SPECTRUM
RARE EARTHS LIMITED

2017

ANNUAL REPORT

Spectrum Rare Earths Limited

ABN: 94 115 770 226

Contents

Corporate Directory

Directors

Mr Alexander Hewlett
Non-Executive Chairman
Mr Leonid Charuckyj
Non-Executive Director
Mr Alexander Moyle
Non-Executive Director

Company Secretary

Mr Mark Pitts
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Registered Office & Principal Place of Business

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Share Registry

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PO Box 535, Applecross WA 6953
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P: +61 8 9315 2333
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Auditors

KPMG
235 St. Georges Terrace
Perth WA 6000

Company Information

Incorporated in Western Australia, August, 2005
Listed on the Australian Securities Exchange (ASX)
Home Exchange: Perth
Code: **SPX** (Ordinary Shares)

Chairman's Address

Dear Spectrum Shareholders,

It is with enthusiasm that I am addressing you all for the first time as Chairman of Spectrum Rare Earths Limited.

The company started with a quiet 2016-2017 financial year, however I believe we are very well placed to take advantage of both improving commodity prices as well as the re-opening of capital markets especially in the gold and base metal space.

Spectrum's experienced board are constantly reviewing new mining and exploration opportunities to further grow our business as well as preparing to advance our 100% owned Whaleshark gold prospect, located 40km east of Onslow, WA. Granting of this exploration licence is expected to occur within the coming quarter with fieldwork to commence shortly after.

Spectrum successfully issued a placement to raise $600k AUD during February 2017 to recapitalise the company and later elected to withdraw from the Mt Remarkable JV to allow a refocusing of the strategic direction of Spectrum.

I would like to thank on behalf of the board the services rendered by both the former Chairman Mr Anthony Barton as well as the former Company Secretary Mr Graeme Boden who both stepped down during the 2016-2017 financial year.

Yours sincerely

Alexander Hewlett
Non-Executive Chairman

Directors' Report

The directors present their report on the Group, comprising Spectrum Rare Earths Limited (referred to in these financial statements as "the Company" or "Spectrum") and its wholly owned subsidiary, together with the financial report for the year ended 30 June 2017 and the audit report thereon.

1 DIRECTORS

The names and details of the Company's directors in office during the financial year or since the end of the financial year are set out below.

Unless otherwise indicated, all Directors held their position as a Director throughout the entire year and up to the date of this report, and held no directorships in the past three years in other ASX listed entities.

Alexander Hewlett
Non-Executive Chairman (Appointed 8 March 2017)

Alexander Hewlett is a qualified Geologist graduating from the University of Western Australia. Alex worked as a resource-modelling geologist for CSA Global, before accepting management positions in ASX listed explorers including Managing Director of US Nickel Ltd and Chairperson of Groote Resources Ltd (now Northern Manganese Limited). Alex was employed as a consultant for a New York resource fund working as an analyst.

Alex is highly skilled at project identification and acquisition and has a flair for company and investor communications. He has raised significant funds for both domestic and international projects in the mining and exploration sector. Alex has also acquired packaged and vended project portfolio's into ASX listed companies including – White Star Resources, Groote Resources and Spitfire Resources as well as identifying and acquiring projects for US Nickel (later Kalgoorlie Mining Company).

Alex is a member of the Australasian Institute of Mining and Metallurgy, and is currently a director of Hammer Metals Limited (26 June 2013 to present).

Leonid Charuckyj
Non-Executive Director (Appointed 22 December, 2011)

Mr Charuckyj has had extensive experience over a broad range of technical, engineering, management and corporate roles including senior positions in government, public and private industry both in Australia and overseas. Focus has been on the environmental, pollution control and waste management industries and on the energy and mining industries amongst others. Mr Charuckyj is currently a Non-Executive Director of King River Copper Ltd (13 December 2011 to present).

Alexander Moyle
Non-Executive Director (Appointed 24 November, 2015)

Alexander (Sandy) (BSc Hons Economic Geology) has more than 30 years mineral exploration and corporate experience in Australia, SW Pacific and SE Asia spanning a diverse range of mineral commodities. He has held various senior management positions including Regional Exploration Manager- Southwest Pacific with Kennecott Explorations (Australia) Ltd, General Manager Exploration with Aurora Gold Ltd and CEO of Goldminex Resources Limited. Sandy has been involved in the discovery and development of several major deposits including the 30Moz Lihir gold deposit in PNG.

Sandy is a member of the AIG, AusIMM, SEG, a Graduate of the Macquarie School of Management Advanced Management Program and a Graduate of the AICD.

Anthony Barton
Non-Executive Chairman (Resigned 8 March 2017)

Mr Barton has been involved in founding and growing a number of successful listed public companies. He has extensive experience in capital markets, corporate finance, funds management and venture capital and has had advisory roles in the incorporation and listing of many Australian based resource companies. Mr Barton is the founding Executive Chairman of the boutique investment bank, Australian Heritage Group. He is a graduate of the Royal Melbourne Institute of Technology with a Bachelor of Business (Accountancy) degree and has 35 years of commercial experience having also acted in senior executive and director capabilities for two leading Australian stockbroking firms. Mr Barton also is currently Non-Executive Chairman of King River Copper Ltd (21 May, 2007 to present).

2 COMPANY SECRETARIES

Mark Pitts BBus, FCA
(*A*ppointed secretary on 3 July 2017)

Mr Pitts is a Chartered Accountant with over 25 years' experience in statutory reporting and business administration. He has been directly involved with, and consulted to a number of public companies holding senior financial management positions. He is a Partner in the corporate advisory firm Endeavour Corporate providing secretarial support, corporate and compliance advice to a number of ASX listed public companies.

Graeme Boden
(Resigned 31 July 2017)

Graeme is an experienced business executive with more than 35 years in senior corporate or financial roles, particularly in the planning and evaluation function of the resources industry and in the finance and administration function of a range of industries. He has over 30 years' experience as a Director or Secretary of ASX listed companies.

Natasha Forde
(Resigned 31 March 2017)
Natasha has 9 years' experience, as an employee of Boden Corporate Services Pty Ltd, providing company secretarial and accounting services to a range of ASX listed and unlisted companies.

3 DIRECTORS' MEETINGS

The number of meetings of directors held during the year and the number of meetings attended by each director while they were a director was as follows:

	Board Meetings	
Director	**A**	**B**
Alexander Hewlett	6	6
Alexander Moyle	9	9
Anthony Barton	4	4
Leonid Charuckyj	9	9

A Number of meetings held whilst a director.
B Number of meetings attended.

There are no separate board committees established. The whole board sits as a committee when that is required.

4 DIRECTORS' INTERESTS

Interests in the shares and options of the Group as at the date of this report:

Director	***Ordinary Shares***
Alexander Hewlett	14,500,000
Leonid Charuckyj	28,685,000
Alexander Moyle	5,000,000

No share options were issued to directors or senior management during the financial year.

5 DIVIDENDS

No dividends have been paid or declared by the Company since the incorporation of the Company.

6 PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the financial year was the exploration and evaluation of rare earths.

There were no significant changes in the nature of activities during the year.

7 OPERATING AND FINANCIAL REVIEW

Overview

Spectrum's focus during the financial year was on capital preservation. A placement to raise $600,000 during February 2017 to recapitalise the company was completed and the Company later elected to withdraw from the Mt Remarkable JV to allow a refocusing of the strategic direction of Spectrum. In June 2017, Spectrum submitted a new mineral exploration licence application (E08/2924) for 100% ownership in the Whaleshark gold prospect, located 40km east of Onslow, WA.

Spectrum's board are constantly reviewing new mining and exploration opportunities to further grow our business.

Operating Results for the Year

The net loss of the Group for the year ended 30 June, 2017 was $231,131 (2016: $2,028,841).

The major items of expenditure were directors remuneration totalling $35,015 (2016: $182,947) and professional services expense of $139,536 (2016: $167,125).

Financial Position

Cash in bank at the end of the year was $611,329 (2016: $218,801).

8 SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group, in future financial years.

9 LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Spectrum anticipates the granting of the Whaleshark gold prospect tenement in the next quarter with exploration activities to commence soon thereafter.

Spectrum's board are constantly reviewing new mining and exploration opportunities to further grow our business.

10 ENVIRONMENTAL REGULATION

The exploration activities of the Group are subject to environmental regulations imposed by various regulatory authorities, particularly those relating to ground disturbance and the protection of rare and endangered flora and fauna. The Group has complied with all material environmental requirements up to the date of this report. The directors believe that the Group has adequate systems in place for the management of its environmental responsibilities and are not aware of any breaches of the regulations during the period covered by this report.

11 OPTIONS

As at the date of this report, there are no unissued ordinary shares under option.

12 INDEMNIFICATION AND INSURANCE OF DIRECTORS AND AUDITORS

The Group has paid premiums to insure the Directors against liabilities incurred in the conduct of the business of the Group and has provided right of access to Group records. In accordance with common commercial practice, the insurance policy prohibits disclosure of the amount of the premium and the nature of the liability insured against.

13 REMUNERATION REPORT - AUDITED

This report outlines the remuneration arrangements in place for key management personnel of Spectrum Rare Earths Limited (the "Group").

Remuneration levels for directors and executives are competitively set to attract the most qualified and experienced candidates, taking into account prevailing market conditions and the experience and qualifications of individuals.

In accordance with best practice corporate governance the structure of non-executive directors and executive remuneration is separate and distinct.

The following persons acted as key management personnel of the company during or since the end of the financial year:

Mr A Hewlett	(Non-Executive Chairman) (Appointed 8 March 2017)
Mr L Charuckyj	(Non-Executive Director)
Mr A Moyle	(Non-Executive Director)
Mr A Barton	(Non-Executive Chairman) (Resigned 8 March 2017)
Mr M Pitts	(Company Secretary) (Appointed 3 July 2017)
Mr G Boden	(Joint Company Secretary) (Resigned 31 July 2017)
Ms N Forde	(Joint Company Secretary) (Resigned 31 March 2017)

<u>Non-executive director remuneration and employment terms</u>

The Board has aggregated remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre whilst incurring a cost which is acceptable to the shareholders.

Each of the non-executive directors receives a fixed fee for their services as directors. There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievement of certain key performance indicators.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was on 26 August, 2011 when shareholders approved aggregate remuneration of $300,000 per year.

Non-executive directors' base fees are presently $30,000 per annum and the non-executive chairman receives $45,000 per annum. The Company also pays superannuation contributions at the statutory rate, or an amount in lieu, in addition to these amounts.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process. The non-executive directors are not employed under contract and their current remuneration is set out as follows:

Director	Remuneration
Mr A Hewett	Fees of $45,000 plus statutory superannuation guarantee contribution.
Mr L Charuckyj	Fees of $30,000 plus statutory superannuation guarantee contribution.
Mr A Moyle	Fees of $30,000 plus statutory superannuation guarantee contribution.

Executive remuneration and employment terms

Executives receive a fixed remuneration set to provide a base level commensurate with their position and responsibilities within the Company and so as to align the interests of executives with those of shareholders and ensure total remuneration is competitive by market standards.

In addition, executives are entitled to participate in equity-based remuneration plans to recognise ability and effort, provide incentive to improve Company performance, attract appropriate persons and promote loyalty. In the case of executive directors, this participation is subject to shareholder approval.

The relationship between remuneration policy and company performance has not yet been established due to the Company being in an exploration phase, with no meaningful relationship between expenditure and executive remuneration.

The tables below set out summary information about the Company's earnings and movements in shareholder wealth for the last 5 years:

	30 June 2017 $	30 June 2016 $	30 June 2015 $	30 June 2014 $	30 June 2013 $
Revenue	47,105	177,848	40,465	330,150	61,151
Loss before tax	(231,131)	(2,028,841)	(4,780,112)	(883,524)	(4,970,961)
Loss after tax	(231,131)	(2,028,841)	(4,606,991)	(686,732)	(4,380,383)

	30 June 2017	30 June 2016	30 June 2015	30 June 2014	30 June 2013
Share price at start of year	$0.005	$0.006	$0.048	$0.035	$0.13
Share price at end of year	$0.005	$0.005	$0.006	$0.048	$0.035
Loss per share	0.07cps	0.76cps	2.67cps	0.47cps	3.5cps

Details of remuneration for the year ended 30 June 2017

Details of the nature and amount of each major element of remuneration of each Key Management Personnel of the Company are:

Key Management Personnel	Year	Short Term Employee Benefit: Directors Salary or Fees $	Short Term Employee Benefit: Fees for Other Services Provided $	Post Employment Benefit: Superannuation $	Share Based Payments $	Directors fees forgiven[5]	Total $
Non-Executive							
Mr A Moyle	2017	27,778	2,000	950	-	(7,735)	22,993
	2016	26,402	35,000	-	-		61,402
Mr A Barton (2)	2017	16,000	-	-	-	(32,853)	(16,853)
	2016	50,187	-	-	10,038		60,225
Mr A Hewlett	2017	15,000	-	1,425	-	-	16,425
	2016	-	-	-	-		-
Mr L Charuckyj	2017	27,778	-	950	-	(14,278)	14,450
	2016	33,333	-	3,167	7,300		43,800
Mr H Zhang (4)	2017	-	-	-	-		-
	2016	10,220	-	-	7,300		17,520
Secretary							
Mr M Pitts	2017	-	-	-	-		-
	2016	-	-	-	-		-
Mr G Boden & Ms N Forde (3)	2017	-	40,500	-	-		40,500
	2016	-	53,438	-	-		53,438
Total Key Management Personnel	2017	**86,556**	**42,500**	**3,325**	**-**	**(54,866)**	**77,515**
	2016	**120,142**	**88,438**	**3,167**	**24,638**	**-**	**236,385**

Notes:

1. Mr A Hewlett was appointed 8 March 2017.
2. Mr A Barton resigned 8 March 2017.
3. Remuneration paid to G Boden represents payments to Boden Corporate Services Pty Ltd (BCS) charged at hourly rates for time spent by G Boden and other employees of BCS, including joint secretary, Ms N Forde, for company secretarial, accounting and financial administration activities.
4. Mr Zhang resigned 24 November 2015
5. An agreement was reached during the year whereby amounts relating to FY16 and FY17 remuneration would be forgiven, resulting in remuneration being negative for the year.

Share Holdings and Transactions of Key Management Personnel:

The movement during the reporting period in the number of ordinary shares in the Group held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Key Management Personnel	Balance 1 July 2016	Net Change Other	Shares Issued as Remuneration	Balance at Resignation	Balance 30 June 2017
Mr A Hewlett[2]	-	14,500,000	-	n/a	14,500,000
Mr A Moyle	5,000,000	-	-	n/a	5,000,000
Mr L Charuckyj	20,685,000	8,000,000	-	n/a	28,685,000
Mr A Barton[1]	50,923,312		-	50,923,312	-
Mr G Boden[3]	1,750,000		-	n/a	1,750,000
Ms N Forde[4]	-		-	n/a	-
Total	78,358,312	22,500,000	-	50,923,312	49,935,000

Notes:

1. Mr A Barton resigned on 8 March 2017
2. Mr A Hewlett was appointed on 8 March 2017
3. Mr G Boden resigned 31 July 2017
4. Ms N Forde resigned 31 March 2017

<u>Options Holdings and Transactions of Key Management Personnel:</u>

There were no options over ordinary shares in the Group held, directly, indirectly or beneficially, by each key management person, including their related parties as at reporting date (2016: Nil).

<u>Key Management Personnel Transactions:</u>

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year exclusive of GST:

Related Party	Year	Purchases from related parties $	Sales to related parties $	Amount owed by related parties $	Amounts owed to related parties $
A J Moyle & Associates Pty Ltd	2017	2,000	-	-	-
	2016	35,000		-	-
Boden Corporate Services Pty Ltd	2017	40,500	-	-	4,984
	2016	53,438	-	-	2,386
King River Copper Ltd	2017	-	-	-	-
	2016	-	36,818	-	-

Related party payables are non-interest bearing and are normally settled on 30-day terms.

A J Moyle & Associates Pty Ltd

The Company has entered into an agreement with A J Moyle & Associates, a company related to Mr Alexander Moyle, for the provision of geological consulting services.

Boden Corporate Services Pty Ltd

The Company had engaged the services of Boden Corporate Services, a company related to Mr Graeme Boden, for the provision of company secretarial and accounting services. The contract was terminated by Mr Boden subsequent to the end of the financial year and Mr Boden resigned as Company Secretary effective 31 July 2017.

King River Copper Ltd

During 2016 King River Copper Ltd, a company related to Mr Anthony Barton and Mr Leonid Charuckyj, agreed to purchase various fixed assets held by the company which have been in storage since November 2014. The purchase of these assets was overseen by independent director Mr Alexander Moyle.

- END OF AUDITED REMUNERATION REPORT -

14 CORPORATE GOVERNANCE

The Company's corporate governance statement can be found at the following URL: http://www.spectrumrareearths.com.au/corporate-strategy/corporate-governance

15 PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

16 NON -AUDIT SERVICES

The current and previous auditors did not provide any non-audit services to the Company during the year ended 30 June, 2017 (2016: $Nil).

17 AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration under Section 307C of the *Corporations Act 2001* is set out on page 11 and forms part of the Directors Report for the year ended 30 June, 2017.

Signed at Perth this 28th day of September, 2017 in accordance with a resolution of the directors made pursuant to s298(2) of the *Corporations Act 2001*.

Alexander Hewlett
Non-Executive Chairman

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Spectrum Rare Earths Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Spectrum Rare Earths Limited for the financial year ended 30 June 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG.

KPMG

R Gambitta
Partner

Perth

28 September 2017

Consolidated Statement of Profit or Loss & Other Comprehensive Income

For the year ended 30 June 2017

	Note	2017 $	2016 $
Income			
Interest received	5(a)	1,974	2,957
Gain on settlement of director fees	18(c)	16,000	-
Research and development tax incentive claim		29,131	174,891
Total Income		47,105	177,848
Expenses			
Directors' remuneration		(35,015)	(182,947)
Employee benefits expense		-	58
Depreciation expense	13	(3,870)	(43,908)
Impairment of capitalised exploration & evaluation expenditure	12	-	(1,660,165)
Reversal of impairment loss of plant & equipment	13	-	24,863
Provision for non-recovery of tenement security bonds	11	(62,674)	(35,908)
Rental expense	5(d)	-	(6,550)
Loss on disposal of fixed assets	5(e)	-	(14,757)
Exploration and evaluation expense		(8,580)	(60,893)
Professional services expense		(139,536)	(167,215)
Other expenses from operating activities		(28,561)	(59,267)
Total Expenses		(278,236)	(2,206,689)
Loss before income tax		(231,131)	(2,028.841)
Income tax benefit/(expense)	6	-	-
Loss for the Year Attributable to the Owners of the Company		(231,131)	(2,028,841)
Other Comprehensive Income		-	-
Total Comprehensive Loss for the Year Attributable to the Owners of the Company		**(231,131)**	**(2,028,841)**
Loss per share			
Loss per share	7	**Cents**	**Cents**
- Basic for loss for the year		(0.07)	(0.76)
- Diluted for loss for the year		(0.07)	(0.76)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	30 June 2017 $	30 June 2016 $
ASSETS			
Current Assets			
Cash and cash equivalents	9	611,329	218,801
Trade and other receivables	10	14,225	27,836
Other assets	11	6,236	68,160
Total Current Assets		631,790	314,797
Non-Current Assets			
Exploration and Evaluation Expenditure	12	-	-
Plant and equipment	13	26,130	30,000
Total Non-Current Assets		26,130	30,000
TOTAL ASSETS		657,920	344,797
LIABILITIES			
Current Liabilities			
Trade and other payables	14	35,738	152,196
Total Current Liabilities		35,738	152,196
TOTAL LIABILITIES		35,738	152,196
NET ASSETS		622,182	192,601
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	15	19,417,168	18,756,456
Accumulated losses		(18,794,986)	(18,563,855)
TOTAL EQUITY		622,182	192,601

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 $	2016 $
Cash flows from operating activities			
Other receipts		-	10,731
Research and development tax credit		29,131	174,891
Payments to suppliers and employees		(226,386)	(295,472)
Net cash flows used in operating activities	9	(197,255)	(109,850)
Cash flows from investing activities			
Interest received		1,974	4,675
Proceeds from sale of plant and equipment		-	38,018
Exploration & Evaluation Expenditure		(8,903)	(130,891)
Net cash flows used in investing activities		(6,929)	(88,198)
Cash flows from financing activities			
Proceeds from issue of shares/exercise of options		600,000	232,962
Cost of shares issued		(3,288)	(13,027)
Net cash flows used in financing activities		596,712	219,935
Net increase/(decrease) in cash and cash equivalents		392,528	21,887
Cash and cash equivalents at beginning of year		218,801	196,914
Cash and cash equivalents at end of the year	9	611,329	218,801

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Note	Issued Capital $	Accumulated Losses $	Total Equity $
At 1 JULY 2015		**18,246,735**	**(16,535,014)**	**1,711,721**
Loss for the year		-	(2,028,841)	(2,028,841)
Other Comprehensive loss		-	-	-
Total Comprehensive loss		-	(2,028,841)	(2,028,841)
Issue of share capital	15	232,961	-	232,961
Share Issue Costs	15	(13,027)	-	(13,027)
Share Based Payments	15	289,787	-	289,787
At 30 JUNE 2016		**18,756,456**	**(18,563,855)**	**192,601**
Loss for the year		-	(231,131)	(231,131)
Other Comprehensive loss		-	-	-
Total Comprehensive loss		-	(231,131)	(231,131)
Issue of share capital for cash	15	600,000	-	600,000
Share Issue Costs	15	(38,288)	-	(38,288)
Issue of share capital in lieu of costs	15	99,000	-	99,000
At 30 JUNE 2017		**19,417,168**	**(18,794,986)**	**622,182**

The accompanying notes for part of these financial statements.

Note to the Consolidated Financial Statements

1 CORPORATE INFORMATION

Spectrum Rare Earths Limited (the "Company") is a company domiciled in Australia. The Company's registered office is Suite 1, 827 Beaufort Street, Mt. Lawley WA.

The financial report of the Group comprising Spectrum Rare Earths Limited and its wholly owned subsidiary for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 27th September, 2017.

Spectrum Rare Earths Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The Company's principal activity is exploration and extraction of mineral resources.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and applicable Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

The financial report complies with Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

(b) Going Concern

The financial statements have been prepared on a going concern basis which assumes the settlement of liabilities and the realisation of assets in the normal course of business.

The Group has incurred a loss for the year of $231,131 (2016: $2,028,841) and experienced net cash outflows from operating and investing activities of $204,184 (2016: $198,048). As at 30 June 2017, the Group had cash and cash equivalents of $611,329 (2016: $218,801).

Whilst not immediately required, the Group may need to raise additional funds to meet its ongoing obligations and subject to the results of its ongoing exploration activities, expand or accelerate its work programs.

The Group's capacity to raise additional funds will be impacted by the success of the ongoing exploration activities and market conditions. Additional sources of funding available to the Group include a capital raising via preferential issues to existing shareholders, placements to new and existing investors.

If necessary the directors can also institute cost saving measures to further reduce corporate and administrative costs.

The Directors have reviewed the Group's overall financial position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group has sufficient funds available for at least the next 12 months and when required will be able to raise further funding via the methods set out above.

(c) New accounting standards and interpretations

In the year ended 30 June 2017, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

A number of new standards, amendments to standards and interpretations are effective for annual reporting periods beginning after 1 July 2017, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the Group.

The Group does not plan to adopt any standards early and the extent of the impact has not been determined.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

New Standards and Interpretations Not Yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are not yet effective and have not been applied in preparing this financial report.

- AASB 9 Financial Instruments includes revised guidance on the classification and measurement requirements of financial liabilities and assets, including a new expected credit loss model for calculating impairment, and general hedge accounting requirements. AASB 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The adoption of AASB 9 is not expected to have a material impact on the Group's financial assets or financial liabilities.
- AASB 15 Revenue from Contracts with Customers provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided for determining whether, how much and when revenue is recognised. New disclosures about revenue are also introduced. AASB 15 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The impact on the Group's revenue recognition of the adoption of AASB 15 is not expected to have a material impact.
- AASB 16 Leases provides a new lessee accounting model requiring the recognition of assets and liabilities for all leases with a term greater than 12 months, unless the underlying asset is of low value. It requires the lessee to recognise a right-of-use asset, representing the rights to use the underlying lease asset and a lease liability representing the obligation of lease payments. AASB 16 is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The impact on the Group's financial assets and financial liabilities of the adoption of AASB 16 has yet to be determined and will depend upon the leases in place on transition.
- AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions. The standard makes amendments to AASB 2 Share-based Payment. The amendments address the accounting for the effects of vesting and non-vesting conditions and the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled, is effective for annual reporting periods beginning on or after 1 January 2018 and it is not expected that this will have a significant impact on the consolidated financial statements.

(d) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Plant and equipment - over 5 to 15 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(e) Exploration, evaluation and development expenditure

Exploration and evaluation costs are capitalised as incurred. Expenditure is accumulated in respect of each separate area of interest. Acquisition, exploration, evaluation and development costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through the sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated expenditure in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated expenditure written off to the extent that it is considered to be unrecoverable in the future. Amortisation is not charged on expenditures carried forward in respect of areas of interest in the development phase until

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

production commences. Costs incurred before the Company has obtained the legal rights to explore are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

(f) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets (see accounting policy 2(p)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Provision for impairment is made when collection of the full amount is no longer probable. Bad debts are written off when identified. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principle payments or the probability that they will enter bankruptcy or other financial reorganisation.

(h) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

Other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

(i) Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

(k) Employee benefits

Short-term employee benefits:

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Other long-term employee benefits:

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on Corporate bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Defined contribution superannuation benefits:

All employees of the Group, located in Australia receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution (currently 9.50% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position.

(l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Note to the Consolidated Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(m) Share-based payment transactions

The cost of the options granted to employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/ or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 7).

(n) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the statement of profit and loss and other comprehensive income on a straight-line basis over the lease term.

(o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Interest:

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(p) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax:

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Profit and Loss and Other Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Consolidated Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax:

Deferred income tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of profit and loss and other comprehensive income.

Other taxes:

Revenues, expenses and assets are recognised net of the amount of GST except:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

(q) Operating Segments

AASB 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Spectrum Rare Earths Limited has only one operation, exploration for minerals, consequently the Group does not report segmented operations.

(r) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Group and Entities (including special purpose entities) controlled by the Group (its subsidiaries). The parent controls an entity when it 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 over the entity. A list of the subsidiaries is provided in note 21.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the group controls another entity.

Unrealised gains or transactions between the group and its associates are eliminated to the extent of the group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital Management:

The Board's objective when managing capital is to maintain a strong capital base so as to safeguard the Group's ability to continue as a going concern. The management of the Group's capital is performed by the Board.

There were no changes in the Group's approach to capital management during the year.

Financial Instruments:

The Group's financial instruments include cash, short-term deposits, trade debtors and trade creditors, which are disclosed in the accompanying notes.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk:

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's cash and cash equivalents.

The Group's policy is to manage its interest risk by having monies on deposits varying in maturity.

Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from cash and cash equivalents and trade and other receivables.

There are no significant concentrations of credit risk within the Group. The carrying amount of the Group's financial assets represents the maximum credit risk exposure, as represented as follows:

	2017	**2016**
	$	**$**
Cash and cash equivalents	611,329	218,801
Trade and other receivables	14,225	27,836
	625,554	246,637

Risk Exposures and Responses

Liquidity Risk:

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables detail the maturities and interest rate risk for the Group's financial instruments. The tables have been drawn up based on the undiscounted cash flows of the financial instruments based on the earliest date on which the Group can be required to pay or call on the financial instrument. The following tables also include the weighted average effective interest rate for each financial instrument subject to interest rate risk.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES ***(Cont'd)***

Year ended 30 June 2017	Weighted average effective interest rate %	Less than 1 month $	1-3 months $	Total $
Financial Assets				
Interest Bearing				
Cash and cash equivalents	0.72	611,329	-	611,329
Non-Interest Bearing				
Trade and other receivables	-	14,225	-	14,225
Total Financial Assets		625,554		625,554
Financial Liabilities				
Non-Interest Bearing				
Trade and other payables	-	35,738	-	35,738
Total Financial Liabilities		35,738	-	35,738
Net Financial Assets		589,816	-	589,816

Year ended 30 June 2016	Weighted average effective interest rate %	Less than 1 month $	1-3 months $	Total $
Financial Assets				
Interest Bearing				
Cash and cash equivalents	0.76	218,801	-	218,801
Non-Interest Bearing				
Trade and other receivables	-	27,836	-	27,836
Total Financial Assets		246,637	-	246,637
Financial Liabilities				
Non-Interest Bearing				
Trade and other payables	-	28,887	123,309	152,196
Total Financial Liabilities		28,887	123,309	152,196
Net Financial Assets		217,750	(123,309)	94,441

Fair value:

The fair value of assets and liabilities are approximate to their carrying amounts.

Interest rate sensitivity:

A sensitivity of 2 per cent has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates. A 2% movement in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant:

	Profit or loss		**Equity**	
	2% increase	**2% decrease**	**2% increase**	**2% decrease**
2017: Cash and cash equivalents	12,226	(12,226)	12,226	(12,226)
2016: Cash and cash equivalents	4,376	(4,376)	4,376	(4,376)

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and assumptions:

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting year are:

Exploration and evaluation expenditure

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policy (refer note 2(e)), requires estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to ore reserves, the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under accounting policy 2(e), a judgement is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the statement of profit and loss and other comprehensive income in accordance with accounting policy 2(f).

As at 30 June, 2017, there was no capitalised exploration and evaluation as the Group only had one application for a tenement not yet granted (2016: $Nil).

5 INCOME AND EXPENSES

	2017 $	2016 $
(a) Finance income		
Bank interest receivable	1,974	2,957
Total finance income	1,974	2,957
(b) Depreciation expense		
Depreciation	3,870	43,908
(c) Impairment expense		
Impairment of capitalised exploration and evaluation expenditure (note 12)	-	1,660,165
Reversal of impairment loss of plant & equipment (note 13)	-	(24,863)
(d) Operating Lease expenditure		
Rent – Core Facilities	-	6,550
(e) Loss on disposal of Plant and Equipment		
Loss on disposal and sale of assets	-	14,757

6 INCOME TAX

Major components of income tax expense for the years ended 30 June 2017 and 2016 are:	2017 $	2016 $
Current income tax charge	-	-
Deferred Income tax expense	-	-
Income tax expense/(benefit)	-	-

A reconciliation of income tax expense/(benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2017 and 2016 is as follows:

Loss before income tax	(231,131)	(2,203,732)
At the statutory income tax rate of 27.5% (2016: 30%)	(63,561)	(661,120)
Add non-deductible expenses:		
Impairment expenses on capitalised exploration and fixed assets	-	489,569
	(63,561)	(171,551)
Tax Losses and Timing Differences not recognised	63,561	171,551
Income tax (benefit)/expense	-	-

Unrecognised deferred tax assets at 30 June relate to the following:

Deferred income tax assets at 27.5% (2016:30%):		
Insurance premiums	1,715	1,646
Share Issue Costs	13,983	3,908
Accrued expenses	7,477	-
Subsidiary Formation expenses	-	53
R&D tax offset	-	29,131
Unused Tax Losses	4,823,270	5,144,819
Total Deferred income tax assets	4,846,445	5,179,557

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not possible at this stage of exploration to explicitly confirm the probability that future taxable profit will be available against which the Company can utilise these benefits.

7 LOSS PER SHARE

Basic loss per share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the loss and share data used in the total operations basic losses per share computations:	2017 $	2016 $
Net loss attributable to equity holders from continuing operations	(231,131)	(2,028,841)
Net loss attributable to ordinary shareholders for diluted loss per share	(231,131)	(2,028,841)
	Number	**Number**
Weighted average number of ordinary shares for basic loss per share	349,529,338	267,303,126
Adjusted weighted average number of ordinary shares for diluted loss per share	349,529,338	267,303,126

There is no dilution from the outstanding options as the Group is making a loss.

8 DIVIDENDS PAID AND PROPOSED

No dividends have been paid or proposed (2016: $Nil).

9 CASH AND CASH EQUIVALENTS

	2017 $	2016 $
Cash at bank and in hand	611,329	218,801
	611,329	218,801

	2017 $	2016 $
Reconciliation from the net loss after tax to the net cash flows from operations:		
Net Loss	(231,131)	(2,028,841)
Adjustments for:		
Depreciation	3,870	43,908
Exploration and evaluation expenditure	8,580	-
Impairment of capitalised exploration and evaluation expenditure	-	1,660,165
Reversal of impairment loss of plant & equipment	-	(24,863)
Provision for non-recovery of tenement security bonds	62,674	35,908
Interest received	(1,974)	(2,957)
Gain on settlement of directors' fees	(16,000)	-
Loss from sale of assets	-	6,086
Loss from disposal of assets	-	8,672
Changes in assets and liabilities:		
(increase)/decrease in trade and other receivables	13,611	18,889
(increase)/decrease in prepayments	(750)	9,441
(decrease)/increase in trade and other payables	(36,135)	163,743
Net cash from operating activities	(197,255)	(109,850)

10 TRADE AND OTHER RECEIVABLES (CURRENT)

	2017 $	2016 $
GST Refund	14,225	3,434
Trade receivables	-	24,402
	14,225	27,836

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

11 OTHER ASSETS

	2017 $	2016 $
Current		
Prepayments	6,236	5,486
Security bonds (i)	-	62,674
	6,236	68,160
(i) Security deposits		
Balance at the beginning of year	62,674	-
Transfer from non-current asset	-	109,313
Refund of bonds received	-	(10,731)
Provision for non-recovery	(62,674)	(35,908)
Balance at the end of the year	-	62,674

11 OTHER ASSETS *(Cont'd)*

The Company is pursuing two remaining security bonds relating to tenements operated in the Northern Territory, it is however unsure of when or in what amount or timing the bonds might be realised and has resolved to provide for their non-recovery.

12 EXPLORATION AND EVALUATION EXPENDITURE

The following table is a reconciliation of movements in exploration and evaluation expenditure during the year.

	2017 $	2016 $
Reconciliation:		
Balance at the beginning of year	-	1,559,108
Additions	-	101,057
Net Impairment (expenditure written off)	-	(1,660,165)
Balance at the end of the year	-	-

13 PLANT AND EQUIPMENT

Plant & Equipment:	2017 $	2016 $
At 1 July,		
Net of accumulated depreciation	30,000	120,000
Reversal of impairment loss recognised in profit or loss	-	24,863
Disposals	-	(70,955)
Depreciation charge for the year	(3,870)	(43,908)
At 30 June,		
Net of accumulated depreciation	26,130	30,000
At 30 June:		
Cost	338,727	338,727
Accumulated depreciation	(178,931)	(175,061)
Impairment loss recognised in profit or loss	(133,666)	(133,666)
Net carrying amount	26,130	30,000

14 TRADE AND OTHER PAYABLES (CURRENT)

	2017 $	2016 $
Trade payables – Operating Expenses	35,738	20,436
Trade payables – Exploration & Evaluation Expenditure	-	8,451
Trade payables – Accrued Directors' Remuneration	-	123,309
	35,738	152,196

Trade payables are non-interest bearing and are normally settled on 30-day terms. Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value. Please refer to note 18 for details of Related Party terms and conditions.

15 ISSUED CAPITAL AND RESERVES	2017 $	2017 No. of shares	2016 $	2016 No. of shares
Ordinary Shares:				
Issued and fully paid	19,433,168	480,404,406	18,756,456	307,404,406
Movement in ordinary shares on the issue:				
At 1 July	18,756,456	307,404,406	18,246,735	176,717,198
Issue of shares for cash	600,000	150,000,000	-	-
Issue of shares in settlement of directors' fees	64,000	16,000,000		
Issue of shares in lieu of costs	35,000	7,000,000	-	-
Costs of capital raised	(38,288)	-	(13,027)	-
Issue of shares for cash	-	-	289,787	72,446,835
Issue of shares for cash	-	-	232,961	58,240,373
At 30 June	19,417,168	480,404,406	18,756,456	307,404,406

The shares do not have a par value.

During the 2017 financial year the following events affected the Company's issued capital:

1. 16,000,000 shares were issued to settle related parties for Directors' Fees of $80,000, fair value of the shares issued was $64,000 resulting in a gain of $16,000 recognised in profit or loss and other comprehensive income.
2. 7,000,000 shares were issued to settle consulting fees of $35,000.
3. A Placement Issue of 150,000,000 shares was completed at a price of $0.004 per share.

No options were granted during the year ending 30 June 2017.

16 COMMITMENTS

Tenement commitments:

The Company currently has one application for a tenement that has not yet been granted. The minimum expenditure on this application, if granted, is estimated to be $20,000 per annum. The timing of the granting of this tenement is unknown and will vary significantly depending on native title meetings.

The commitments contracted for at reporting date, but not provided for:	2017 $	2016 $
Within one year:		
- Exploration Licences (granted)	-	40,000
- Exploration Licence Applications (not granted)	20,000	86,000
After one year but not more than five years:		
- Exploration Licences (granted)	-	40,000
- Exploration Licence Applications (not granted)	20,000	86,000
	40,000	252,000

Other than the above, the Directors of Spectrum Rare Earths Limited consider that there are no other material contingencies or commitments outstanding as at 30 June, 2017.

17 CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities at 30 June 2017 (2016: Nil).

18 RELATED PARTY DISCLOSURE

(a) Remuneration of Key Management Personnel

Components of key management personnel compensation included in 'directors' remuneration' is as follows:	2017 $	2016 $
Short-term employee benefits	86,556	144,147
Fees for other services provided	42,500	35,000
Post-employment benefits	3,325	3,800
Total compensation included in directors' remuneration	132,381	182,947
Components of key management personnel compensation	132,381	182,947
Reconciliation to total recorded Profit or Loss 'directors' remuneration expense':		
Reversal of prior year accrued fees forgiven	(54,866)	-
	77,515	182,947

(b) Key Management Personnel Transactions

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year exclusive of GST:

Related Party	Year	Purchases from related parties $	Sales to related parties $	Amount owed by related parties $	Amounts owed to related parties $
A J Moyle & Associates Pty Ltd	2017	2,000	-	-	-
	2016	35,000	-	-	-
Boden Corporate Services Pty Ltd	2017	40,500	-	-	-
	2016	53,438	-	-	2,386
King River Copper Ltd	2017	-	-	-	-
	2016	-	36,818	-	-

Related party payables are non-interest bearing and are normally settled on 30-day terms.

A J Moyle & Associates Pty Ltd

The Company has entered into an agreement with A J Moyle & Associates, a company related to Mr Alexander Moyle, for the provision of geological consulting services.

Boden Corporate Services Pty Ltd

The Company engaged the services of Boden Corporate Services, a company related to Mr Graeme Boden, for the provision of company secretarial and accounting services where fees charged were in accordance with normal charge out rates for Mr Boden and other employees of the service company. Mr Boden resigned as Company Secretary on 31 July 2017.

Other

In the prior year, King River Copper Ltd, a company related to Mr Anthony Barton and Mr Leonid Charuckyj, agreed to purchase various fixed assets held by the company which have been in storage since November 2014. The purchase of these assets was overseen by independent director Mr Alexander Moyle.

(c) Settlement of directors' fees

The Directors agreed to the settlement of previous directors' fees of $80,000 through the issue of 16,000,000 ordinary shares with a fair value of $64,000, resulting in a gain of $16,000.

Note to the Consolidated Financial Statements

19 SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group, in future financial years.

20 AUDITORS' REMUNERATION

	2017 $	2016 $
Amounts received or due and receivable for:		
Audit of the financial report – KPMG (2016: William Buck Audit (WA) Pty Ltd)	24,000	14,000
Half-year review – William Buck Audit (WA) Pty Ltd	7,500	7,400
	31,500	21,400

21 SUBSIDIARIES

Details of the Group's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 30 June 2017	30 June 2016
Zebra Minerals Pty Ltd	Mining	Australia	100%	-

i) Spectrum Rare Earths Limited is the head entity.

22 PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements with the exception of investments in subsidiaries.

	2017 $	2016 $
Financial performance:		
Loss for the year	(226,748)	(2,467,941)
Other Comprehensive Income	-	-
Total Comprehensive Income / Loss for the year	(226,748)	(2,467,941)
Financial position:		
ASSETS		
Current Assets	631,790	314,797
Non-Current Assets	30,513	30,001
TOTAL ASSETS	662,303	344,797
LIABILITIES		
Current Liabilities	35,738	152,196
Non-Current Liabilities	-	-
TOTAL LIABILITIES	35,738	152,196
EQUITY		
Issued capital	19,417,168	18,756,456
Retained earnings	(18,790,603)	(18,563,855)
TOTAL EQUITY	626,565	192,601

Directors' Declaration

In accordance with a resolution of the directors of Spectrum Rare Earths Limited, I state that:

In the opinion of the Directors of Spectrum Rare Earths Limited ('the Company'):

(a) the consolidated financial statements and notes and the remuneration report in the Directors' report, are 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 2017 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and
- (iii) the financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 2 to the financial statements.

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given a declaration required by section 295A of the Corporations Act 2001 for the financial year ended 30 June, 2017 by the CEO and Company Secretary.

On behalf of the Board

Alex Hewlett
Chairman
28 September, 2017

KPMG

Independent Auditor's Report

To the shareholders of Spectrum Rare Earths Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Spectrum Rare Earths Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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.

This matter was 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 this matter.

<table>
<tr><th colspan="2">Going Concern basis of accounting</th></tr>
<tr><td colspan="2">Refer to Note 2(b) of the Financial Report</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required by us in evaluating the Group's assessment of going concern and the events or conditions that may cast significant doubt on their ability to continue as a going concern. These are outlined in Note 2(b).
The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and significant judgements, and the Directors have concluded that the range of possible outcomes considered in arriving at these judgements does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.
We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern, within these assumptions and judgements, focusing on the following:

The Group's planned levels of operational and exploration expenditures, and the ability of the Group to manage cash outflows within available funding, and
The Group's ability to raise additional funds from shareholders or other parties and the projected timing thereof.

In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and the economic environment it operates in.
</td><td>
Our procedures included:

We analysed the cash flow projections by:

Evaluating the underlying data used to generate the projections. We specifically looked for their consistency with those used by the Directors, and tested by us, their consistency with the Group's intentions, as outlined in Directors minutes, ASX announcements and their comparability to past practices;
Analysing the impact of reasonably possible changes in projected cash flows and their timing, to the projected periodic cash positions. Assessing the resultant impact to the ability of the Group to pay debts as and when they fall due and continue as a going concern. The specific area we focused on related to the timing and extent of forecast cash outflows; and
Assessing the planned levels of operating and exploration expenditures for consistency of relationships and trends to the Group's historical results and our understanding of the business, industry and economic conditions of the Group

We evaluated the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements.

</td></tr>
</table>

Other Information

Other Information is financial and non-financial information in Spectrum Rare Earths Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Spectrum Rare Earths Limited for the year ended 30 June 2017, complies with *Section 300A of the Corporations Act 2001*.

Directors' 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 responsibilities

We have audited the Remuneration Report included in section 13 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG.

KPMG

R Gambitta
Partner

Perth

28 September 2017

ASX Additional Information

Quoted Securities

The security holders' information set out below was applicable as at 13 September, 2017.

(i) Distribution of Security Numbers

	Ordinary Shares	
Category (size of holding)	**Shareholders**	**Shares**
1 – 1,000	35	6,379
1,001 – 5,000	20	56,534
5,001 – 10,000	21	178,932
10,001 – 100,000	160	10,080,644
100,001 and over	233	470,081,917
Total	**469**	**480,404,406**

There are 157 shareholders holding less than a marketable parcel at a price of $0.007, totalling 3,109,913 shares.

(ii) Voting Rights

On a show of hands every person present who is a member or a proxy, attorney or representative of a member has one vote and upon a poll every person present who is a member or a proxy, attorney or representative of a member shall have one vote for each share held. There are no voting rights attached to the quoted options.

(iii) Twenty Largest Security Holders

The names of the twenty largest holders of ordinary shares are listed below:

Name	Number of Ordinary Shares	% of Issued Capital
WIDETOP MINING INVESTMENTS PTY LTD	46,709,750	9.72
UNIVERSAL OIL AUSTRALIA PTY LTD	30,444,250	6.34
LEONID CHARUCKYJ	26,155,000	5.44
MONSLIT PTY LTD	16,500,000	3.43
IAN M P + C S PARKER	15,499,920	3.23
MAINVIEW HOLDINGS PTY LTD	15,000,000	3.12
GASMERE PTY LTD	12,500,000	2.60
ROCK THE POLO PTY LTD	12,500,000	2.60
BLU BONE PTY LTD	12,500,000	2.60
KOBIA HOLDINGS PTY LTD	12,500,000	2.60
EDWIN POPE	11,250,000	2.34
GREGORY NELLIGAN	10,500,000	2.19
AUST HERITAGE GROUP PTY LTD	10,038,588	2.09
GREATSIDE HOLDINGS PTY LTD	9,500,000	1.98
STANLEY RESOURCES PTY LTD	8,287,500	1.73
MAZZA RESOURCES PTY LTD	7,500,000	1.56
K2 ADVISORY PARTNERS PTY LTD	7,000,000	1.46
STONE PONEYS NOMINESS PTY LTD	6,875,000	1.43
AUSTRALIAN HERITAGE GROUP PTY LTD	6,581,352	1.37
MATTHEW IAN + SE BANKS	6,250,000	1.30
Total	**284,091,360**	**59.13**

(iv) Substantial Shareholders

The names of the substantial shareholders listed in the Company's share register as at 13 September, 2017 were:

Name	Number of Ordinary Shares	% of Issued Capital
Anthony Barton and Associates	58,923,312	12.27
Widetop Mining Investment Pty Ltd	46,709,750	9.72
Anthony Torresan Group of Companies	28,500,000	5.93
Leonid Charuckyj	26,155,000	5.44

(v) On market buy back

There is no on-market buy-back scheme in operation for the Company's listed shares.

(vi) Mining Tenements

The Company has made application for E 08/2924 covering 38.2km2 and host to prospective mineralised Banded Iron Formation ("BIF") approximately 40km east of Onslow, Western Australia.