as it seeks to establish best-practice emissions intensities for rare earths processing.

Domestic Stakeholder Engagement

The Company continued to engage with stakeholders in the Northern Territory Government, Commonwealth Government, local communities and environmental groups, including at Board level in Alice Springs.

Arafura engaged with the Northern Territory government during the consultation process for a proposed new ad valorem mineral royalty scheme. The final outcome was a replacement of the existing profit-based scheme, with a value of 2.5%.

The Company also engaged notified local pastoralists of groundwater sampling and infrastructure verification in some of the monitoring and pumping bores across the Project area. The Company engaged with station managers from Aileron, Napperby and Pine Hill stations as well as NT Power Water to enable access to the bore and water plant, which is used for Laramba's water supply.

Earlier in the year, significant progress was also made on Arafura's workforce development program, which is part of the Company's Local and Indigenous Workforce Development Plan. This work involves consultation with government at all levels, along with education and training providers, employment service providers, community representative groups and commercial and government entities. Engagement took a range of forms including individual and small group meetings, community consultation sessions and a series of workshops in Alice Springs and Darwin.

Stakeholder engagement continued into the first of half of 2024, with Arafura's team representing the Company at numerous events and delegations.

Operational Licencing

As reported in the half-year accounts, the Company registered the Nolans Project Native Title Agreement (NTA) dated 25 June 2020, as an Indigenous land use agreement on the Register of Indigenous Land Use Agreements (ILUA) in accordance with the *Native Title Act 1993* (Cth). The ILUA records the consent of the relevant native title parties (being Kwaty Aboriginal Corporation RNTBC, Irretyepwenty Ywentent Pwert Aboriginal Corporation RNTBC and Alherramp Ilewerr Mamp Arrangkey Tywerl Aboriginal Corporation RNTBC) and the Central Land Council (CLC) in undertaking the Nolans Project.

All major Federal and Northern Territory (NT) environmental approvals for the Project have been secured.

Under existing Condition 8 of the Environment, Protection and Biodiversity Conservation (EPBC) Act, federal Ministerial approval is required for five Environmental Management Plans (EMPs) prior to the commencement of the action. At the time of this report, DCCEEW provided a draft revision of the conditions that adopts a phased approval approach. This allows for approvals to be obtained before the recommencement of the activities outlined in the EMP, rather than needing all approvals simultaneously.

- Water Abstraction Management Plan (WAMP) (approved), Biodiversity Management Plan (BMP) and Radiation Protection and Waste Management Plan (RPWMP) are prioritised as they are required prior to the recommencement of construction activities. The BMP and RPWMP are on track for approvals.
- Kerosene Camp Creek Management Plan, and the Acid and Metalliferous Drainage Management Plan are being further matured in accordance with the evolving detailed design and are expected to be provided to DCCEEW in accordance with the revised EPBC conditions (when finalised).

Arafura paid a penalty to DCCEEW of $16,500, based on single contravention of Condition 8 of the EPBC conditions of approval for the Nolans Project. The Company confirms that the breach resulted from a procedural error and that no environmental impact occurred as a result.

Compliance Statements

Forward Looking Statements

This report contains certain statements which may constitute "forward-looking statements." Such statements are only expectations or beliefs and are subject to inherent risks and uncertainties which could cause actual values, results or performance achievements to differ materially from those expressed or implied in this report. No representation or warranty, express or implied is made by Arafura that any forward-looking statement contained in this report will occur, be achieved or prove to be correct. You are cautioned against relying upon any forward-looking statement.

Content presented in this report is provided as at the time of this annual report (unless otherwise stated). Reliance should not be placed on information or opinions contained in this annual report and, subject only to any legal obligation to do so, Arafura Rare Earths accepts no responsibility to update any person regarding any inaccuracy, omission or change in information in this report or any other information made available to a person, nor any obligation to furnish the person with any further information.

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 P2O5 %	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_6O11, 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 P2O5 %	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 Nd_2O_3 and Pr_6O_{11}.

Back to Contents ›››

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 Rare Earths 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 Rare Earths 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 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 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 used 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.

The information in this announcement that relates to forecast financial information (including forecast financial information derived from the production target) is extracted from the Company's ASX presentation dated 23 July 2024 (Arafura achieves major debt funding milestone). Arafura confirms that, all material assumptions underpinning the forecast financial information (and forecast financial information derived from the production target) set out in the announcement released on 23 July 2024 continue to apply and have not materially changed.

Back to Contents ›››

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 2024.

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[1]
- C. Tonkin[2]
- C. Moises
- D. Cuzzubbo[3]
- M. Spreadborough
- R. Higgins

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 $100,974,432 for the year ended 30 June 2024 (2023: $96,379,764). The loss is slightly higher than 2023 primarily due to:

- Depreciation expenses incurred for the leases recognised under AASB 16 Leases for the camp facilities, water treatment plant, vehicle hire, generator hire and the corporate offices and subsequently the derecognition expenses for the camp facilities and generator hire.
- Employee termination benefits.

Significant changes in the state of affairs

During the period the Group:

- Successfully completed an early works at the end of 2023 to establish key site infrastructure for the Nolans Project.
- Completed its debt-led funding strategy and announced more than US$1 billion in conditional approvals from nine export credit agencies and commercial lenders.

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 2024 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'.

[1] *Gavin Lockyer resigned as Managing Director and Chief Executive Officer on 5 February 2024.*

[2] *Chris Tonkin resigned as Non-Executive Director on 26 July 2024.*

[3] *Darryl Cuzzubbo was appointed as Managing Director and Chief Executive Officer on 05 February 2024.*

Back to Contents ›››

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

Funding risk

The Nolans Project is a large and complex project with total capital expenditure currently estimated at US$1.2 billion (refer to the Company's ASX announcement "Arafura achieves major debt funding milestone presentation" dated 23 July 2024). The business of the Group, and the ability of the Group to procure the finance required to develop the Nolans Project, relies on access to debt and equity funding.

As rare earths (including Neodymium-Praseodymium (NdPr)) are not traded on any commodity exchange, traditional debt and equity market sources may not be available which may make it difficult for financiers and investors to assess and understand market risk. Therefore, the Group has sought to fund a significant portion of the Nolans Project's capital expenditure through Export Credit Agencies. There can be no assurance that additional debt, equity or other forms of funding (including by way of government grants) will be available to the Group (over any timeframe) on favourable terms or at all.

The Company has conditional approval for US$775 million in senior debt facilities, an additional US$80 million for a cost overrun facility (COF) and a further US$200 million in the form of a standby liquidity facility (SLF). The COF and SLF are to be used to manage any increases in capital expenditure and operating costs incurred during ramp up. Customary terms of the debt financing require the Company to raise a significant portion of the capital cost required to fund the Nolans Project from the equity market before debt drawdowns will be available. No assurance can be given that the required equity component of the Nolans Project financing will be raised by the Company in full or at all. Failure to obtain sufficient funds from the equity market or failure to achieve other conditions precedent customary for secured project financing arrangements of this nature, such as final loan documentation and satisfaction of other conditions to drawdown (including providing an updated financial model based off, amongst other things, independent commodity price forecasts which demonstrate compliance with financial ratios and debt sizing criteria, entry into material project contracts with associated tripartite agreements, project authorisations, representations, undertakings and offtake policy compliance) may preclude the Company from being able to drawdown on the financing facilities it has secured. Any additional equity financing may dilute existing shareholdings.

Failure to obtain debt, equity and/or other forms of financing 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. This may adversely impact the Group's financial condition and the value of the Company's shares and could ultimately result in the Group being unable to develop the Nolan's Project. In addition, any delays in obtaining debt,

Back to Contents ›››

DIRECTOR'S REPORT

equity and/or other forms of financing, or any delays in receiving (or the non-receipt of) anticipated government grants, may require the Company to decrease its planned expenditure on certain project related activities while such funding is being secured. This may lead to scheduling disruptions, timetable overruns and an overall delay in the execution of the Nolans Project.

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 product of the Group, 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.

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.

Development and production of NdPr and other mining projects may be exposed to low side reserve outcomes, cost and timetable overruns, production decreases or stoppages, which may be the result of commissioning, facility shutdowns, mechanical or technical failure, scheduling disruptions (which may result from delays to funding or decreased spend while funding is secured), technical risks and other unforeseen events. Few rare earth's processing plants have been constructed and commissioned outside of the People's Republic of China 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 or at all.

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 for (and therefore the price of) 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 (but not limited to) hybrid and electric vehicles, wind turbines, robotics, permanent magnets, 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 test work 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 their nature contain elements of significant risk such as:

- developing and identifying mineral processing and hydrometallurgical processes through test work to produce a saleable product;
- scale-up and design of novel processes into a commercial flowsheet based on laboratory and pilot scale test work results;
- the representative nature of the samples used for the metallurgical test work 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 (including infrastructure 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 previous disclosed capital requirements (refer to ASX announcements "Nolans Project Update" dated 11 November 2022, "Quarterly Activities Report and Appendix 5B" dated 31 October 2023 and "Arafura achieves major debt funding milestone presentation" dated 23 July 2024) due to various macro-economic factors that have directly or indirectly impacted the construction industry. In addition, even following the completion of design and the 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. The Group has contracted KBR under a PCM (procure, construct, manage) contract and the project is being delivered using an Integrated Project Management Team (IPMT) model. The IPMT will procure most of the equipment packages and engage the constructors for each part of the project. The contractor strategy for each major construction package has already been agreed. There is a cost and schedule risk to a successful project outcome if the IPMT does not effectively manage all aspects of the project delivery. The Company continues to monitor capital cost trends (see current trending analysis set out in the Company's ASX Presentation "Arafura achieves major debt funding milestone" dated 23 July 2024).

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.

Back to Contents ›››

Back to Contents ›››

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 is currently in discussions with the Central Land Council (as representatives of the native title holders) for an amendment agreement to the Native Title Agreement to cover the mineral leases and extractive mineral permits to cover the explosives magazine, proposed stage 1 solar farm, borrow pits and minor changes to various access authorities. There is a risk that an agreement cannot be reached and in this instance the Group would need to re-arrange aspects of the Nolans Project to allow delivery within the existing Native Title Agreement.

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.

DIRECTOR'S REPORT

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. There is a risk that the environmental regulations may become more onerous, making the Group's operations more expensive and/or subject to potential 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.

Titles

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 a risk that 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's economic performance.

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 Northern Territory Government for its Mining Management Plan, which provides its Mining Authorisation for the Nolans Project (refer to 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 is a review of past activities or 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.

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 sourced 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.

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

The disposal of New Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor. All investors are urged to obtain independent financial advice about the consequences of disposing of New Shares from both a taxation viewpoint and generally. To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of acquiring or disposing of New Shares under this equity raising.

Competition

The Company 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.

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.

Russia-Ukraine and Israel-Palestine conflict

The ongoing Russia-Ukraine and Israel-Palestine conflicts have had and will continue to have a significant impact on global economic markets. Although the Group considers the current impact of the conflicts on the Group to be limited, given that the conflicts are ongoing and volatile in nature, the future effect of the conflicts on the Group is uncertain. The conflicts may have an adverse effect on the Company's share price or operations which will likely be out of the Group's control.

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 (until 8 April 2024)

Member of the Risk Management Committee

Member of the Sustainability Committee

Member of the Audit Committee (5 February 2024- 8 April 2024)

Interests in shares, performance rights and options

332,140 ordinary shares in Arafura Rare Earths Limited (Direct)

580,760 ordinary shares in Arafura Rare Earths Limited (Indirect)

DARRYL CUZZUBBO

Managing Director and Chief Executive Officer

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

Darryl has over 30 years' experience in global roles in multicommodity resources, services and manufacturing holding both Senior Executive and Executive Director roles. He brings extensive knowledge and experience in both the resources and manufacturing sectors having run large complex operational assets and has led the development and execution of a range of major projects. Darryl, appointed as a Non-Executive Director for Arafura in November 2021, previously served as Chief Manufacturing and Supply Officer as well as Group Executive and President of Auspac Asia while at Orica Pty Ltd.

He held various senior positions during his 24-year career with BHP, 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.

First Appointed

1 November 2021 (NED) and 5 February 2024 (MD and CEO)

Former Directorships in the last 3 years

Managing Director SolGold.

Special Responsibilities (until 5 February 2024)

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)

GAVIN LOCKYER

Managing Director and Chief Executive Officer (until 5 February 2024)

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. Gavin resigned on 5 February 2024.

Other current Directorships
None.

Former Directorships in the last 3 years
None.

Special Responsibilities
None.

Interests in shares, performance rights and options
5,479,903 ordinary shares in Arafura Rare Earths Limited (Indirect)[4]

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. Chris resigned on 26 July 2024.

Other current Directorships
None.

[4] *Refer to Final Director's Interest Notice- ASX Announcement dated 7 February 2024.*

DIRECTOR'S REPORT

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

Member of the Sustainability Committee (5 February 2024- 8 April 2024)

Interests in shares, performance rights and options
463,185 ordinary shares in Arafura Rare Earths Limited (Direct)

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 Limited – Non- Executive Director)

Special Responsibilities
Chairman of the Sustainability Committee

Member of the Audit Committee

Member of the Remuneration and Nomination Committee

Member of the Risk Committee (5 February 2024 - 8 April 2024)

Interests in shares, performance rights and options
363,601 ordinary shares in Arafura Rare Earths Limited (indirect)

DIRECTOR'S REPORT

ROGER HIGGINS

Non-Executive Director

Qualifications: BE (Hons) Civil, MSc, PhD, FIEAust, FAusIMM.

Dr Higgins has over 50 years experience in areas of engineering, project management, mineral and water resources and environmental management. He has lived and worked in the resources industries in Australia, Chile, Canada, Papua New Guinea and the USA, and has worked on operations and projects and several additional country locations.

Dr Higgins has held senior management and executive positions including Senior Vice President Copper with Teck, VP and COO Australia with BHP Base Metals and Managing Director at Ok Tedi Mining. He is a member of Advisory Boards at the University of Queensland and the University of Adelaide, and an Adjunct Professor with the Sustainable Minerals Institute at the University of Queensland.

First Appointed

8 April 2024

Other current Directorships

Worley

Hillgrove Resources

Former Directorships in the last 3 years

Newcrest

Ok Tedi Mining

Demetallica

Minotaur Exploration.

Special Responsibilities (from 8 April 2024)

Chairman of the Risk Management Committee

Member of the Remuneration and Nomination Committee

Member of the Sustainability Committee

Interests in shares, performance rights and options

Nil

MICHAEL SPREADBOROUGH

Non-Executive Director

Qualifications: Bachelor Mining Engineering, MBA, WA First Class Mine Manager's Certificate of Competency, AusIMM, AICD.

Michael has a mining engineering background with more than 30 years' experience in mining lead, zinc, uranium, copper, gold and iron ore. He has held roles across the scope of the industry from business and project development to operations and exploration. He held positions as the General Manager – Mining for WMC and Vice President – Mining for BHP Billiton at the world-class Olympic Dam Mine in South Australia, General Manager – Coastal Operations for Rio Tinto, responsible for port operations and Pannawonica mine site, Chief Operating Officer for Inova Resources Ltd (formerly Ivanhoe Australia) and Sandfire Resources.

First Appointed

8 April 2024

Other current Directorships

Executive Co-Chairman of Novo Resources

Former Directorships in the last 3 years

Managing Director & CEO of Nusantara Resources

Non-Executive Director of CleanTeQ Holdings.

Special Responsibilities (from 8 April 2024)

Chairman of the Remuneration and Nomination Committee

Member of the Audit Committee

Member of the Risk Management Committee

Interests in shares, performance rights and options

610,000 ordinary shares in Arafura Rare Earths Limited (indirect)

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 2024 the Committees of Arafura are comprised of the following:

- Mr Southey is a member of the Audit Committee (AC), Risk Management Committee (RMC) and Sustainability Committee (SC).
- Mr Tonkin is Chair of the AC and a member of the Remuneration and Nomination Committee (RNC) and RMC.
- Ms Moises is Chair of the SC and a member of the AC and RNC.
- Mr Higgins is Chair of the RMC and a member of the RNC and SC.
- Mr Spreadborough is Chair of the RNC and a member of the AC and RMC.

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 2024 were:

			Committee Meetings							
	Board Meetings		AC		RNC		SC		RMC	
Director	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
M Southey	12	11	2	2	2	2	4	4	3	3
G Lockyer[5]	7	5	-	-	-	-	-	-	-	-
C Tonkin	12	10	4	4	3	2	1	-	3	2
C Moises	12	12	4	4	3	3	4	4	1	1
D Cuzzubbo[6]	12	12	2	2	-	-	2	2	1	1
R Higgins[7]	3	3	-	-	1	1	1	1	1	1
M Spreadborough[8]	3	2	1	-	1	1	-	-	1	1

Note: the table has been completed based on the number of meetings directors have attended to which they were a member of the Board/Committee.

[5] *Ceased employment effective 5 February 2024.*
[6] *Ceased being a non-executive director effective 4 February 2024 to resume the role of Managing Director and CEO effective 5 February 2024 and therefore was no longer a member of each committee. Mark Southey, Cathy Moises and Chris Tonkin were members of each Board Committee during the period until the appointment of Michael Spreadborough and Roger Higgins.*
[7] *Commenced as a non-executive director effective 8 April 2024.*
[8] *Commenced as a non-executive director effective 8 April 2024.*

DIRECTOR'S REPORT

Remuneration Report (audited)

Dear Shareholder,

On behalf of the Remuneration and Nomination Committee I am pleased to present the Remuneration Report for the year ended 30 June 2024.

Significant progress was made over the financial year to advance the Nolans Project and prepare to be a significant rare earths organisation with impeccable ESG credentials.

On 23 July 2024 we announced the achievement of a major debt funding milestone with remaining conditional approvals obtained from commercial lenders, moving closer to a final investment decision on the Nolans Project.

A deal of this complexity in a multi-year low NdPr pricing environment underscores our commitment to delivery and the confidence that international Export Credit Agencies have in the strategic importance of Arafura. Achievement of that milestone involved rigorous due diligence of our ESG processes by lenders, positioning us strongly with Tier 1 customers and OEMs globally. We also announced the results of a preliminary study indicating the potential to expand production capacity at Nolans with the ability to process third-party feedstock as a downstream processing hub.

As we prepare for the next major phase as an organisation we reshaped the Board and Executive Leadership Team recruiting two new Non-Executive Directors, a new Managing Director & CEO and four new Executive roles across Operations/Projects, People, Sustainability/Environment and Corporate Affairs.

Remuneration outcomes in FY2024

Arafura's remuneration philosophy is to attract and retain high performing Executives and incentivise them in a manner aligned to shareholder value creation, resulting in the following outcomes:

- Managing Director & CEO Darryl Cuzzubbo commenced February 2024 on a TFR of A$690,000.
- COO Stuart Macnaughton commenced April 2024 on a TFR of A$527,400.
- Upon review of benchmark data CFO Peter Sherrington's TFR was increased to A$500,000.
- No changes were made to Non-Executive Director remuneration.
- Performance rights granted to senior staff, management and the previous Managing Director & CEO in FY2023 lapsed.
- A FY2024 Long Term Incentive Plan [Nolans Success Plan] for staff and Executives aligned to the delivery of major construction and ramp up milestones for the Nolans Project was issued December 2023. Under this Plan 9,000,000 performance rights were granted to CFO Peter Sherrington in April 2024.

DIRECTOR'S REPORT

Remuneration changes for FY2025

- The Board resolved that no FY25 fixed remuneration increase should be applied to the CFO Peter Sherrington TFR.[9]
- An externally benchmarked review of the Managing Director & CEO and COO remuneration packages will be undertaken at the commencement of main construction of the Nolans Project.[10]
- A review is underway by the Board to align FY2025 LTI performance conditions and windows with the progressive derisking of the Company. Once a Final Investment Decision to commence the Nolans Project has been made the Managing Director & CEO Darryl Cuzzubbo will be issued performance rights under the Arafura Incentive Plan subject to shareholder approval at the EGM.[11]

As Arafura enters a new era the focus of the Board and Management is now firmly on fully funding and preparing for the commencement of main construction.

We remain committed to consistently challenging our remuneration framework to drive performance and create long term value and I thank you for your support of Arafura both to date and moving forward.

Yours Sincerely,

Mike Spreadborough

Chair

Remuneration and Nomination Committee

[9] Excluding statutory increases to the maximum superannuation contribution.

[10] Statutory increases to the maximum superannuation contribution have been applied from 1 July 2024.

[11] The total number of incentives in the upfront grant will be equal to the higher of the 5-day VWAP of the Company's shares prior to the employment commencement date and $0.20 (being the 5-day VWAP of the Company's shares utilized in the grant of incentive securities to staff in December 2023).

DIRECTOR'S REPORT

The Directors of Arafura Rare Earths Limited present the Remuneration Report for the Group for the year ended 30 June 2024. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the Corporations Act 2001.

Key Management Personnel

The Group's KMP for the year ended 30 June 2024 are listed in Table 1 and consist of the Executive KMP and Non-Executive Directors (NED) who are accountable for planning, directing and controlling the affairs of the Company.

Table 1: KMP during FY2024

Name	Position	Period as KMP during FY2024
Executive KMP		
Gavin Lockyer	Managing Director & CEO	Until 05 February 2024
Darryl Cuzzubbo	Managing Director & CEO	From 05 February 2024
Peter Sherrington	Chief Financial Officer	All of FY24
Stewart Watkins	GM Projects	Until 31 December 2023
Stuart Macnaughton	Chief Operating Officer	From 08 April 2024
Non-Executive Directors		
Mark Southey	Independent Chair	All of FY24
Darryl Cuzzubbo	Independent NED	Until 04 February 2024
Chris Tonkin[12]	Independent NED	All of FY24
Cathy Moises	Independent NED	All of FY24
Roger Higgins	Independent NED	From 08 April 2024
Michael Spreadborough	Independent NED	From 08 April 2024

[12] *Resigned as Non-Executive Director 26 July 2024*

DIRECTOR'S REPORT

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,
- 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:

1 Remuneration Strategy
2 Company Performance and Executive KMP Remuneration
3 Non-Executive Director Remuneration
4 Executive KMP Employment Arrangements
5 Additional information

Voting and comments made at the Group's FY2023 Annual General Meeting

Arafura Rare Earths Ltd received more than 89% of "for" votes on its remuneration report for the 2023 financial year.

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

1 Remuneration Strategy

For the 2024 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 delivering the Group's strategic vision.

Remuneration of Non-Executive Directors is determined by the Board within the amount approved by shareholders. The Board undertakes an annual review of its performance. No bonuses are 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 Executive remuneration is competitive, reasonable, aligned with performance and acceptable to shareholders.

1.1 Remuneration Framework

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

- Total Fixed Remuneration (TFR)
- Short-Term Incentives (STI's):
- Long-term Incentives (LTI's):

1.11 Total Fixed Remuneration (TFR)

What is included in TFR?

An Executive KMP's TFR comprises salary, certain other benefits (including statutory superannuation contributions) and salary sacrificed benefits (provided that no extra cost is incurred by the Company for these benefits).

When and how is TFR reviewed?

TFR is reviewed annually. Any adjustments to the TFR for the Managing Director & CEO and other Executive KMP must be approved by the Board after recommendations from the Remuneration and Nomination Committee. Market benchmarking of Executive remuneration was conducted in FY2024, mindful of the need to continue to retain our key employees in a competitive market whilst staying alert to the need to manage the cost base of the organisation.

Are there any changes to how TFR is determined?

No changes to our approach to determine TFR were implemented in FY2024. We will continue to review our Executive remuneration levels annually to ensure we attract, motivate and retain Executives with the requisite skills and experience to deliver the next stage of the Company's growth.

1.12 Short-term Incentives (STI's)

Short-term incentives are used on occasion and selectively to encourage and reward the performance of Group Executives and senior management for their role in achieving corporate objectives.

The Remuneration and Nomination Committee is responsible for assessing whether performance conditions linked to an STI are met.

Was an STI offered in FY2024?

No STI's formed part of the remuneration framework for Executive KMP's for the year ended 30 June 2024.

1.13 Long-term Incentives (LTI's)

Long-term variable remuneration aligned to performance is designed for Group Executives, senior management and staff for their role in achieving corporate objectives and is directly linked to the progressive derisking of the organisation and creation of shareholder value.

Long term incentives are provided as options or performance rights issued either under the terms and conditions of the Arafura Incentive Plan or otherwise under the terms and conditions determined at the time of issue by the Board.

Why does the Board consider that an LTI is an appropriate element of remuneration?

It is the view of the Board that an appropriately structured LTI;

- focuses and motivates Executives to achieve superior longer term performance outcomes,
- ensures that business decisions and strategic planning take into account the Group's long term performance,
- is consistent with contemporary remuneration governance standards and guidelines,
- is consistent and competitive with current practices across comparable companies,
- creates an ownership mindset amongst Executives, aligning them with shareholders by linking a substantial portion of their potential total reward to the successful delivery of the Nolans project and the creation of shareholder value.

How is the award delivered?

Awards under the LTI are granted using options or performance rights.

Options

Share options currently on issue in Arafura Rare Earths Limited were granted by the Board under the Arafura Employee Option Plan as approved by shareholders at the 2020 Annual General Meeting. Options are granted for no consideration and generally have a term of three years.

Vesting of 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).

Was a grant of options made in FY2024?

No grants of options were made during FY2024.

Back to Contents ›››

DIRECTOR'S REPORT

Performance Rights

Performance rights in Arafura Rare Earths Limited are granted by the Board under the Arafura Rare Earths Incentive Plan approved by shareholders at the 2023 Annual General Meeting.

Performance rights are issued for no consideration and vest according to a set of performance conditions 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 5, Table 12.

Was a grant of performance rights made in FY2024?

Yes. A Long Term Incentive Plan [Nolans Success Plan] aligned to the delivery of major milestones for the Nolans Project was issued in the 2024 financial year. A grant of 40,213,506 performance rights was made to staff in December 2023 and 9,000,000 to Executive KMP, Peter Sherrington, in April 2024. The fair value of the performance rights was calculated as at the grant date.

The performance period for the FY2024 LTI grant is 7 December 2023 to 6 December 2028 for staff and 3 April 2024 to 2 April 2029 for Peter Sherrington.

Table 2: Performance Rights granted to Executive KMP FY2024

Nolans Success Plan - KMP	
Grant Date	03/04/2024
Number Granted	9,000,000
FY2024 LTI Grant (as % of TFR)	360%
Expiry Date	2 years from vesting or 5 years from date of issue, being 2 April 2029.
Vesting condition	The Performance Conditions detailed in Table 4.
Fair value per performance right	$0.20
Exercise Price	Nil
Total fair value	$1,800,000

The fair value is measured at grant date using the Black-Scholes or share price at grant date. The number of options and performance rights expected to vest is estimated based on the attaching service and/or performance conditions, with the estimates revised at the end of each reporting period.

Table 3: KMP rights to deferred shares

KMP	Year granted	Balance at start of year	Granted during year	Expired	Balance at end of year	Maximum value yet to vest
	Year	Number	Number	Number	Number	Value ($)
P Sherrington						
	2024	-	9,000,000	-	9,000,000	1,721,038*
	2023	476,000	-	(476,000)	-	-

The maximum value yet to vest is calculated based on the number of rights multiplied by the fair value at grant date less the amount amortised for the year.

Back to Contents ›››

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 vesting expense based on the number of options and performance rights that are expected to vest based on non-market vesting conditions based on management's best estimates. Vesting outcomes will be reported by the Company when the milestones are met or are no longer able to be met.

What are the performance and service conditions?

In order for vesting of the FY2024 LTI grant to occur, the following conditions must be satisfied:

(i) Arafura meeting the LTI performance conditions as set out below and

(ii) the Executive KMP meeting the service condition.

Table 4: FY2024 LTI Performance Conditions

Tranche	Performance Condition	Weighting
Tranche 1	Commencement of Main Construction	20%
Tranche 2	First Draw down of Debt	20%
Tranche 3	First Ore delivered to ROM Pad	20%
Tranche 4	First NdPr Oxide Production	20%
Tranche 5	Project Close Out	20%

Performance conditions are aligned to shareholder value creation as we move through the construction phase towards being a revenue generating company.

50% of each tranche will vest on completion of the performance condition with the remaining 50% vesting twelve months later, excluding Tranche 5 which vests at 100% upon achievement of the Performance Condition. Should Tranche 5 vest, all prior tranches will vest at the same time. The Board has ultimate discretion on whether the vesting conditions have been met.

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.

1.14 Use of remuneration consultants

The Board of Directors and the Remuneration & Nomination Committee seek and consider advice from independent remuneration consultants to ensure that they have all of the relevant information at their disposal to determine Executive KMP remuneration. Remuneration consultant engagement is governed by internal protocols that set the parameters around the interaction between Management and consultants to minimise the risk of any undue influence and ensure compliance with the *Corporations Act 2001*.

The Board and the Remuneration and Nomination Committee use remuneration consultants' advice and recommendations from time to time. The Board makes its decisions after it considers the issues and the advice from the Remuneration & Nomination Committee and consultants. During 2023, REMSMART were engaged to provide insight on market practice for the purposes of developing the FY2024 Long Term Incentive Plan. The Reward Practice were engaged to undertake market benchmarking for the Managing Director & CEO's remuneration. The analysis and insight from REMSMART and The Reward Practice was considered by the Board and Remuneration & Nomination Committee in forming their views on remuneration matters. The work completed did not constitute a remuneration recommendation in accordance with the Corporations Act 2001.

2 Company Performance and KMP Remuneration Outcomes

A summary of the Group's earnings and movements in share price over the last five years is detailed below:

Table 5: FY2024 LTI Performance Conditions

	2024	2023	2022	2021	2020
Loss for the year attributable to owners of Arafura Rare Earths Ltd ($'000)	(100,974)	(96,380)	(35,558)	(6,480)	(4,811)
Basic earnings per share (cents)	(4.56)	(5.05)	(2.33)	(0.55)	(0.46)
Increase/(decrease) in share price	(43%)	7%	128%	119%	(46%)

Our remuneration framework is designed to reward Executives for the creation of value for our stakeholders. We recognise the importance of clearly demonstrating the link between business performance and value creation over time and Executive remuneration outcomes.

In FY2024;

- a bespoke and externally acclaimed debt funding solution was progressed resulting in completion of the debt-led funding strategy in July 2024 with project completion support provided by an US$80 million cost overrun facility and a subordinated standby liquidity facility of US$200 million,
- binding long term offtake agreements were secured for 58% of total offtake target[13] volume,
- early works construction was completed to ensure project readiness for a Final Investment Decision.

2.1 STI performance and outcomes

2.1.1 FY2023 STI (Equity based)

The Company performance condition of financial close to occur under project financing facilities in order to commence major construction in relation to the Nolans Project by 31 December 2023 was not satisfied, resulting in lapsing of all performance rights granted to senior staff, management and the previous Managing Director & CEO under the FY2023 STI.

2.2 LTI performance and outcomes

2.2.1 Options

No options were converted into shares by KMP during the 30 June 2024 financial year. No grants of options were made during the 30 June 2024 financial year.

2.2.2 FY2024 performance rights

For the year ended 30 June 2024 staff and Executives were issued with performance rights under the Arafura Incentive Plan (Nolans Success Plan). The performance rights will vest in five tranches in accordance with performance conditions as detailed in Table 4.

[13] *Targeting 80% of Planned Production as binding offtake. Planned Production refers to the average annual production from Nolans, being 4,440 tpa (Refer ASX Announcement dated 11 May 2021).*

DIRECTOR’S REPORT

2.2.3 LTI Awards on foot

Options

For options affecting Executive KMP remuneration in current or future reporting period, 100% of each tranche vests and is exercisable in accordance with the table below.

Table 6: LTI Awards (Options) on Foot

Grant date	Date vested and exercisable	Expiry date	Exercise price	Model option value	% Vested
31-Aug-21	31-Aug-24	31-Aug-25	$0.20	$0.081	0%
2-Sep-22	2-Sep-25	5-Sep-26	$0.43	$0.174	0%
28-Feb-23	28-Feb-26	28-Feb-27	$0.93	$0.380	0%

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 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.

Performance Rights

For performance rights affecting Executive KMP remuneration in the current or future reporting period, each tranche vests and is exercisable in accordance with Table 12.

2.3 KMP 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.

Table 7: Actual FY2024 remuneration paid to Key Management Personnel

	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		
2024	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	155,496	-	-	17,104	-	-	-	-	172,600
C Tonkin[14]	65,676	-	-	24,324	-	-	-	-	90,000
D Cuzzubbo[15]	99,730	-	-	10,970	-	-	-	-	110,700
C Moises	81,081	-	-	8,919	-	-	-	-	90,000
R Higgins[16]	18,694	-	-	2,056	-	-	-	-	20,750
M Spreadborough[17]	18,694	-	-	2,056	-	-	-	-	20,750
Executive Directors									
G Lockyer[18]	348,894	-	-	20,608	-	698,343	(192,193)	(21.9%)	875,652
D Cuzzubbo[19]	307,749	-	-	12,957	-	-	-	-	320,706
Other KMP									
P Sherrington	472,601	-	-	27,399	23,777	-	80,519	13.3%	604,296
S Watkins[20]	192,354	-	-	17,769	-	67,570	(120,947)	(77.2%)	156,746
S Macnaughton	134,890	-	-	6,850	-	-	-	-	141,740
Total	**1,895,859**	**-**	**-**	**151,012**	**23,777**	**765,913**	**(232,621)**	**(8.9%)**	**2,603,940**

[14] Resigned effective 26 July 2024.

[15] Darryl Cuzzubbo served as Non-Executive Director up to 04 February 2024, the Cash salary and fees reflects the director's fees paid up to this date and includes the special exertion payments.

[16] Appointed as Non-Executive Director effective 08 April 2024.

[17] Appointed as Non-Executive Director effective 08 April 2024.

[18] The amounts reflected in the table are balances as at 05 February 2024.

[19] Darryl Cuzzubbo was appointed as Managing Director and CEO effective 05 February 2024, the payments made from this date are reflected in the amounts above under Executive Directors.

[20] The amounts reflected in the table are balances as at 31 December 2023.

Back to Contents ›››

Table 8: Actual FY2023 remuneration paid to Key Management Personnel

	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[21]	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**	**43.4%**	**2,051,158**

[21] Resigned effective 18 May 2023.

Back to Contents ›››

DIRECTOR'S REPORT

3 Non-Executive Director remuneration

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 Remuneration and Nomination Committee. The Committee considered market conditions and determined no increase in remuneration of Non-Executive Directors fees and payments for the year ended 30 June 2024.

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 2024.

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.

Table 9: Details of Board fees and payments

Fees	Year ended 30 June 2024	Year ended 30 June 2023
Base Fees		
Chairman	$172,600	$172,600
Other Non-Executive Directors	$90,000	$90,000

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.

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.

Back to Contents ›››

4 Executive KMP Employment Arrangements

Remuneration and other terms of employment for the Managing Director & CEO and other KMP are 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 Arafura Incentive Plans. Other major provisions of the agreements relating to remuneration are set out below for the 2024 financial year:

Table 10: Executive KMP Employment Arrangements

Name	Contract term	FY2024 TFR $	Notice Period	Termination Benefit
Current				
Darryl Cuzzubbo	Permanent – ongoing until notice given by either party.	$690,000	Six months notice by either party. Company may elect to make payment in lieu of notice. No notice period required for termination by Company for cause.	Six months fixed remuneration in the case of termination by the Company, excluding termination for cause.
Stuart Macnaughton	Permanent – ongoing until notice given by either party.	$527,400	Six months notice by either party. Company may elect to make payment in lieu of notice. No notice period required for termination by Company for cause.	Three months fixed remuneration in the case of termination by the Company, excluding termination for cause.
Peter Sherrington	Permanent – ongoing until notice given by either party.	$500,000	Three months notice by either party. Company may elect to make payment in lieu of notice. No notice period required for termination by Company for cause.	Six months fixed remuneration in the case of termination by the Company, excluding termination for cause.
Former				
Gavin Lockyer[22]	Permanent – ongoing until notice given by either party.	$614,000	Six months notice by either party. Company may elect to make payment in lieu of notice. No notice period required for termination by Company for cause.	Six months fixed remuneration in the case of termination by the Company, excluding termination for cause.
Stewart Watkins[23]	Permanent – ongoing until notice given by either party.	$410,000	One months notice by either party. Company may elect to make payment in lieu of notice. No notice period required for termination by Company for cause.	One months fixed remuneration in the case of termination by the Company, excluding termination for cause.

[22] *Ceased employment 05 February 2024.*
[23] *Ceased employment 31 December 2023.*

Back to Contents ›››

5 Additional information

5.1 Other transactions with KMPs

There were no loans made to Executive KMP, NEDs or their related parties during the year ending 30 June 2024. During the financial year, special exertion services were provided by Darryl for a period of approximately six months prior to being appointed Managing Director and CEO of the Group on 5 February 2024. The services covered day-to-day management of the Company and were in addition to his services as Non-Executive Director. Amounts paid to Mr Cuzzubbo are included in the remuneration figures on Table 7.

5.2 Movements in equity interests of KMPs

Table 11: Movements in option interests of KMP for 30 June 2024

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes (expiry)	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[24]	3,358,000	-	-	(3,358,000)	-	-	-
D Cuzzubbo	-	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-	-
C Moises	-	-	-	-	-	-	-
R Higgins	-	-	-	-	-	-	-
M Spreadborough	-	-	-	-	-	-	-
Other KMP of the Group							
P Sherrington	1,824,000	-	-	-	1,824,000	-	-
S Macnaughton	-	-	-	-	-	-	-
S Watkins[25]	1,794,000	-	-	(1,794,000)	-	-	-
Total	**6,976,000**	**-**	**-**	**(5,152,000)**	**1,824,000**	**-**	**-**

[24] Gavin Lockyer ceased employment on 05 February 2024 and his options subsequently expired.
[25] Stewart Watkins ceased employment on 31 December 2023 and his options subsequently expired.

Back to Contents ›››

Table 12: Movements in performance rights of KMP for 30 June 2024

Name	Balance at the start of the year	Granted as compensation	Exercised	Other Changes (expiry)	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[26]	677,000	-	-	(677,000)	-	-	-
D Cuzzubbo	-	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-	-
C Moises	-	-	-	-	-	-	-
R Higgins	-	-	-	-	-	-	-
M Spreadborough	-	-	-	-	-	-	-
Other KMP of the Group							
P Sherrington	476,000	9,000,000	-	(476,000)	9,000,000	-	-
S Watkins[27]	476,000	-	-	(476,000)	-	-	-
S Macnaughton	-	-	-	-	-	-	-
Total	**1,629,000**	**9,000,000**	**-**	**(1,629,000)**	**9,000,000**	**-**	**-**

[26] Gavin Lockyer ceased employed on 05 February 2024 however the performance rights lapsed 31 December 2023.
[27] Stewart Watkins ceased employment on 31 December 2023 however the performance rights lapsed on the same day.

Back to Contents ›››

DIRECTOR'S REPORT

Table 13: Movements in share interests of KMP for 30 June 2024

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	625,400	-	287,500	912,900
G Lockyer[24]	5,292,403	-	187,500	5,479,903
C Tonkin	447,560	-	15,625	463,185
D Cuzzubbo	450,000	-	-	450,000
C Moises	363,601	-	-	363,601
R Higgins	-	-	-	-
M Spreadborough	-	-	610,000	610,000
Other KMP of the Group				
P Sherrington	3,445,549	-	-	3,445,549
S Watkins[25]	3,000,000	-	-	3,000,000
S Macnaughton	-	-	-	-
Total	**13,624,513**	**-**	**1,100,625**	**14,725,138**

This is the end of the audited remuneration report.

[24] *Refer to Final Director's Interest Notice- ASX Announcement dated 7 February 2024.*

[25] *Stewart Watkins ceased employment on 31 December 2023 and his options subsequently expired.*

DIRECTOR'S REPORT

Insurance of officers

During the 2023 and 2024 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*.

No fees for non-audit services were paid or payable to the Company's external auditors for the year ended 30 June 2024.

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 53.

Signed in accordance with a resolution of the Directors.

Darryl Cuzzubbo
Managing Director

Mark Southey
Chairman

Perth, Western Australia

21 August 2024

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.

BDO

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

Level 9, Mia Yellagonga Tower 2
5 Spring Street
Perth, WA 6000
PO Box 700 West Perth WA 6872
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 2024, 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 Pty Ltd

Perth

21 August 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2024

	Notes	2024 $	2023 $
Non-capitalised portion of R&D tax incentive rebate	4(b)	50,678	34,662
Other income	4(a)	5,333,417	3,269,224
Employee benefits expense	5(c)	(5,496,502)	(3,698,904)
Project costs expensed	5(f)	(77,899,056)	(85,592,670)
Other expenses	5(e)	(14,188,302)	(9,341,842)
Depreciation and amortisation	5(a)	(8,411,483)	(577,030)
Finance costs	5(b)	(107,775)	(34,881)
Share based payments	5(d)	(255,409)	(438,323)
Loss before income tax		**(100,974,432)**	**(96,379,764)**
Net (loss) after income tax for the year		**(100,974,432)**	**(96,379,764)**
Total comprehensive (loss) for the year attributable to owners of Arafura Rare Earths Limited		**(100,974,432)**	**(96,379,764)**
Loss per share attributable to owners of Arafura Rare Earths Limited			
Basic loss per share (cents per share)	21	(4.56)	(5.05)
Diluted loss per share (cents per share)	21	(4.56)	(5.05)

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

CONSOLIDATED STATEMENT FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2024

	Notes	2024 $	2023 $
CURRENT ASSETS			
Cash and cash equivalents	7	42,170,343	128,848,076
Trade and other receivables		569,131	789,099
Total Current Assets		**42,739,474**	**129,637,175**
NON-CURRENT ASSETS			
Property, plant and equipment		327,550	378,792
Right-of-use assets	8	1,208,087	7,705,058
Deferred exploration and evaluation costs	9	122,363,994	119,346,203
Other assets	10	3,451,186	2,464,344
Total Non-Current Assets		**127,350,817**	**129,894,397**
TOTAL ASSETS		**170,090,291**	**259,531,572**
CURRENT LIABILITIES			
Trade and other payables	11	6,956,682	32,377,776
Deferred revenue	12	12,288,689	5,990,795
Lease liabilities		496,698	970,215
Provisions	13	2,912,690	922,670
Total Current Liabilities		**22,654,759**	**40,261,456**
NON-CURRENT LIABILITIES			
Lease liabilities		252,833	665,481
Provisions	13	3,068,396	3,702,926
Total Non-Current Liabilities		**3,321,229**	**4,368,407**
TOTAL LIABILITIES		**25,975,988**	**44,629,863**
NET ASSETS		**144,114,303**	**214,901,709**
EQUITY			
Contributed equity	14	496,134,993	466,203,376
Reserves	15	13,829,333	13,573,924
Accumulated losses	16	(365,850,023)	(264,875,591)
TOTAL EQUITY		**144,114,303**	**214,901,709**

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 2024

Consolidated	Notes	Contributed equity $	Equity reserve $	Accumulated losses $	Total equity $
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**
Loss for the 2024 financial year	16	-	-	(100,974,432)	(100,974,432)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		**-**	**-**	**(100,974,432)**	**(100,974,432)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	14	29,931,617	-	-	29,931,617
Share based payments	15	-	255,409	-	255,409
Balance at 30 June 2024		**466,203,376**	**13,829,333**	**(365,850,023)**	**144,114,303**

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 2024

	Notes	2024 $	2023 $
Cash flows from operating activities			
Payments to suppliers and employees		(16,262,334)	(11,512,101)
Payments for project costs		(104,097,808)	(67,065,996)
Interest received		2,620,119	3,197,641
R&D Incentive rebate - non-capitalised portion		50,678	34,662
Interest paid		(338,524)	(46,838)
Government grants		8,986,192	5,990,796
Net cash (outflow) from operating activities		**(109,041,677)**	**(69,401,836)**
Cash flows from investing activities			
Payments for property, plant and equipment		(124,078)	(279,092)
Payments for term deposits		(1,678,794)	(371,908)
Proceeds from term deposits		1,817,702	-
Payments for security deposits		(1,125,750)	(1,504,630)
Proceeds from disposal of fixed assets		25,000	-
Payments for exploration and evaluation		(2,894,035)	(2,014,921)
R&D Incentive rebate - capitalised portion		161,242	116,190
Net cash (outflow) from investing activities		**(3,818,713)**	**(4,054,361)**
Cash flows from financing activities			
Net proceeds from issue of shares		31,510,000	185,168,572
Payments for transaction costs		(1,578,383)	(6,693,495)
Repayment of lease liabilities		(3,577,538)	(912,626)
Net cash inflow from financing activities		**26,354,079**	**177,562,451**
Net (decrease)/increase in cash and cash equivalents		**(86,506,311)**	**104,106,254**
Cash at the beginning of the financial year		128,848,075	24,680,222
Effects of exchange rate changes on cash and cash equivalents		(171,421)	61,599
Cash and cash equivalents at the end of the financial year		**42,170,343**	**128,848,076**

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 2024

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Note 1: Summary of material 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 (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 2024.

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 material 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 material impact upon the financial position of the Group or any material 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 2024 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.

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.

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 OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Note 1: Summary of material 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 Incentive Plan. Employee benefits received under this plan are accounted for as an option under *AASB2: Share-based Payment*.

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 advanced detailed design for the Nolans hydrometallurgical plant, engineering activities on other aspects of the Nolans Project and completed 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*.

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 2024. 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 2024.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

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:

	2024 $	2023 $
Financial assets		
Cash and cash equivalents	42,170,343	128,848,076
Trade and other receivables	569,131	789,099
	42,739,474	**129,637,175**
Financial liabilities		
Trade creditors	1,246,042	12,295,346
Trade and other accruals	5,675,458	20,036,497
PAYG and payroll tax liabilities	35,180	45,932
Lease liabilities	749,531	1,635,696
	7,706,211	**34,013,471**

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 2024 (2023: 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 2024, Arafura had no such investments (2023: 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.

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

	2024 $	2023 $
Cash at bank and short-term bank deposits		
Standard & Poor's rating AA-	**42,170,343**	**128,848,076**

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.

Note 2: Financial Risk Management (continued)

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 2024	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	6,956,681	-	-	-	-	6,956,681	6,956,681
Fixed rate	265,606	271,776	242,978	-	-	780,360	749,530
Total non-derivatives	**7,222,287**	**271,776**	**242,978**	**-**	**-**	**7,737,041**	**7,706,211**

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**

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

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 2024 financial year.

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.

Share-based payments

The Parent Entity issued share-based payments in the form of performance rights during the year to staff and KMP. Assumptions and estimates made in relation to these share-based payments to KMP are detailed in the Remuneration Report on pages 34 - 50.

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.

Note 3: Critical accounting estimates and judgments (continued)

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 2024 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.

Note 4: Revenue

Accounting Standard

Revenue Recognition

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. Income recognition of the Grant reflects the amount the Group is entitled to keep should a repayment notice be served.

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 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.

	2024 $	2023 $
(a) Other Income		
Interest received	2,341,076	3,197,641
Government Grants	2,967,341	-
Gain on sale of assets	25,000	-
Total other income	**5,333,417**	**3,197,641**
(b) Non-capitalised portion of R&D Tax Incentive rebate		
Non-capitalised portion of R&D Tax Incentive rebate	**50,678**	**34,662**

Note 5: Expenses

	Notes	2024 $	2023 $
(a) Depreciation			
Depreciation – office furniture and fittings		3,707	3,586
Depreciation – office and computer equipment		137,097	116,062
Depreciation – plant & equipment		34,517	15,880
Depreciation – leasehold improvements		-	551
Depreciation – right-of-use assets		8,236,162	440,951
Total depreciation		**8,411,483**	**577,030**
(b) Finance costs			
Interest expense – lease liability		46,257	17,336
Interest expense – other		61,518	17,545
Total finance costs		**107,775**	**34,881**
(c) Employee benefits expense			
Employee benefits expense		**5,496,502**	**3,698,904**
(d) Share Based Payments			
Share-based employee benefits		**255,409**	**438,323**
(e) Other expenses			
Accounting and other professional fees		227,979	186,185
Audit fees		75,563	61,437
Consultants fees		4,547,629	2,935,220
Insurance		455,594	380,677
Legal fees		1,526,809	2,602,474
Share registry and stock listing fees		380,819	435,783
Loss on lease modification		3,689,339	-
Other expenses		3,284,569	2,668,484
Total other expenses		**14,188,302**	**9,270,259**

Back to Contents ›››

Note 5: Expenses (continued)

	Notes	2024 $	2023 $
(f) Project costs expensed[29]			
Consultants		49,671,614	54,893,675
Employee benefits expense		2,110,786	1,927,945
Computer software		113,827	354,287
Early works		17,302,688	16,750,547
Equipment procurement		6,681,312	7,676,274
Rehabilitation expense		399,779	2,600,331
Other project development costs		1,619,050	1,389,611
Total project costs expensed		**77,899,056**	**85,592,670**
Total expenses		**106,358,527**	**99,612,068**

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

Back to Contents ›››

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Note 6: Income Tax (continued)

	2024 $	2023 $
Income tax expense		
Current tax	-	-
Loss before income tax	**100,974,432**	**96,379,764**
Income tax benefit @ 30%	30,292,330	28,913,929
Tax effect of amounts which are not deductible in calculating taxable income:		
Entertainment	(13,077)	(14,214)
Share-based payments	(76,623)	(131,497)
Sundry items not deductible (assessable)	15,203	10,399
Deferred tax assets relating to tax losses not recognised	(24,800,526)	(7,077,647)
Temporary differences not recognised	(5,417,307)	(21,700,970)
Total income tax benefit	**-**	**-**

The franking account balance at year end was nil (2023: nil).

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

	2024 $	2023 $
Tax losses	73,106,696	69,552,881
Other temporary differences	60,838,908	37,517,437
Total deferred tax assets	133,945,604	107,070,318
Deferred tax liabilities	(32,586,532)	(36,431,371)
Net Deferred tax assets	**101,359,072**	**70,638,947**

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.

	2024 $	2023 $
Cash at bank and in hand	42,170,153	19,586,643
Bank deposits	190	109,261,433
	42,170,343	**128,848,076**

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	**42,170,343**	**128,848,076**

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.

Note 8: Right of use assets (continued)

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.

	Land, buildings and leasehold addition $	Office furniture and fittings $	Motor Vehicles $	Plant & Equip-ment $	WIP $	Total $
Consolidated						
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)	(8,244)		-	(440,952)
Closing book amount	1,767,349	196,371	123,635		5,617,703	7,705,058
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)	(8,244)		-	(955,773)
Net book amount	1,767,349	196,371	123,635		5,617,703	7,705,058
Year ended 30 June 2024						
Opening book amount	1,767,349	196,371	123,635	-	5,617,703	7,705,058
Transfer from WIP	5,617,703	-	-	-	(5,617,703)	-
Additions	10,777,949	558,231	-	373,095	-	11,709,275
Disposals	(9,929,201)	-	-	(40,883)	-	(9,970,085)
Depreciation charge	(7,747,612)	(261,829)	(65,940)	(160,781)	-	(8,236,162)
Closing book amount	486,187	492,773	57,695	171,431	-	1,208,087
At 30 June 2024						
Cost or fair value	9,086,575	849,356	131,879	332,212	-	10,400,022
Accumulated depreciation	(8,600,387)	(356,583)	(74,184)	(160,781)	-	(9,191,935)
Net book amount	486,188	492,773	57,695	171,431	-	1,208,087

A contract was executed for the Project's construction camp facility and was recognised under AASB 16 in the period. It was subsequently de-recognised from the Group's accounts as at 30 June 2024 following the contract variations that removed the control of the underlying asset and no longer classified the contract as a lease under AASB 16.

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.

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

	2024 $	2023 $
Exploration, evaluation and development costs carried forward		
Balance at beginning of year	119,346,203	116,598,800
Capitalised exploration expenditure	826,439	621,236
Capitalised evaluation expenditure[30]	2,352,594	2,242,357
R&D Tax Incentive rebate receipted against capitalised evaluation costs	(161,242)	(116,190)
Balance at end of year	**122,363,994**	**119,346,203**

At each reporting date, the Group assesses whether there is an indication of impairment for Exploration and Evaluation assets. In assessing the recoverable value, the following key impairment indicators are used:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development on the area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from the successful development or sale.

No factors were identified in the period that could result in the carrying amount of the asset exceeding the recoverable amount. 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.

[30] 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.

Note 10: Non-current assets – other assets

	2024 $	2023 $
Tenement and environmental related bonds	2,833,686	1,701,936
Lease bonds	617,500	762,408
	3,451,186	**2,464,344**

Accounting Standards

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.

	2024 $	2023 $
Current		
Trade creditors[31]	1,246,044	12,295,346
Trade and other accruals[31]	5,675,458	20,036,497
PAYG and payroll tax liabilities	35,180	45,933
	6,956,682	**32,377,776**

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.

[31] *Decrease in trade creditors and accruals over the period is reflective of the completion of the Nolans early works program during the period.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Note 12: Current liability: deferred revenue

	2024 $	2023 $
Current		
Modern Manufacturing Initiative (MMI) Government Grant	12,288,689	5,990,795
	12,288,689	**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.Income recognition of the Grant reflects the amount the Group is entitled to keep should a repayment notice be served.

Note 13: Current and non-current liabilities – provisions

	2024 $	2023 $
Current		
Annual and long service leave	584,253	815,182
Provision for restoration of evaluation expenditure	107,488	107,488
Provision for onerous contract[32]	2,220,949	-
	2,912,690	**922,670**
Non-current		
Long service leave	31,530	42,580
Provision for rehabilitation	3,036,866	2,600,331
Provision for demobilisation costs	-	1,060,015
	3,068,396	**3,702,926**

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.

[32] *An onerous liability was recognised for the termination fees of the construction camp facility contract.*

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.

	2024 Shares	2023 Shares	2024 $	2023 $
Share capital				
Fully paid ordinary shares	**2,310,302,192**	2,113,364,692	**496,134,993**	466,203,376

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-22	**Balance**	**1,566,242,332**		**287,728,300**
21/07/2022	Performance rights exercised	1,550,000	-	-
15/08/2022	Share Capital	156,779,233	0.27	41,546,497
21/10/2022	Options exercised	2,873,425	0.34	976,965
12/12/2022	Share Capital	259,116,748	0.37	95,873,197
23/12/2022	Options exercised	94,340	0.34	32,076
6/01/2023	Share Capital	54,053,370	0.37	19,999,747
20/01/2023	Options exercised	23,281	0.34	7,916
25/01/2023	Share Capital	67,910,280	0.37	25,126,804
2/02/2023	Options exercised	918,868	0.34	312,415
10/02/2023	Options exercised	1,649,947	0.34	560,982
17/02/2023	Options exercised	500,000	0.34	170,000
10/03/2023	Options exercised	1,354,000	0.34	460,360
21/04/2023	Options exercised	298,868	0.34	101,615
30/06/2023	Capital Raising Costs			(6,693,498)
30-Jun-23	**Balance**	**2,113,364,692**		**466,203,376**
20/12/2023	Share Capital	156,250,000	0.16	25,000,000
25/01/2024	Share Capital	40,687,500	0.16	6,510,000
30/06/2024	Capital Raising Costs			(1,578,383)
30-Jun-24	**Balance**	**2,310,302,192**		**496,134,993**

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.

Note 15: Equity – reserves

Accounting Standard

Share-based payments compensation benefits are provided to employees via the Arafura Rare Earths Ltd Incentive Plan.

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 and performance rights 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.

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.

	2024 $	2023 $
Reserves		
Share-based payments reserve	13,829,333	13,573,924
	13,829,333	**13,573,924**
Movements		
Share-based payments reserve		
Balance at beginning of year	13,573,924	13,135,601
Share based payments expense	255,409	438,323
Balance at end of year	**13,829,333**	**13,573,924**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Note 16: Equity – accumulated losses

	2024 $	2023 $
Balance at beginning of year	(264,875,591)	(168,495,825)
Net loss for the year	(100,974,432)	(96,379,764)
Balance at end of year	**(365,850,023)**	**(264,875,591)**

Note 17: Statement of cash flows reconciliation

	2024 $	2023 $
Net (loss)	(100,974,432)	(96,379,764)
Adjustments for:		
Depreciation and amortisation	8,411,483	577,030
Disposal of fixed assets	(25,000)	-
Foreign exchange	171,421	(61,599)
Loss on lease modification	(107,833)	-
Share based payments expense	255,409	438,322
Change in operating assets and liabilities:		
Deferred revenue	6,297,894	5,990,795
Trade & other receivables	(655,064)	582,894
Trade & other payables	(24,831,315)	16,644,438
Provisions	2,415,759	2,806,048
Net cash (outflow) from operating activities	**(109,041,677)**	**(69,401,836)**

Note 18: Key Management personnel compensation

	2024 $	2023 $
Short-term employee benefits	1,895,859	1,664,726
Post-employment benefits	151,012	130,374
Long-term benefits	23,777	32,569
Termination benefits	765,913	-
Share-based payments	(232,621)	223,489
	2,603,940	**2,051,158**

Detailed remuneration disclosures are provided in sections 1-5 of the remuneration report on pages 34 to 50.

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 5 of the remuneration report.

Loans to KMP

During the 2023 and 2024 financial year, there were no loans to the Directors or other KMP.

Other transactions with KMP

During the 2024 financial year, special exertion services were provided by Darryl Cuzzubbo for a period of approximately six months prior to being appointed Managing Director and CEO of the Company on 5 February 2024. The services covered day-to-day management of the Company and were in addition to his services as Non-Executive Director. Amounts paid to Mr Cuzzubbo are included in the remuneration figures above and in the Table 7 of the Remuneration Report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Note 19: Remuneration of auditors

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

	2024 $	2023 $
1. Audit services		
BDO Audit (WA) Pty Ltd and BDO Audit Pty Ltd[33]		
Audit and review of financial reports	89,608	111,082
2. Remuneration advice		
REM-SMART Pty Ltd[34]		
Remuneration review	-	44,330
Audit and review of financial reports	**89,608**	**155,412**

Note 20: Commitments and contingencies

Capital Commitments

	2024 $	2023 $
Within one year	20,250,100	67,790,584
Later than one year but not later than five years	47,520	80,783
Later than five years	-	-
	20,297,620	**67,871,367**

Lease commitments - operating

	2024 $	2023 $
Within one year	65,870	319,571
Later than one year but not later than five years	-	-
Later than five years	-	-
	65,870	**319,571**

Mining tenement commitments

	2024 $	2023 $
Within one year	126,415	147,413
Later than one year but not later than five years	397,045	409,789
Later than five years	106,755	102,372
	630,215	**659,574**

[33] *During the period BDO Audit Pty Ltd was appointed as auditor of the Company following the resignation of BDO Audit (WA) Pty Ltd. The change of auditor arose as a result of BDO Audit (WA) Pty Ltd restructuring its audit practice, whereby audits will be conducted by BDO Audit Pty Ltd, an authorised audit company, rather than BDO Audit (WA) Pty Ltd.*

[34] *Effective 1 July 2023, REM-SMART has operated independently from BDO Audit (WA) Pty Ltd and BDO Audit Pty Ltd.*

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

An agreement was executed between the Company and NT Link Pty Ltd in the period to reduce the monthly rates charged for Stage 1 and Stage 2 of the Nolans construction camp facility over the seven months ending 31 December 2024. The cumulative reduction in rates realised by Arafura will become due and payable to NT Link if a contract for the Nolans Permanent Village Camp is not executed with NT Link by 31 December 2024.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2024

Note 21: Earnings per share (continued)

	2024 Cents	2023 Cents
Basic loss per share		
Basic loss per share (cents per share)	(4.56)	(5.05)
Diluted loss per share		
Diluted loss per share (cents per share)	(4.56)	(5.05)

	2024 $	2023 $
Net (loss)	(100,974,432)	(96,379,764)
(Loss) used to calculate basic earnings per share	(100,974,432)	(96,379,764)
(Loss) used to calculate diluted earnings per share	(100,974,432)	(96,379,764)

	2024 Number of shares	2023 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	2,213,485,754	1,906,848,705
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,213,485,754	1,906,848,705
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.

Note 22: Related party transactions

Parent entity

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

Consolidated Entity Disclosure

Interests in subsidiaries are set out in the Consolidated Entity Disclosure on page 87.

Key management personnel

Disclosures relating to KMP are set out in Note 18.

Transactions with related parties

Other transactions with related parties are set out in Note 18.

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.

Note 23: Events occurring after the reporting date

No matter or circumstance has arisen since 30 June 2024 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.

Note 24: 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 25: Parent entity financial information

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

Arafura Rare Earths Ltd (Parent)	2024 $	2023 $
Total current assets	**26,522,079**	**128,167,163**
Total assets	**123,465,384**	**225,493,191**
Total current liabilities	**1,899,028**	**3,129,288**
Total liabilities	**2,275,666**	**3,279,355**
Shareholders' equity		
Issued capital	496,134,993	466,203,376
Option reserve	13,829,332	13,573,923
Accumulated loss	(388,774,607)	(257,563,463)
Total equity	**121,189,718**	**222,213,836**
Loss for the year	(131,211,144)	(66,305,711)
Total comprehensive loss	**(131,211,144)**	**(66,305,711)**

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 2024

Note 25: Parent entity financial information (continued)

Lease commitments - operating

	2024 $	2023 $
Within one year	65,870	62,122
Later than one year	-	-
	65,870	**62,122**

Mining tenement commitments

	2024 $	2023 $
Within one year	42,770	67,202
Later than one year but not later than five years	18,499	46,784
Later than five years	-	-
	61,269	**113,986**

CONSOLIDATED ENTITY DISCLOSURE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2024

Consolidated Entity Disclosure

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

Name of entity	Type of Entity	% Share Capital Held	Country of incorporation	Tax Residency
Arafura Advanced Materials Pty Ltd	Body corporate	100	Australia	Australia
Arafura Nolans Project Pty Ltd	Body corporate	100	Australia	Australia
Arafura IP Pty Ltd	Body corporate	100	Australia	Australia
Central Australian Resources Pty Ltd	Body corporate	100	Australia	Australia
Nolans Operations Pty Ltd	Body corporate	100	Australia	Australia

Entities listed above are part of the consolidated entity as at 30 June 2024.

DECLARATION BY DIRECTORS'

Declaration by Directors

The Directors of the Company declare that:

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 2024 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 34 to 50 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2024 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.
6. The information disclosed in the consolidated entity disclosure statement is true and correct.

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
21 August 2024

BDO

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

Level 9, Mia Yellagonga Tower 2
5 Spring Street
Perth, WA 6000
PO Box 700 West Perth WA 6872
Australia

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 2024, 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 material accounting policy information, the consolidated entity disclosure statement and the directors' declaration.

In our opinion the accompanying financial report of the Group, 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 2024 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 Group 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 2024, 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 Group's annual report for the year ended 30 June 2024, but does not include the financial report and the 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:

a) the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and

b) the consolidated entity disclosure statement that is true and correct in accordance with the Corporations Act 2001, and

for such internal control as the directors determine is necessary to enable the preparation of:

i) the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and

ii) the consolidated entity disclosure statement that is true and correct and is free of misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group 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/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 34 to 50 of the directors' report for the year ended 30 June 2024.

In our opinion, the Remuneration Report of Arafura Rare Earths Limited, for the year ended 30 June 2024, 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 Pty Ltd

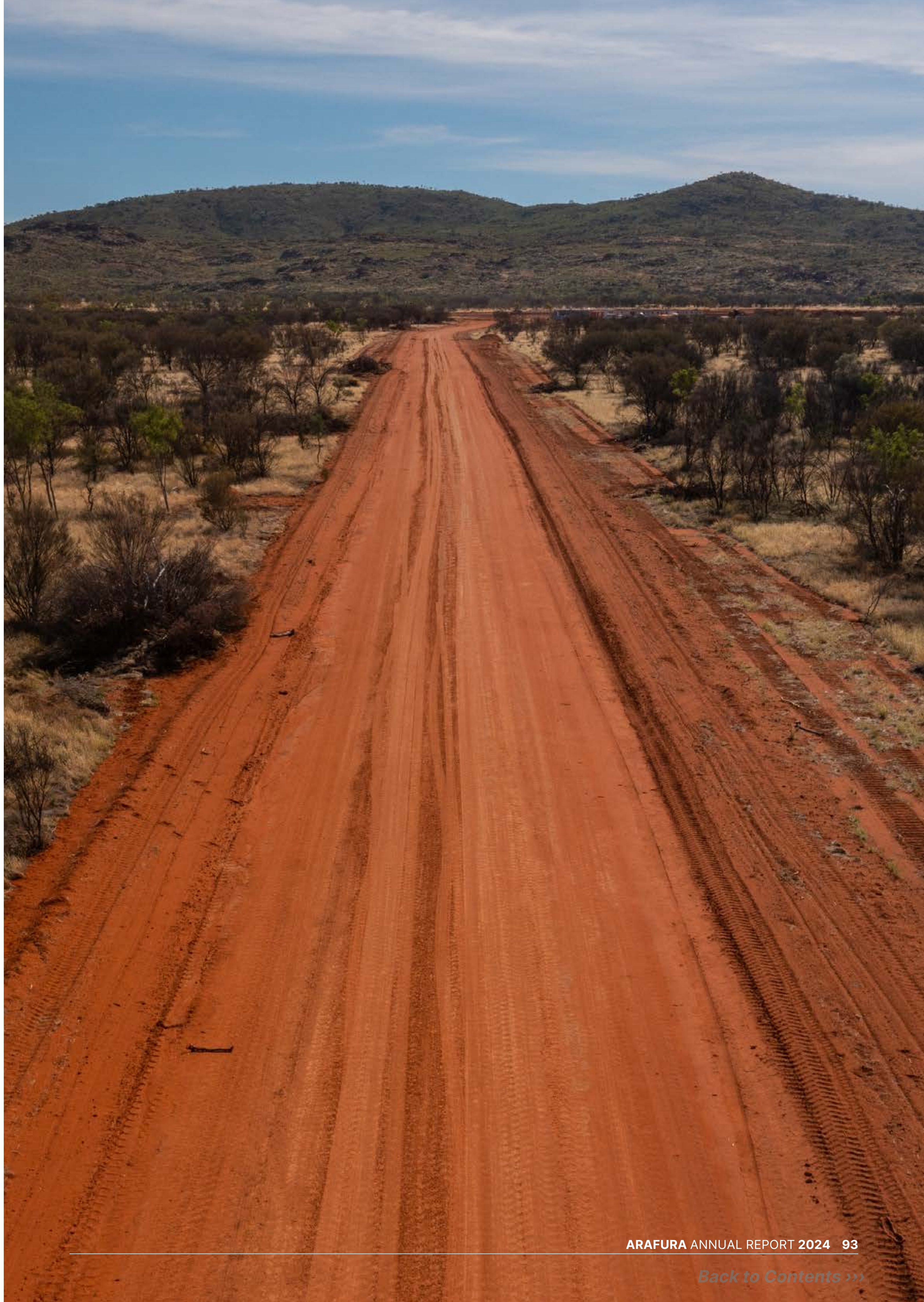
BDO

Glyn O'Brien

Glyn O'Brien

Director

Perth, 21 August 2024



ADDITIONAL INFORMATION

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

Shareholder Information

Statement of issued capital at 12 August 2024:

Distribution of fully paid ordinary shareholders:

Size of holding	Number of shareholders	Number of shares
100,001 and Over	2,965	1,883,743,082
10,001 to 100,000	12,644	448,783,961
5,001 to 10,000	5,250	41,971,689
1,001 to 5,000	7,922	23,813,783
1 to 1,000	1,328	721,677
	30,109	**2,399,034,192**

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 12 August 2024, there existed 5,999 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 12 August 2024 as per their notices:

Name	Ordinary shares %
Hancock Prospecting Pty Ltd[35]	10.01

[35] The last notice of change of interest of substantial holder was provided to the ASX on 31 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.

Back to Contents ›››

ADDITIONAL INFORMATION

Top Twenty Shareholders

As at 12 August 2024, the twenty largest shareholders held 885,980,093 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	353,351,343	14.73
2	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	159,294,115	6.64
3	CITICORP NOMINEES PTY LIMITED	103,387,287	4.31
4	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	69,883,141	2.91
5	BNP PARIBAS NOMINEES PTY LTD	40,205,641	1.68
6	BNP PARIBAS NOMS PTY LTD UOB KH PL AC	26,608,333	1.11
7	BNP PARIBAS NOMS PTY LTD	25,576,531	1.07
8	MR KENNETH JOSEPH HALL	16,187,500	0.67
9	NATIONAL NOMINEES LIMITED	13,393,776	0.56
10	MS DANIELLE SHARON TUDEHOPE	11,000,000	0.46
11	FINCLEAR SERVICES PTY LTD	10,986,539	0.46
12	HINTON RIPLEY HOLDINGS PTY LTD	8,230,630	0.34
13	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	8,206,883	0.34
14	HINTON FAMILY HOLDINGS PTY LTD	6,278,420	0.26
15	MR KENNETH WONG	6,000,000	0.25
16	BNP PARIBAS NOMINEES PTY LTD	5,834,601	0.24
17	CITICORP NOMINEES PTY LIMITED	5,755,432	0.24
18	BIRCH PCT PTY LTD	5,555,112	0.23
19	MR DAVID JOHN HARRISON	5,400,000	0.23
20	LACHESIS HEALTH PTY LTD	4,844,809	0.20
		885,980,093	**36.93**

Back to Contents ›››

ADDITIONAL INFORMATION

Tenement Register as at 13 August 2024:

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 ML 33107	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% 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.
EMP33078 EMP33079 EMP33080 EMP33081 EMP33082 EMP33083 EMP33084 EMP33085	Nolans, NT	Arafura Nolans Project Pty Ltd	Extractive Exploration Licence	100%	100%	

This page left intentionally blank.