



kre

KIMBERLEY
RARE
EARTHS



ANNUAL REPORT 2011

CORPORATE DIRECTORY

COMPANY DIRECTORS

Ian Macpherson Non-Executive Chairman
Tim Dobson Managing Director
Allan Trench Non-Executive Director
Gerry Kaczmarek Non-Executive Director
Peter Rowe Non-Executive Director

COMPANY SECRETARY

Darren Crawte

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COMPANY FOCUS

A NEW RARE EARTHS COMPANY BUILT ON SOLID FOUNDATIONS

KRE listed on the Australian Securities Exchange (ASX:KRE) on the 18th May 2011 with solid foundations for rapid growth within the fast emerging rare earths industry.

RESOURCES

KRE is focused on rare earths and has the right to earn up to 80% of the Cummins Range rare earths project located in the East Kimberley region of Western Australia. KRE also recently negotiated the right to earn up to 90% of the Malilongue rare earths project in Mozambique, an exciting grass roots heavy rare earth project. The Company's heavily over-subscribed IPO provided a strong cash position from which to commence development of these projects.

CORPORATE

KRE has entered the market with an effective and well-composed Board of Directors, and a motivated Management Team with the depth and experience required to deliver complex mining projects. The Company has established an exploration and project development office in West Perth. From the outset, KRE is embedding a healthy and successful business culture throughout the business based on the core values of the Company, which reflect the core values of the Board and Management Team.

STRATEGY

The strategic aims of the Company were defined in the April 2011 IPO Prospectus:

1. Create Shareholder value by materially advancing the scale, geological and metallurgical understanding of the Cummins Range rare earths deposit.
2. Build the value of the Project by undertaking metallurgical test work studies targeting the test-scale production of rare earth metal concentrates.
3. Assess and, if warranted, acquire other rare earths projects that have potential to add value to the Company.

The Company has since implemented a strategic planning process, generating a business plan and budget to achieve these aims, and defining a pathway to production for the Cummins Range project.

CHAIRMAN'S LETTER TO SHAREHOLDERS



It is with pleasure that I present to you this inaugural...

ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDING 30 JUNE 2011

Dear KRE Shareholder,

It has been an extraordinary year in rare earths, with the market sector exaggerating the highs and lows of the wider resources sector, which has in turn amplified the wider instability of equity markets both in Australia and globally.

Despite this volatility, the rare earth market fundamentals remain robust, both in the short term, and the medium to long term. China's well communicated strategy to regulate its own rare earths industry and scale back rare earth exports has been energetically implemented, and continues to raise concerns about global supply on a near weekly basis. Conversely, global demand for rare earth products continues to escalate as the world tackles climate change with clean energy technologies, and the world's consumer class rises dramatically with an ever increasing appetite for modern technologies.

It is into this environment that KRE was brought to the market with a mandate to develop the Cummins Range rare earths resource. With an enviable cash position compared with many of our peers, the Company has moved swiftly to establish a quality management team, office premises in West Perth, and has committed to a business plan that addresses all three components of the strategic aims listed in our IPO prospectus.

Under the leadership of Managing Director Tim Dobson, the Company has already commenced a range of exploration and resource development activities at Cummins Range, and RC drilling is now well underway both within the current deposit and at a host of newly identified targets within the Cummins Range carbonatite.

Additionally, the Company has moved to secure its second rare earths property, the Malilongue project in Mozambique. This property has demonstrated significant indications of 'heavy' rare earths mineralisation, providing a balanced focus for KRE's project team against the 'light' rare earth emphasis at Cummins Range.

In all, the Company has commenced strongly and in alignment with our IPO mandate. I compliment the Board and Management for a professional and impressive start to KRE – a specialist rare earths company with a healthy future

A handwritten signature in black ink, appearing to read 'I. Macpherson', with a long horizontal flourish extending to the right.

IAN MACPHERSON

Chairman

Kimberley Rare Earths Ltd

AN OVERVIEW OF RARE EARTHS

WHAT ARE RARE EARTHS?

The name “rare earths” is a chemical term that refers to a group of elements on the periodic table. The term can be misleading in that the elements are neither rare - just rarely concentrated in the earth’s crust, nor ‘earths’ - they are metals.

The rare earth group of metals consist of the fifteen lanthanide elements and two elements with similar chemical characteristics, yttrium and scandium. The elements are typically characterised as being either “light” rare earth elements (LREE) or “heavy” rare earth elements (HREE), based primarily on their atomic number and other properties, though Samarium, Europium, and Gadolinium are sometimes characterised as “medium” rare earths.

The Periodic Table of the Elements

hydrogen 1 H 1.0079																	helium 2 He 4.0026																												
lithium 3 Li 6.941	beryllium 4 Be 9.0122											boron 5 B 10.811	carbon 6 C 12.011	nitrogen 7 N 14.007	oxygen 8 O 15.999	fluorine 9 F 18.998	neon 10 Ne 20.180																												
sodium 11 Na 22.990	magnesium 12 Mg 24.305											aluminium 13 Al 26.982	silicon 14 Si 28.086	phosphorus 15 P 30.974	sulfur 16 S 32.065	chlorine 17 Cl 35.453	argon 18 Ar 39.948																												
potassium 19 K 39.098	calcium 20 Ca 40.078	scandium 21 Sc 44.956	titanium 22 Ti 47.867	vanadium 23 V 50.942	chromium 24 Cr 51.996	manganese 25 Mn 54.938	iron 26 Fe 55.845	cobalt 27 Co 58.933	nickel 28 Ni 58.693	copper 29 Cu 63.546	zinc 30 Zn 65.38	gallium 31 Ga 69.723	germanium 32 Ge 72.64	arsenic 33 As 74.922	selenium 34 Se 78.96	bromine 35 Br 79.904	krypton 36 Kr 83.798																												
rubidium 37 Rb 85.468	strontium 38 Sr 87.62	yttrium 39 Y 88.906	zirconium 40 Zr 91.224	niobium 41 Nb 92.906	molybdenum 42 Mo 95.96	technetium 43 Tc [98]	ruthenium 44 Ru 101.07	rhodium 45 Rh 102.91	palladium 46 Pd 106.42	silver 47 Ag 107.87	cadmium 48 Cd 112.41	indium 49 In 114.82	tin 50 Sn 118.71	antimony 51 Sb 121.76	tellurium 52 Te 127.60	iodine 53 I 126.90	xenon 54 Xe 131.29																												
caesium 55 Cs 132.91	barium 56 Ba 137.33	lanthanum 57-70 La 174.97	hafnium 72 Hf 178.49	tantalum 73 Ta 180.95	tungsten 74 W 183.84	rhenium 75 Re 186.21	osmium 76 Os 190.23	iridium 77 Ir 192.22	platinum 78 Pt 195.08	gold 79 Au 196.97	mercury 80 Hg 200.59	thallium 81 Tl 204.38	lead 82 Pb 207.2	bismuth 83 Bi 208.98	polonium 84 Po [209]	astatine 85 At [210]	radon 86 Rn [222]																												
francium 87 Fr [223]	radium 88 Ra [226]	actinium 89-102 Ac [227]	rutherfordium 104 Rf [261]	dubnium 105 Db [262]	seaborgium 106 Sg [266]	bohrium 107 Bh [264]	hassium 108 Hs [277]	meitnerium 109 Mt [268]	darmstadtium 110 Ds [271]	roentgenium 111 Rg [272]																																			
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ENDOWED WITH UNIQUE PROPERTIES

The rare earth elements possess distinct physical and chemical properties, including strong magnetic properties, a high refractive index, high conductivity, and the ability to store hydrogen and oxygen efficiently.

These exclusive qualities of rare earth metals make them uniquely suited for numerous modern applications in advanced technologies such as computers, environmental and energy-saving technology, communications, transportation, and defence. While rare earths are often only needed in very small quantities in any particular application, they are essential to the functioning of the end product.

Moreover, due to their unique properties, there are often few if any available substitutes for the rare earth elements in a given application, and developing an alternative often requires re-engineering of the end product and years of research and development. The same can be true for substitutions among the rare earth elements, due to significant variation within the group. Some elements uniquely suited for certain applications and other elements essential to different applications.

AN OVERVIEW OF RARE EARTHS

ENABLERS OF MODERN LIVING

Recently headlined in a National Geographic magazine article as “the secret ingredients of everything”, the list of things that now contain rare earths is almost endless.

The uses of rare earths can be broken down into two broad categories:

PROCESS ENABLERS - High volume of primarily LREEs used.

- **FLUID CRACKING CATALYSTS (FCCS)** - these are materials used in the petroleum-refining industry, to convert heavy crude oil into petrol and other valuable product. Lanthanum and Cerium are added to the catalytic compounds, to take advantage of their ability to interact with the hydrogen atoms found in the long-chain hydrocarbon molecules in the starting raw material. This interaction aids in the transformation of the crude oil into useful petroleum products.
- **AUTOMOTIVE CATALYTIC CONVERTORS** - modern vehicles use catalytic convertors to reduce the emission of pollutants that result from the internal combustion process. Cerium oxide (CeO_2) is the primary rare-earth compound used in this process, usually in conjunction with platinum-group metals.
- **POLISHING MEDIA** - significant amounts of CeO_2 (with some La_2O_3 and Nd_2O_3) are utilised in the polishing of glass, mirrors, TV screens, computer displays and the wafers used to produce silicon chips. When used in a fine powder form, these rare earth oxides react with the surface of the glass to form a softer layer (the so-called ‘mechanochemical’ effect), thus making it easier to polish the surface to a high-quality finish.

TECHNOLOGY BUILDING BLOCKS - Specialised applications, LREEs and HREEs used.

- **PERMANENT MAGNETS** - Perhaps the most exciting use of REEs, rare earth permanent magnets (only developed in the 1980s) are around 12 times more powerful than conventional magnets and weigh less, and are one reason why so many electronic devices have been able to be miniaturised. At the same time, these magnets are able to strongly resist being demagnetized when exposed to other magnetic fields, or to increases in temperature. These characteristics have revolutionised magnetics design in recent years, most notably in the production of high-performance electric motors, which convert

electricity into mechanical motion, and electric generators, which, operating in reverse, converting mechanical motion into electricity.

Permanent-magnet motors (PMMs) and generators (PMGs) are used in, for example, Prius-class hybrid electric vehicles (HEVs), to power the vehicle as well as to recapture energy associated with braking, respectively. PMGs are also used in megawatt-scale, next-generation wind turbines, as a means of eliminating massive mechanical gearboxes and other components which are subject to reliability issues.

In addition to being able to produce such electrical machines with higher efficiencies and greater performance, rare-earth permanent-magnet (REPM) materials have made it possible to miniaturise motors, loudspeakers, hard-disk drives, cordless power tools and other applications that use permanent magnets to operate, while maintaining the same or better output characteristics as other technologies.

- **ENERGY STORAGE** - compounds of lanthanum (a LREE) and nickel are used to produce battery cells for energy storage (“nickel metal hydride” batteries where the ‘metal’ is lanthanum) where the technology is particularly suitable for rechargeable-battery applications. Although recent developments in battery cells that utilise lithium ion technology are gaining ground in certain applications, nickel metal hydride batteries are still a very cost effective and reliable method of storing electricity for applications including Prius-class HEV battery packs (which use an estimated 2.3 kg of lanthanum per vehicle for this application) and others.



AN OVERVIEW OF RARE EARTHS

- **PHOSPHORS** - phosphor materials emit light after being exposed to electrons or ultraviolet (UV) radiation. Liquid crystal displays (LCDs) and plasma screen displays, light-emitting diodes (LEDs) and compact fluorescent lamps (CFLs) all utilise such materials. Compounds containing europium, yttrium and terbium are frequently used to produce phosphors, and are fine-tuned for particular colour outputs. Since much more of the electrical energy is converted into light than with conventional light sources, phosphor materials are significantly more energy efficient than older technologies and are a crucial “green” technology in climate change response.
- **GLASS ADDITIVES** - cerium and lanthanum (both LREEs) are used as additives in the glass industry for a variety of purposes. They are used to remove undesirable coloration in commercial glass by reducing the effects of the presence of iron within the material. They are also used to reduce UV light penetration, thus protecting the interiors of vehicles and other materials from degradation over time. They can also be used to increase the refractive index of glass lenses.



AN OVERVIEW OF RARE EARTHS

A RAPIDLY CHANGING MARKET WITH LONG TERM STRENGTH

A relatively small market in metal trading terms (2010 global consumption of rare earth oxides was around 120,000 tonnes), the rare earths market has recently entered a period of undersupply due to soaring demand fuelled by modern technology consumption.

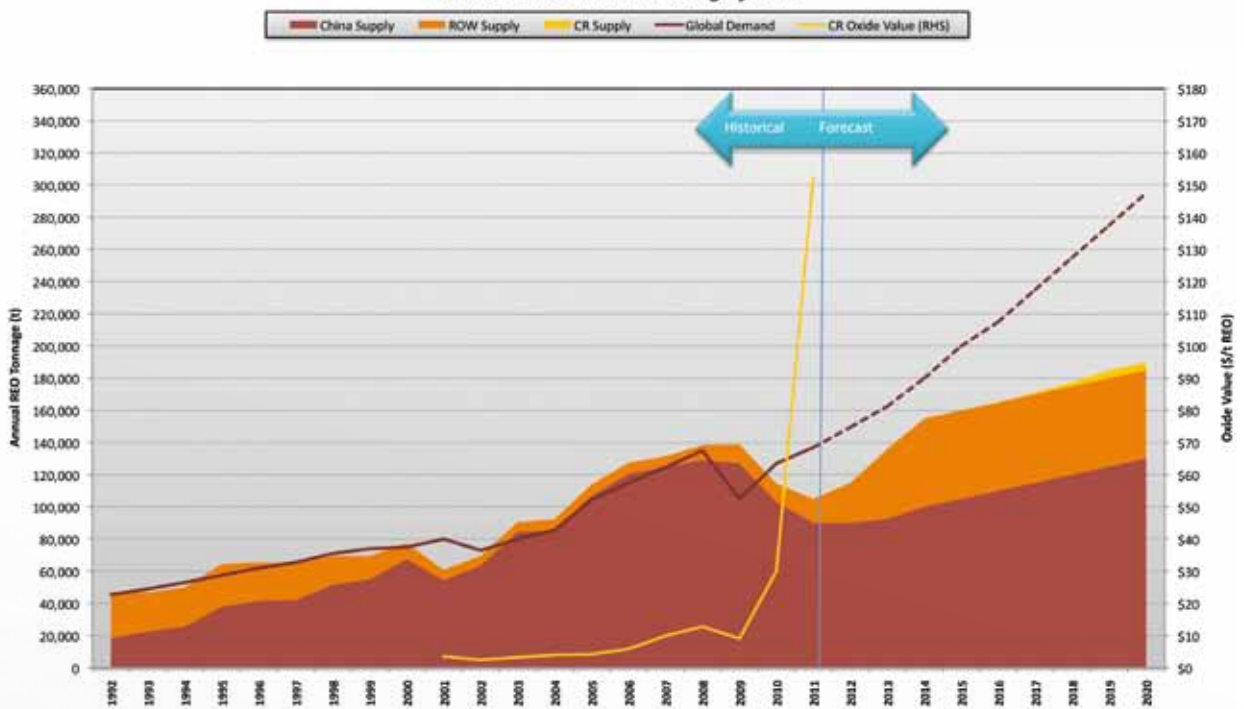
Until recently, China has easily and cheaply produced 97% of the world's needs for rare earths, one reason why rare earths is not a household name in countries outside of China. However, the rapid growth in rare earth product driven technologies has been matched by an escalating world appetite for consumer technologies, fuelled by the relentless increase in the world's middle class population, and clean energy technologies, with the world rapidly responding to climate change.

In response to the soaring demand, much of it Chinese filling domestic needs, China has announced and implemented a series of policies since 2007 designed to protect its remaining rare earth reserves and enhance its ability to meet the world's demands for rare earth containing products (rather than just raw materials). A key component of these policy changes has been to reduce rare earth export quotas, which has had the effect of starving manufacturers outside of China (primarily Japan, South Korea, Germany, France, USA), and causing rare earth metal prices to rise with stunning momentum.

Chinese policy is also affecting Chinese internal rare earth production as moves are made to shut down 'illegal' production thought to account for up to 40% of Chinese supply. Unauthorised Chinese production and smuggling escalated rapidly over the past decade in response to rampant global demand, and also to avoid tax. These activities have caused widespread and significant environmental damage due to uncontrolled processing practices.

All of these factors converge to create an urgent and critical need for the rest of the world (ROW) outside of China to develop rare earth projects to fill the supply gap and meet the world's fast growing appetite for more rare earths.

Rare Earths Supply and Demand Where does Cummins Range fit in?



Based on Kimberley Rare Earths understanding of the rare earths market, drawing from data sources including Lynas Corporation and Anshun Resources. Historic price information from Metal Pages

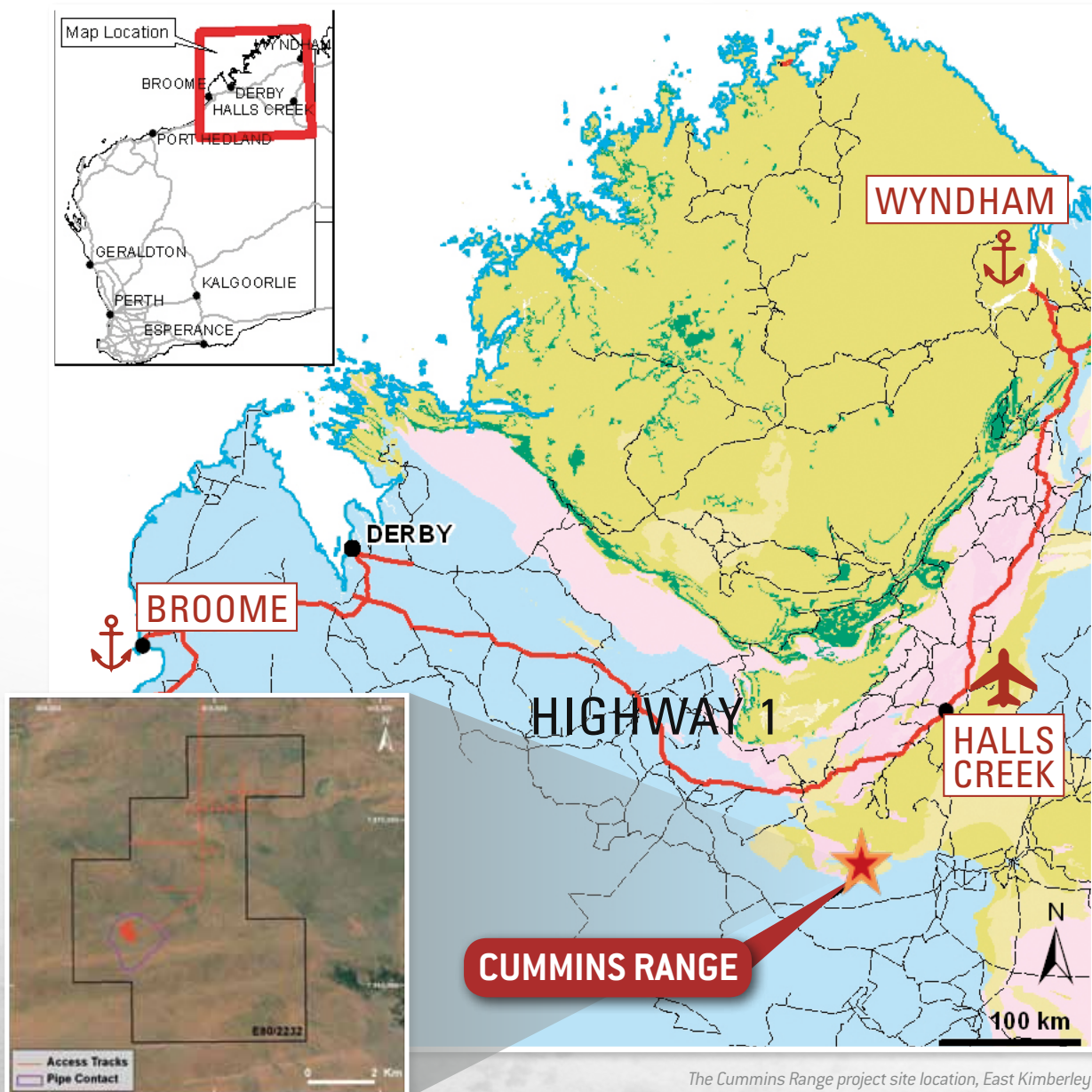
REVIEW OF OPERATIONS

CUMMINS RANGE RARE EARTHS PROJECT, WESTERN AUSTRALIA

CUMMINS RANGE DEPOSIT

The Cummins Range Project is located 130km southwest of Halls Creek in the East Kimberley region of Western Australia. The project is on the northern margin of the Great Sandy Desert and comprises one granted Exploration Licence [E80/2232] with an area of 48.5 square kilometres.

The Cummins Range deposit is one of only 20 formally defined rare earths mineral resources in the world. Located 130 km (straight line) south west of Halls Creek in the East Kimberley region of northern Western Australia, the flat-lying deposit is hosted in the shallow (<100 m) weathered profile of the earths crust and expresses at surface. The Inferred Resource contains 120,000 tonnes of rare earth oxides (11 Mt at 1.1% TREO, 0.5% TREO cutoff grade, Hellman & Schofield), approximately equivalent to one year's current world demand.



The Cummins Range project site location, East Kimberley

GeoEye satellite image.

REVIEW OF OPERATIONS

JOINT VENTURE

The Company has the right to earn up to 80% ownership of the Cummins Range Rare Earths Project in three stages, in unincorporated joint venture with Navigator Resources Limited (NAV);

Stage 1 - First 25%

The Company now holds 25% of the Project following the issue of 34.4 million KRE shares and 3 million unlisted options exercisable at 25 cents on or before 11 May 2014 as part of the Company's IPO. Stage 1 was successfully completed with the completion of the IPO on 18 May 2011.

Stage 2 - Additional 30% (to 55%)

The Company must sole fund \$10 million of project development expenditure over four years, including minimum expenditure obligations of \$2 million and \$3 million in the first and second year. Stage 2 has commenced with development of the project as detailed below.

Stage 3 - Additional 25% (to 80%)

If the Company elects to fund the costs of delivering a feasibility study (in bankable form) to NAV.

CUMMINS RANGE SITE ACTIVITIES

A reconnaissance visit to the project site was carried out in July during which the site access track last used by Navigator Resources in 2007 was re-established. The vehicle access distance to the site was confirmed as 170 km from Halls Creek, comprising 25 km of Great Northern Highway (west to Tanami Road turnoff), 35 km

south on the well-maintained unsealed Tanami Road, and 110 km of established station tracks through Ruby Plains and Carranya cattle stations.

Communications and face-to-face meetings were held with the pastoral lease managers of Ruby Plains and Carranya stations, and a meeting was held with the CEO of the Halls Creek Shire to discuss the commencement of site activities at Cummins Range. Contacts were also established with local contract service providers and other resources companies working in the East Kimberley. A field camp has now been established on site to accommodate up to 10 people required for the initial exploration and drilling work.

EXPLORATION

A range of high-impact exploration activities commenced at the Cummins Range rare earth project immediately after listing on the ASX in May. This intensive program is discussed in detail below using all data available at the time of writing.

GEOEYE SATELLITE IMAGERY

High resolution (50 cm) satellite imagery has been captured by the GeoEye satellite covering the entire tenement. These data provide a snapshot of the project area at the point in time when KRE assumed management of the project and provide valuable baseline references for all logistical, environmental and development activities required during the project's advancement. Regolith interpretations based on these data aided the planning and interpretation of the geochemical survey.



Managing Director Tim Dobson inspects a drill line from the 2007 drilling campaign.

REVIEW OF OPERATIONS

AEROMAGNETIC SURVEY

Historic broad-spaced aeromagnetic data indicated that REO mineralisation was spatially related to magnetic lows and to radiometric highs within the Cummins Range pipe. The pipe feature was clearly evident as a prominent overall magnetic high however there was inadequate resolution within the airborne data to target the close-spaced drilling of high grade REO zones.

The Company flew an ultra-detailed aeromagnetic survey over the Cummins Range pipe and immediate surrounding country rock during July. The survey was conducted at an altitude of 20m, along north-south trending flight lines 20m apart and with east-west tie lines established every 200 m. A total of 2,000 line kilometers were flown and the data are depicted below as a first vertical derivative of the pole reduced total magnetic intensity.

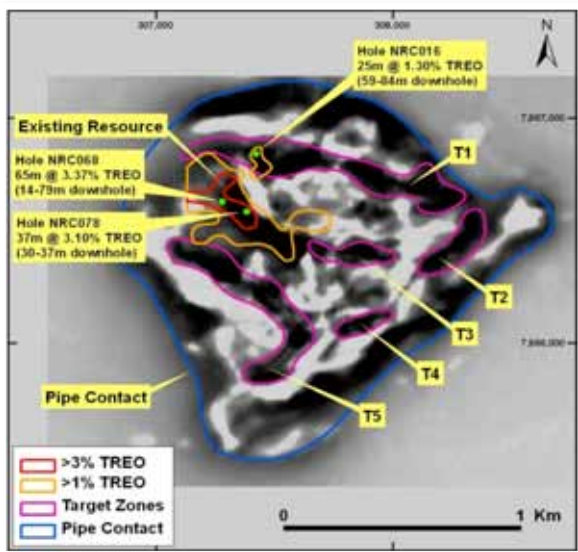


Figure 1: New aeromagnetic image of the Cummins Range pipe showing existing resource and new targets. Zones of magnetic 'low' (dark) correlate to areas of high-grade REOs in existing resource drill coverage.

The new aeromagnetic image (Figure 1) clearly shows a roughly circular pipe with a diameter of approximately 1.4 km. The bright white areas are interpreted to represent the magnetite bearing pyroxenite zones while the darker areas correspond with the REO-bearing carbonate/dolomite rich zones. The existing resource (4.17Mt at 1.72% TREO at 1% cut-off) is depicted at two separate cut-off grades within the centre of the pipe and clearly shows good correlation with the central magnetic low area.

Extrapolating this response to the remainder of the pipe produces five new and separate targets each defined by discrete, coherent magnetic lows within the inner core of the pipe.

Each of the targets displays similar characteristics to those over the existing resource and together they represent a significant new suite of targets from which to expand the current REO resource. The northern most target has been previously tested by a single fence of RC drilling with significant assay results including 25m at 1.3% TREO from 59m down hole (NRC016). None of the four remaining targets have been subjected to any form of effective drill testing.

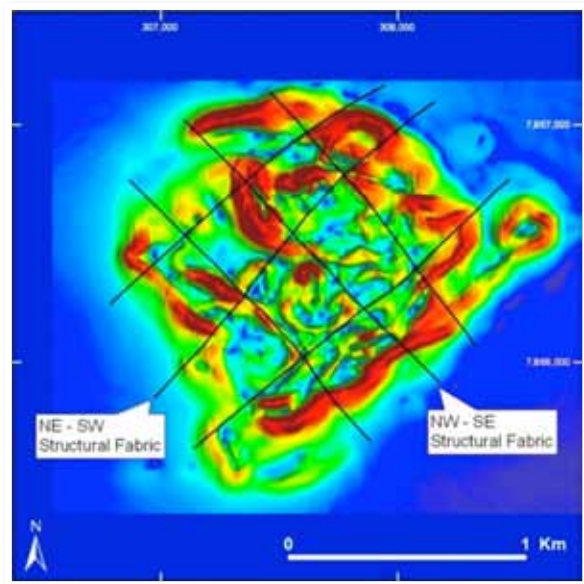


Figure 2: Aeromagnetic image (Horizontal Gradient) indicating prominent NE-NW conjugate structures.

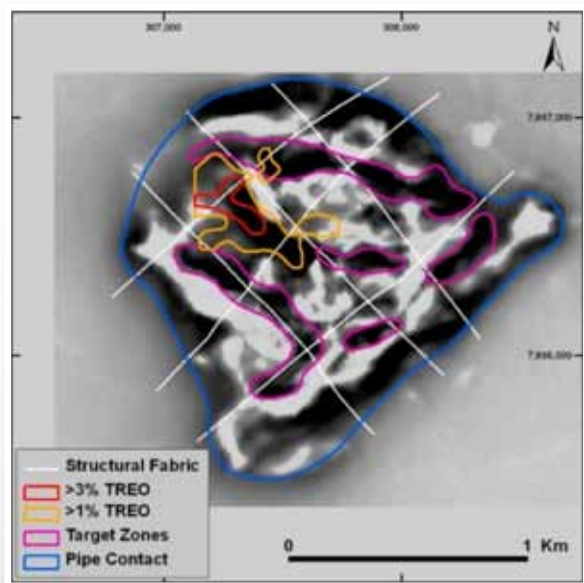


Figure 3: Influence of the NE-NW conjugate structures on the resource and targets.

REVIEW OF OPERATIONS

The existing resource area and the new target zones are interpreted to be controlled by a well defined conjugate set of structures trending NE-SW and NW-SE as shown in Figures 2 and 3 (not all structures shown).

The structural fabric of the pipe and surrounding country rock revealed in these Figures is being used to inform the expanded drilling program by targeting the magnetic lows associated with the intersection points of conjugate structures.

GRAVITY SURVEY

A close-spaced ground gravity survey was completed to compliment the airborne magnetic survey. A station spacing of 100 x 50 m was used over the central portion of the pipe, expanding to 200 x 100 m over the adjacent country rock to establish background parameters. This type of gravity survey is particularly effective as a regolith mapping tool and was designed to help define the areas of deepest weathering where the highest-grade REO mineralisation has been found to be coincident.

A total of 3,400 terrain corrected gravity stations were collected over a two week period and the data has been corrected and manipulated to produce an edge enhanced, first vertical derivative residual image as displayed below.

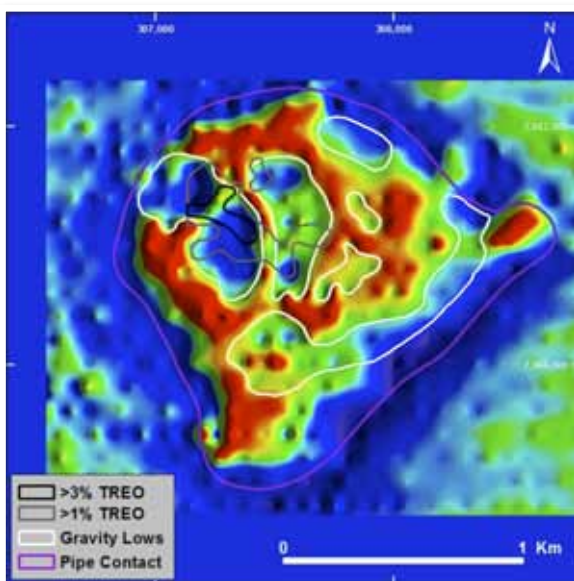


Figure 4: Residual gravity image showing the areas of deep weathering (blue to light green).

The gravity image (Figure 4) clearly shows a series of large discrete gravity lows within the central portion of the pipe that are interpreted to represent less dense rocks associated with deeper

weathering and therefore potentially represent targets for high grade rare earth mineralisation. The Cummins Range resource outline is also shown and this correlates well with a major gravity low indicating the effectiveness of this geophysical method. The aeromagnetic targets T1 to T5 (Figure 5) are the primary targets for the expanded drilling program however, these will now be prioritised so that segments displaying deeper weathering, as defined by the gravity survey, will be drilled first.

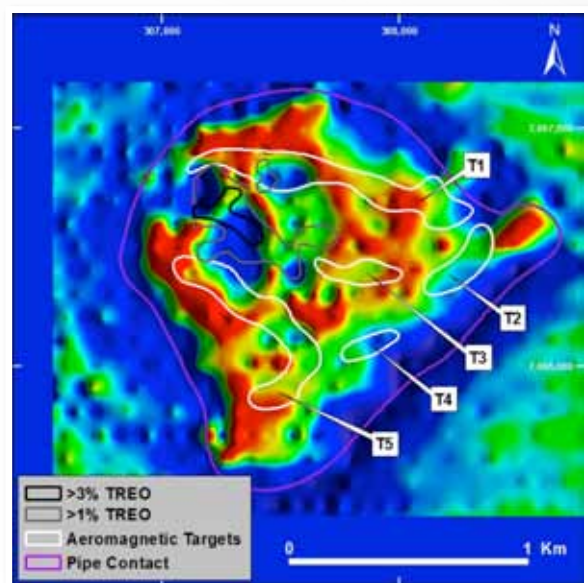


Figure 5: Residual gravity image showing the areas of deep weathering (blue to light green) with the aeromagnetic targets T1 to T5 overlain.

AUGER GEOCHEMISTRY

A thin veneer of aeolian sand covers much of the Cummins Range tenement area obscuring the bedrock from standard mapping, prospecting and sampling methods. An auger-sampling program designed to collect geochemical samples from a depth of 2 metres was completed. A sample spacing of 500 x 100 metres was used to screen the entire tenement area closing to 100 x 100 metres over the Cummins Range pipe which resulted in a total of 1297 samples being collected. All samples were analysed for a wide range of elements, including the rare earth elements (REE), to aid in the definition of high-priority REO mineralisation targets for follow-up drilling.

Figure 6 shows the TREO auger geochemical results in relation to the existing resource at Cummins Range, the pipe outline and the aeromagnetic image. Four discrete highly anomalous zones are defined that occur outside of the existing resource.

REVIEW OF OPERATIONS

Each of the individual zones is coherent and defined by results that range between 200ppm and 500ppm TREO. Two of the zones occur along strike of the existing resource towards both the NW and SE while the southern anomaly occurs directly coincident with aeromagnetic target T5. These geochemical results indicate considerable potential to increase the size of the existing rare earth resource at Cummins Range.

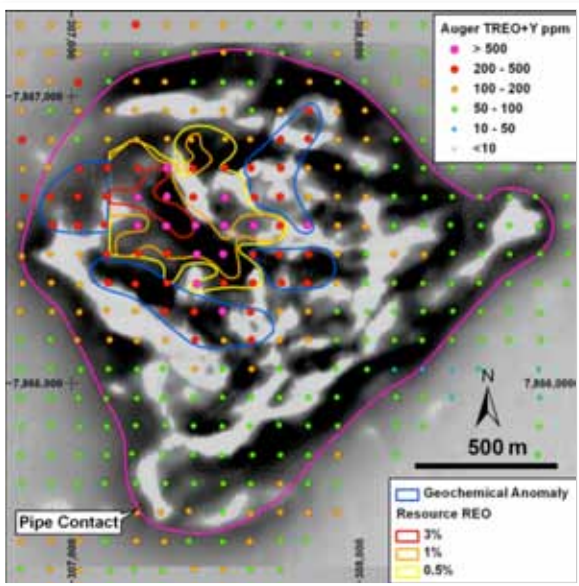


Figure 6: Close spaced auger geochemical results over the Cummins Range pipe. Highly anomalous results outside of the current resource are outlined blue. Background image is aeromagnetics.

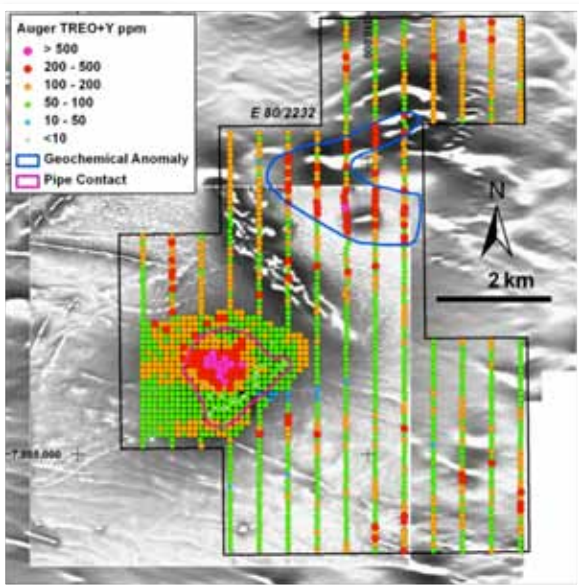


Figure 7: Regional auger geochemical results over tenement E80/2232. Highly anomalous results outside of the Cummins Range pipe are outlined blue. Background image is aeromagnetics.

The regional auger geochemical results depicted above clearly show the anomalism of the Cummins Range pipe and immediate surrounds. A new, large, coherent, high amplitude geochemical anomaly has been defined in the central portion of the tenement area located well away from the Cummins Range pipe. Using a threshold of 200ppm TREO the anomaly is coherent over an area measuring 2.5km x 1.5km with a peak value of 620ppm TREO occurring directly in the centre of the anomaly. These highly anomalous results present a strong exploration target as they occur over a granodiorite intrusion that has only sparsely been tested by historic drilling.

DRILLING

All permitting required to allow drilling to commence was achieved by mid-August and included a Radiation Management Plan (RMP) developed by independent consultants and approved by both the Radiological Council and the Department of Mines and Petroleum (DMP). A Program of Work (PoW) for the initial 5,700m RC program was approved immediately thereafter and approved heritage clearance for the planned activities is in place.

A temporary field camp has been erected on site with the capacity to accommodate up to nine personnel and a wash-down facility established pursuant to the RMP located near the drill site (Figure 8).

A drilling contractor experienced in working to RMP standards was secured and commenced drilling in early September. Approximately half of the initial 5,700m RC drilling program will comprise infill drilling which will close the current hole spacing down to a 50 x 25 m grid resulting in the ability to upgrade the JORC status of the Resource from the Inferred to the Indicated category. The remainder of the program is designed to explore for extensions to the known resource primarily towards the NW. All of the potentially economic mineralisation occurs within the regolith and inclined holes will be drilled to fresh rock, notionally 100 m deep over the resource area.



REVIEW OF OPERATIONS

METALLURGY

Work has commenced to progress the metallurgical understanding of the Cummins Range deposit. David White, Chemical Engineer, has been appointed as Metallurgical Consultant with the following scope of work:

- Assess REE-experienced metallurgical testwork facilities and service providers;
- Review technologies available for REE concentration and extraction;
- Review technologies available for downstream processing (REE separation);
- Manage a desktop project evaluation to determine concentrate returns required to underpin a robust project;
- Manage mineralogical studies of samples as they becomes available;
- Manage beneficiation studies as ore samples become available.

Several metallurgical testing laboratories, including ANSTO and AMMTEC, were visited in July and August to inspect the facilities and capacities for testing rare earth ores. At the time of writing, planning for first stage flotation test work, using samples from the 2007 Navigator drilling program, was well advanced.



Figure 8: Cummins Range wash-down facility.



Figure 9: Geologist logging RC samples.



REVIEW OF OPERATIONS

MALILONGUE HEAVY RARE EARTHS PROJECT, MOZAMBIQUE

The Malilongue Project is located in western Mozambique about 300km west of the regional mining centre of Tete (Figure 10). It comprises two tenements, Mining Concession 1133C and Prospecting License 1583L. Access to the project is good with grid hydroelectric power and mobile phone coverage located within 50km of the site.

The current owner of the licences (GWM – Great Western Mining Lda, a Mozambique domiciled company) has established considerable infrastructure within the mining concession including a secure office/accommodation/workshop complex and have fully operational earth moving, haulage and treatment facilities associated with their gemstone operation.



Figure 10: Location of the Malilongue project.

REVIEW OF OPERATIONS

GEOLOGY

The Malilongue REO pegmatite swarm incorporates over 40 individual pegmatite dykes and sills located within, and marginal to, the Malilongue Granite. This granitic intrusive is roughly circular with a diameter of over 9km and has been intruded into gneissic terrain associated with the East African Rift system. The discrete Malilongue intrusion is a medium grained, weakly foliated, late stage alkaline granite.

The pegmatite swarm is currently being exploited commercially by both GWM and by artisanal miners for topaz, aquamarine and amazonite gemstones of exceptional quality (Figure 11). The pegmatite field extends along the eastern margin of the intrusive over an area measuring 7km by 3km. Over 65 separate artisanal workings have been recorded within the tenements all exploiting either bedrock pegmatites or shallow alluvial/eluvial deposits.



Figure 11: Artisanal miners working a Malilongue pegmatite occurrence.



Figure 12: Malilongue pegmatite exposure (scale : photo width = 0.5m).

REVIEW OF OPERATIONS

REO MINERALOGY

No systematic exploration for REO mineralisation has been undertaken in the area however some bulk sampling of the alluvials has occurred. Selected grab samples of pegmatite material have assayed over 20% TREO. Jig concentrates from 38 separate pits located throughout the pegmatite field averaged over 1,000ppm TREO with 55% being LREO, 25% HREO and 20% yttrium oxide.

A sample extracted from the eluvial beds was subjected to mineralogical examination by scanning electron microscope (see Figure 13) and found to comprise major xenotime and minor monazite and zircon. In addition to yttrium, the xenotime shows appreciable dysprosium and erbium.

GEOPHYSICS

Good quality regional datasets exist over the project area including close spaced (100m) low altitude (80m) aeromagnetic/radiometric data and Landsat imagery (see Figure 14).

The pegmatite-hosted mineralisation at Malilongue shows many similarities to Quest Rare Metals' Strange Lake deposit in Quebec Canada. Quest quoted a 43-101 compliant Indicated Mineral Resource of 36.4Mt grading 1.16% TREO with 57% being LREO, 15% HREO and 28% yttrium oxide. The deposit is hosted within pegmatites associated within a discrete circular, late stage granite intruded into metamorphic terrain.

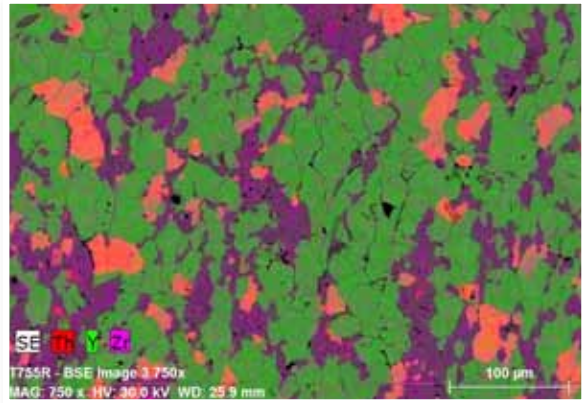


Figure 13: Scanning electron micrograph shows extensive Yttrium matrix.

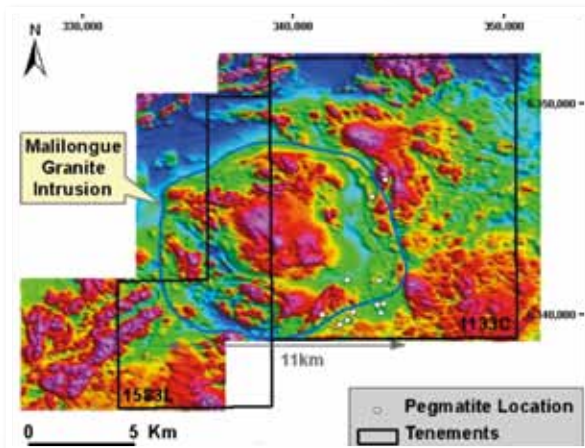


Figure 14: Malilongue Project Aeromagnetic Image and Tenement Plan.



Figure 15 – A single, well-formed topaz crystal from Malilongue pegmatite gemstone operations.

REVIEW OF OPERATIONS

STRATEGIC FIT

The Strategic Objectives outlined in the Company's April 2011 IPO Prospectus stated that the company will *assess and, if warranted, acquire other rare earths projects that have potential to add value to the Company.*

It is the opinion of KRE's Board and Management that the Malilongue project is an ideal fit within this objective and provides an exciting upstream project with significant exploration potential. KRE CEO Tim Dobson said that the project provides synergistic balance with the Company's Cummins Range project.

"Malilongue presents an excellent focal point for our exploration team to add medium to long term value while our development focus rests squarely with Cummins Range. Additionally, the new project has exciting potential for yttrium, dysprosium and terbium, all rare earth metals in critically short global supply, and complements the light rare earth project being developed at Cummins Range."

The exclusivity period for the project will expire on 12th November following which, subject to due diligence, the Company intends to complete the First Farm-In transaction and commence exploration activities on the Malilongue project.



Figure 16 – Site infrastructure in place at GWM's topaz mining operation.

REVIEW OF OPERATIONS

COMPETENT PERSONS STATEMENT

Information in this report that relates to exploration or exploration results is based on information compiled by Mr Geoff Collis, who is a member of the Australasian Institute of Mining and Metallurgy and has sufficient exploration experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activities which are being undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Mineral Resources and Ore Reserves". Mr Collis consents to the inclusion of these estimates in the form and context in which they appear.

Information in this report that relates to Mineral Resources is based on a resource estimate at Cummins Range performed by Dr Phillip Hellman FAIG, who is a Director of Hellman and Schofield Pty Ltd and who has had sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activities which are being undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Mineral Resources and Ore Reserves". Dr Phillip Hellman consents to the inclusion of these estimates in the form and context in which they appear.

GLOSSARY

Aeromagnetic	Airborne geophysical technique where the intensity of the earth's magnetic field is measured in a systematic way.
Alluvium	Loose unconsolidated soil or sediment eroded and deposited by water.
Carbonatites	Intrusive igneous rocks with a composition of greater than 50% carbonate minerals.
Diamond Drilling (or Core Drilling)	A drilling technique which uses a diamond-set drill bit to produce a cylindrical core of rock.
Eluvium	Loose unconsolidated soil or sediment deposited under gravitational weathering and accumulation processes.
Gravity Survey	A survey in which variations in the strength of the earth's gravity field are measured.
HREO	Heavy rare earth oxides. The oxides of the 9 heavy rare earth elements Europium (Eu), Gadolinium (Gd), Terbium (Tb), Dysprosium (Dy), Holmium (Ho), Erbium (Er), Thulium (Tm), Ytterbium (Yb), Lutetium (Lu).
LREO	Light rare earth oxides. The oxides of the 5 light rare earth elements; Lanthanum (La), Cerium (Ce), Praseodymium (Pr), Neodymium (Nd), Samarium (Sm). Note, excludes Promethium (Pm) due to its transient (radioactive) nature.
Pegmatite	A very coarse grained igneous intrusive rock composed predominantly of quartz, feldspar and mica.
Pipe	Cylindrical intrusion of younger igneous rocks into an older geological terrain.
ppm	Parts per million by weight (10,000ppm equals 1.00%).
Pyroxenite	Ultramafic igneous rock comprising predominantly minerals of the pyroxene group.
RAB	Rotary air blast, a cost-effective drilling technique used to sample weathered rock.
RC	Reverse circulation, a drilling technique that is used to return uncontaminated pulverised rock samples through a central annulus inside the drill pipes. RC samples can be used in industry-standard Mineral Resource statements.
REO	The oxides of the 14 rare earth elements; Lanthanum (La), Cerium (Ce), Praseodymium (Pr), Neodymium (Nd), Samarium (Sm), Europium (Eu), Gadolinium (Gd), Terbium (Tb), Dysprosium (Dy), Holmium (Ho), Erbium (Er), Thulium (Tm), Ytterbium (Yb), Lutetium (Lu) plus Yttrium (Y) but excluding Promethium (Pm).
TREO	The sum total of the 14 rare earth oxides, Lanthanum to Lutetium plus Yttrium as defined above under REO.
Xenotime	A rare earth phosphate mineral comprising predominantly yttrium phosphate (YPO ₄). Dysprosium, erbium and terbium can substitute for yttrium.



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FINANCIAL REPORT

FOR THE PERIOD ENDED 30 JUNE 2011

CORPORATE GOVERNANCE

INTRODUCTION

The Company is committed to implementing sound standards of corporate governance. In determining what those standards should involve, the Company has had regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments ("Recommendations").

Further information about the Company's corporate governance practices is set out on the Company's website at www.kimberleyrareearths.com.au. In accordance with the ASX Principles and Recommendations, information published on the Company's website includes charters (for the Board and its committees), the Company's Code of Conduct and other policies and procedures relating to the Board and its responsibilities.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

RECOMMENDATION 1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions

The Board has established functions that are reserved for the Board, as separate from those functions discharged by the Chief Executive Officer and are summarised in the Company's Board Charter which is available on the Company's website. The Board retains responsibility for the following key areas:

- (a) Appointing, monitoring, managing the performance of, and if necessary terminating (the employment of) the Chief Executive Officer ("CEO").
- (b) Overseeing and ratifying the appointment and termination (of employment) of the Chief Financial Officer ("CFO").
- (c) Ratifying the terms of appointment of senior management, including in relation to the terms of equity remuneration.
- (d) Monitoring the Company's performance in relation to corporate governance principles of best practice as identified and resolved by the Board.
- (e) Approving and monitoring compliance with the Company's risk management framework.
- (f) Approving and monitoring compliance with the Company's key corporate policies and protocols.
- (g) Monitoring the Company's operations in relation to, and compliance with relevant regulatory requirements.
- (h) The Board will actively and regularly be involved in strategic planning based on the identification of opportunities and the full range of business risks. The Board recognises that strategic planning is an ongoing process that must be responsive to changes in the external environment and internal developments.
- (i) The Board will oversee the processes that management has in place to identify business opportunities and risks.
- (j) The Board will consider the extent and types of risk that are acceptable for the Company to bear.
- (k) The Board will monitor management systems and processes for managing a broad range of business risks.
- (l) The Board must supervise disclosure in the annual report, any departures from the ASX recommendations and any information publicly available about the Company's policies.
- (m) The Company will report on its compliance with the ASX recommendations and, where appropriate, include an appropriate statement regarding departures from ASX recommendations in the annual report.
- (n) The Board will supervise the public disclosure of all matters that the ASX recommendations recommend be publicly disclosed consistent with the disclosure policy and will provide a commentary of any Board's decision not to make such disclosure or to clarify what disclosure has been made.

CORPORATE GOVERNANCE

The Chief Executive Officer is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. The Chief Executive Officer must also report to the Board in a timely manner on those matters included in the Company's risk profile, all relevant operational matters and any other material matter.

The functions and responsibilities of the Board compared with those delegated to management are reflective of the Recommendations.

The Chief Executive Officer is also responsible for appointing and, where appropriate, removing senior executives, including the Chief Financial Officer and the company secretary, with the approval of the Board. The Chief Executive Officer is also responsible for evaluating the performance of senior executives.

RECOMMENDATION 1.2 Companies should disclose the process for evaluating the performance of senior executives

The Remuneration Committee is charged with periodic review of the job description and performance of the Chief Executive Officer, and all senior executives according to agreed performance parameters.

Each senior executive will be required to participate in a formal review process which assesses individual performance against predetermined objectives.

RECOMMENDATION 1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1

The Company is not aware of any departure from Recommendations 1.1 or 1.2. As the Company's executive team commenced work at the end of the 2011 financial year, performance evaluations for senior executives will take place in the next reporting period in accordance with the process disclosed.

The board charter is publicly available at www.kimberleyrareearths.com.au and it includes a description of what matters are reserved for the Board or senior executives respectively.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

RECOMMENDATION 2.1 A majority of the Board should be independent directors

The Company did not have a majority of independent directors during the period. As at the year end, one out of the four directors was independent, being Mr. Peter Rowe. Both Mr. Macpherson and Dr. Trench are directors of Navigator Resources Limited, and Mr. Kaczmarek is a full time employee of Navigator Resources Limited. Navigator Resources Limited was a substantial shareholder of the Company for the 2011 financial year.

The Board considers that its current composition is the most appropriate blend of skills and expertise, relevant to the Company's business and is appropriate given the Company's current size and operations. The Board is aware of the importance of independent judgement and considers independence, amongst other things, when new appointments to the Board are made.

In June 2011, Navigator Resources Limited reduced their shareholding in the Company substantially via an in-specie return of capital to Navigator Resources Limited shareholders.

As the Company grows and/or circumstances change, the Board may make further appointments of independent directors if considered appropriate.

RECOMMENDATION 2.2 The chairperson should be an independent director

Ian Macpherson, the Chairman of the Company is not an independent director, as discussed above.

CORPORATE GOVERNANCE

RECOMMENDATION 2.3 The roles of chairperson and Chief Executive Officer should not be exercised by the same individual

The Company is in compliance with this Recommendation. The role of the Chairperson is filled by Ian Macpherson (Non-Executive Director) and the role of the CEO is filled by Tim Dobson.

RECOMMENDATION 2.4 The Board should establish a nomination committee

The Company did not have a separately established nomination committee during the period. However, the Board had adopted a nomination committee charter to assist it to fulfil its function as the nomination committee and this is available on the Company's website.

A nomination committee was, however, established on 15 July 2011 comprising the entire Board with Allan Trench as Chair.

RECOMMENDATION 2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors

The Board is charged with Board and Board Committee membership, succession planning and performance evaluation, as well as Board member induction, education and development.

The Company has adopted policies and procedures concerning the evaluation and development of its directors, executives and Board committee that will be utilised during the 2012 financial year. Procedures include an annual internal Board performance assessment, an induction protocol and ongoing discussions with regard to the performance of the Board and its directors.

RECOMMENDATION 2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2

Contained in the Directors' Report section of this Annual Report are details of the skills, experience and expertise held by each Director in office at the date of this Annual Report;

The terms of office, and their status as executive/non-executive/independent, for each director for the period ending 30 June 2011 were as follows (with all directors noted as continuing in office as at 30 June 2011 and still being in office at the date of this annual report unless indicated otherwise):

Director	Independence status	Date of appointment
Ian Macpherson	Non-Executive/non-independent	{appointed 2 December 2010}
Allan Trench	Non-Executive/non-independent	{appointed 2 December 2010}
Gerry Kaczmarek	Non-Executive/non-independent	{appointed 2 December 2010}
Peter Rowe	Non-Executive/independent	{appointed 21 January 2011}

The Company has accepted the definition of "independence" in the Recommendations in making the above assessments of independence.

The Board will determine the procedure for the selection and appointment of new directors and the re-election of incumbents having regard to the ability of the individual to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company.

The Company's Corporate Governance Charter empowers a director to take independent professional advice at the expense of the Company.

A summary of the Company's procedure for the selection and appointment of new directors is available on the Company's website along with a copy of the Nomination Committee Charter.

CORPORATE GOVERNANCE

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

RECOMMENDATION 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- 3.1.1 the practices necessary to maintain confidence in the company's integrity;
- 3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
- 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has established a formal Code of Conduct to guide the Directors and Officers with respect to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account legal obligations and reasonable expectations of stakeholders, and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. The code of conduct is disclosed on the company's website.

RECOMMENDATION 3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them

The Company's policy regarding diversity is set out on the Company's website.

The Company's diversity policy does not include measurable objectives as the Board believes that the Company will not be able to successfully meet these given the size and stage of development of the Company.

RECOMMENDATION 3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them

Given the size and stage of the development of the Company, the Directors do not consider it appropriate to set measurable objectives in relation to diversity. Notwithstanding this, the Company strives to provide the best possible opportunities for current and prospective employees of all backgrounds in such a manner that best adds to overall shareholder value and which reflects the values, principles and spirit of the Company's Diversity Policy.

RECOMMENDATION 3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board

For the 2011 period, the company had no employees other than the CEO and the General Manager - Exploration, both of whom commenced in June 2011. As such, for the period under review, the Company had no women employees, senior managers or women on the Board.

Subsequent to period end, the Company currently employs 3 employees, of which one is female. There are no women in senior executive positions and no women on the Board.

RECOMMENDATION 3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3

The Company is not aware of any departure from Recommendations 3.1 or 3.4.

The Company's diversity policy does not include measurable objectives as the Board believes that the Company will not be able to successfully meet these given the size and stage of development of the Company.

The Company's Code of Conduct and the Company's diversity policy are publicly available at www.kimberleyrareearths.com.au.

CORPORATE GOVERNANCE

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

RECOMMENDATION 4.1 The Board should establish an audit committee

RECOMMENDATION 4.2 The audit committee should be structured so that it:

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the Board; and
- has at least three members.

RECOMMENDATION 4.3 The audit committee should have a formal charter

RECOMMENDATION 4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4

Given that the Board comprises four Directors, it was decided that there were no efficiencies to be gained from forming a separate audit committee during the 2011 financial period as the main activity of the Company was achieving a listing on ASX. However, the Board had adopted an audit committee charter to assist it to fulfil its function as the audit committee and this is available on the Company's website.

Subsequent to period end, however, the Board has established a separate Audit Committee comprising all the directors on the Board with Gerry Kaczmarek as Chairman.

Mr Kaczmarek, the Chair of the Audit Committee, is an experienced accountant and economist with almost 30 years experience in the resources and minerals processing industry covering projects in Australia and overseas. All Audit Committee members have industry experience. No meetings of the Audit Committee have been held as yet.

A copy of the Company's Audit Committee Charter is available on the Company's website. The Company's process for the selection, appointment and rotation of the Company's external auditors is also available on the Company's website.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

RECOMMENDATION 5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance.

RECOMMENDATION 5.2 Companies should provide the information indicated in the Guide to reporting on Principle 5

The Company is not aware of any departure from Recommendations 5.1 or 5.2.

A summary of the Company's policy on continuous disclosure is publicly available on the Company's website.

CORPORATE GOVERNANCE

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

RECOMMENDATION 6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

The Company has adopted policies formally setting out the Company's communications strategy with its stakeholders including the effective use of electronic communications.

The Board encourages the attendance of shareholders at the Shareholders' Meetings and sets the time and place of each Shareholders' Meeting to allow maximum attendance by shareholders.

RECOMMENDATION 6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6

Details of how the Company will communicate with its shareholders publicly is set out under the heading "Shareholder Communication Guidelines and Policy" which is publicly available on the Company's website.

The Company is not aware of any departure from Recommendations 6.1 or 6.2.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

RECOMMENDATION 7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company has established policies for the oversight and management of material business risks. The risk management policy of the Company is set out on the Company's website.

RECOMMENDATION 7.2 The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures. Management will be responsible for ensuring the process for managing risks is integrated within business planning and management activities.

Reports on risk management are provided to the Board by Management or the CEO, whoever is responsible for the management of the individual risk.

The Board requires Management along with the CEO to implement risk management and internal control systems and provide a report at the relevant time.

The Board recognises that no cost effective internal control system will preclude all errors and irregularities. The system is based upon written procedures, policies and guidelines, an organisational structure that provides an appropriate division of responsibility, and the selection and training of qualified personnel.

The Board of Directors review the business and financial risk management systems and internal control systems implemented by management to obtain reasonable assurance that the entity's assets are safeguarded and that the reliability and integrity of its financial information is maintained. The Board will review, at least annually, the effectiveness of the Company's risk management systems.

CORPORATE GOVERNANCE

RECOMMENDATION 7.3 The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks

The Company's Chief Executive Officer and CFO (or equivalent) have provided the Board assurance in compliance with this recommendation that the declaration provided in accordance with S.295A of the Corporations Act was founded on a sound system of risk management and internal control and that system was operating effectively in all material respects in relation to financial reporting risks.

RECOMMENDATION 7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7

The Board has received the assurance from the Chief Executive Officer and the Chief Financial Officer (or equivalent) under Recommendation 7.3.

A copy of the Company's policies on risk oversight and management of material business risks is publicly available under the heading "Risk Management Policy" on the Company's website.

CORPORATE GOVERNANCE

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

RECOMMENDATION 8.1 The Board should establish a remuneration committee.

The Company did not have a separately established remuneration committee during the period. However, the Board had adopted a remuneration committee charter to assist it to fulfil its function as the remuneration committee and this is available on the Company's website.

A remuneration committee was, however, established on 15 July 2011 comprising the entire Board with Allan Trench as Chair.

RECOMMENDATION 8.2 The Remuneration Committee should be structured so that it:

- consists of a majority of independent directors;
- is chaired by an independent director; and
- has at least three members.

The Company was not in compliance with this Recommendation during the period as the remuneration committee was not formally established until 15 July 2011. Subsequent to year end, the remuneration committee does not currently consist of a majority of independent directors, is not chaired by an independent chair, but does have at least three members.

RECOMMENDATION 8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

The structure of non-executive remuneration is clearly distinguishable from that of senior executives.

The level of remuneration packages and policies applicable to directors are detailed in the Remuneration Report which forms part of the Directors' Report to this Annual Report.

RECOMMENDATION 8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8

Non-Executive Director Retirement Benefits

Non-Executive Directors are entitled to statutory superannuation. There are no other schemes for retirement benefits for non-executive directors.

Limiting Risk

Directors are prohibited from entering into transactions which limit the risk of participating in unvested entitlements under any equity based remuneration scheme.

Information Publicly Available

The Company's website contains a section formally setting out the Remuneration Committee Charter.

DIRECTORS' REPORT

The Directors of Kimberley Rare Earths Limited herewith submit the annual financial report of the Company for the period ended 30 June 2011. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

INFORMATION ABOUT DIRECTORS AND SENIOR MANAGEMENT

The names and particulars of the Directors of the Company during or since the end of the period and up to the date of this report are noted below. Except where indicated, directors have held office during and since the end of the financial period.

IAN MACPHERSON BComm, CA

Chairman and Non-Executive Director (Appointed on 2 December 2010)

Mr. Macpherson graduated from the University of Western Australia with a Bachelor of Commerce in 1977. He commenced his career in commerce in 1978 prior to entering the Chartered Accounting profession. Mr. Macpherson was admitted as a partner of the firm that became known as KMG Hungerfords in 1986, having built up a specialist practice in the provision of corporate and financial advice to the mining and mineral exploration industry. In 1987 the firm merged with Arthur Anderson & Co.

In 1990 Mr. Macpherson left Arthur Anderson & Co to establish Ord Partners, Chartered Accountants. Mr. Macpherson has since specialised in the area of corporate advice with a particular emphasis on capital structuring, equity and debt raising, corporate affairs and Stock Exchange compliance procedures for public companies, both mining and industrial. He has acted in the role of director and company secretary for a number of his clients and has been involved in numerous asset acquisition and disposal engagements involving the preparation of detailed Information Memoranda, preacquisition reviews and Independent Reports.

Mr. Macpherson is a Member of the Institute of Chartered Accountants in Australia and past member, Executive Council of the Association of Mining Exploration Companies (WA) Inc.

Directorships held in listed companies over the last three years are as follows:

- Navigator Resources Ltd - 1 July 2003 to current;
- Avita Medical Ltd (formerly Clinical Cell Culture Ltd) - 5 March 2008 to current;
- Rubicon Resources Ltd - 18 October 2010 to current;
- Nimrodel Resources Ltd - 17 July 2007 to 2 August 2011; and
- Sihayo Gold Ltd - 24 April 2009 to 3 June 2010.

ALLAN TRENCH B.Sc (Hons. Geology), Ph.D(Geophysics), M.Sc (Mineral Economics), MBA (Oxon), GAICD and MAusIMM

Non-Executive Director (Appointed on 2 December 2010)

Dr. Trench is a geologist/geophysicist and business management consultant with over 20 years experience within the Australian resources sector across a number of commodity groups including gold, copper, nickel, oil and gas and LNG.

Dr. Trench commenced his career as an academic at Oxford University before moving to Australia on a Royal Society Research Fellowship. After a period at the University of Western Australia, he joined WMC at their Kambalda nickel and gold operations applying geophysical methods to both exploration and underground mining opportunities. Dr. Trench spent five years with WMC including as Exploration Manager in the Leinster-Mt Keith region. He then managed a number of exploration companies before joining McKinsey & Company as a management consultant. In his role at McKinsey, he advised a number of large international resources companies on strategy, organization and operations issues.

Dr. Trench has direct hands-on experience in managing gold assets, including spending 18 months at Australia's largest gold mine, the Golden Mile of Kalgoorlie.

DIRECTORS' REPORT

Directorships held in listed companies over the last three years are as follows:

- Navigator Resources Ltd - 14 November 2005 to current;
- Pioneer Resources Ltd (formerly Pioneer Nickel Ltd) - 8 September 2003 to current;
- Venturex Resources Ltd (formerly Jutt Holdings Ltd) - 12 November 2008 to current; and
- Hot Chili Ltd - 19 July 2010 to current.

GERRY KACZMAREK B.EC (Accounting), CPA, MAICD

Non-Executive Director (Appointed on 2 December 2010)

Mr. Kaczmarek graduated from the Australian National University (ANU) with a Bachelor of Economics and Accounting in 1980. He is an accountant and an economist with almost 30 years experience in the resources and minerals processing industry covering projects in Australia and overseas. He was Company Secretary and Chief Financial Officer of Troy Resources NL for 10 years and prior to that, spent seven years each at explorer and miner Burmine Ltd, prior to its merger with Sons of Gwalia. He commenced his career with the base metals division of CRA, now Rio Tinto.

Mr Kaczmarek holds no other Directorships in listed companies.

PETER ROWE B.SC (Chem Eng) FAusIMM, FAICD

Non-Executive Director (Appointed on 21 January 2011)

Mr. Rowe is an engineer with recognised international experience gained over a 35 year career, based mainly in Australia and South Africa. He has managed complex large scale mining and metallurgical operations and projects. Previously, Mr. Rowe was the Project Director of the Fimiston Expansion (Kalgoorlie Superpit), General Manager of the Boddington Gold Mine and of the Boddington Expansion Project and Managing Director of Bulong Nickel. In 2004 he headed up AngloGold Ashanti Australia before moving to Johannesburg where he served as an Executive Vice President for AngloGold Ashanti Limited until his retirement in 2009. Mr. Rowe also undertakes advice pertaining to the processing of rare earth oxides to other companies.

Directorships held in listed companies over the last three years are as follows:

- Adamus Resources Ltd - 29 July 2009 to current;
- Ironclad Mining Ltd - 16 February 2009 to current;
- Millenium Minerals Ltd - 21 July 2009 to current;
- European Nickel Plc - 27 July 2011 to current;
- Ammtec Ltd - 20 February 2009 to 26 November 2010; and
- Red 5 Ltd - 22 October 2004 to 29 March 2010;

DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Directors	Fully paid ordinary shares Number	Share options Number
Ian Macpherson	353,522	-
Allan Trench	381,396	-
Gerry Kaczmarek	115,900	-
Peter Rowe	50,000	-

DIRECTORS' REPORT

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Information about the remuneration of Directors and senior management is set out in the Remuneration Report of this Directors' report

SHARE OPTIONS GRANTED TO DIRECTORS AND SENIOR MANAGEMENT

During the financial period no share options were granted to Directors or to the five highest remunerated officers of the Company as part of their remuneration.

Since the end of the period there have been the following options granted as part of remuneration:

Directors/Officers	Number of options granted	Exercise Price	Expiry Date
Tim Dobson	1,500,000	30 cents	30 June 2014
Geoff Collis	1,000,000	30 cents	30 June 2014

Options will vest in two equal tranches on 30 June 2012 and 30 June 2013 respectively.

DARREN CRAWTE LL.B (Hons), ACA, CA, MAICD

Company secretary

Mr. Crawte is a qualified chartered accountant in both the UK and Australia and has worked within public practice for over 14 years, initially as an external auditor. He is currently a Director of Audit and Corporate services at MGI Perth, a mid tier accounting and business advisory practice, where he specialises in providing corporate advisory, financial accounting/audit management, transactional support, taxation and other back office services to junior listed companies. Darren has acted as Company Secretary to a number of companies in the junior resources sector having managed a number of these through an initial public offering.

PRINCIPAL ACTIVITIES

The principal activities of the Company were mineral exploration and project development in Western Australia.

REVIEW OF OPERATIONS

The loss of the company after income tax was \$42,339.

The company was incorporated on 2 December 2011, as a wholly owned subsidiary of Navigator Resources Limited with the purpose of acquiring the Cummins Range rare earths asset from Navigator Resources Limited and listing on the ASX with sufficient funds to develop the existing JORC compliant resource.

The Company lodged an initial prospectus with the ASX on 23 March 2011 to raise up to \$14.3 million from the issue of 71,549,035 shares at 20 cents each. However, the company received a strong interest for shares under both the Priority and Public offers. The positive response to the Offer provided an opportunity for the company to raise additional funds. The Company then lodged a supplementary prospectus with ASX on 29 April 2011 which increased the number of shares offered to 91,184,269. The offer was oversubscribed and a total of \$18,236,853 was raised before expenses of the issue.

DIRECTORS' REPORT

The Company was subsequently admitted to the ASX on 16 May 2011. As part of the IPO, the Company has now acquired an initial 25% interest in the Cummins Range Rare Earths project from Navigator with the right to earn up to 80% ownership in the project based on meeting the following expenditure commitments:

1. ADDITIONAL 30% (55% IN TOTAL):

The Company must sole fund \$10 million of project development expenditure over four years, including minimum expenditure obligations of \$2 million and \$3 million in the first and second year.

2. ADDITIONAL 25% (80% IN TOTAL):

The Company must elect to fund the costs of delivering a feasibility study (in bankable form) to Navigator.

During the period since listing, the Company has recruited two key executives, Tim Dobson as Chief Executive Officer and Geoff Collis as General Manager Exploration who both commenced with the Company in late June 2011.

SUBSEQUENT EVENTS

There has been no matter or circumstance, other than that referred to in the financial statement or notes thereto, that has arisen since the end of the period, that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

FUTURE DEVELOPMENTS

Disclosure of information regarding the likely developments in the operations of the company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the company. Accordingly, this information has not been disclosed in this report.

SAFETY AND ENVIRONMENTAL REGULATIONS

The Company is aware of its occupational health and safety and environmental obligations with regard to its exploration activities and ensures that it complies with all regulations when carrying out exploration work.

DIVIDENDS

No dividends were paid or declared during the financial period. No recommendation for the payment of dividends has been made.

DIRECTORS' REPORT

SHARE OPTIONS

Shares under option or issued on exercise of options

Details of unissued shares or interests under option as at the date of this report are:

Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
3,000,000	Ordinary	25 cents	11 May 2014
3,000,000	Ordinary	25 cents	30 June 2014
2,500,000	Ordinary	30 cents	30 June 2014

The holders of such options do not have the right, by virtue of the option, to participate in any share or other interest issue of any other body corporate or registered scheme.

Shares issued on the exercise of options

No options were exercised during the period.

Share options that expired/lapsed

No options expired or lapsed during the period.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During or since the end of the period the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums except as may be prohibited by the Corporations Act 2001 the Directors and officers of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Director or officer of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

Since the beginning of the financial period the Company has paid insurance premiums of \$13,370 in respect of Directors and Officers liability and corporate reimbursement, for Directors and officers in the Company. The insurance premiums relate to:

- any loss for which the Directors and officers may not be legally indemnified by the Company arising out of any claim, by reason of any wrongful act committed by them in their capacity as a Director or officer of the Company or any related corporation, first made against them jointly or severally during the year of insurance; and
- indemnifying the Company against any payment which it has made and was legally permitted to make arising out of any claim, by reason of any wrongful act, committed by any Director or officer in their capacity as a Director or officer of the Company or any related corporation, first made against the Director or officer during the period of insurance.

DIRECTORS' REPORT

DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the period and the number of meetings attended by each Director (while they were a Director or committee member). During the period, 12 Board meetings, no audit committee meetings, and no remuneration committee meetings were held.

Directors	Board of Directors shares		Remuneration committee		Audit committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Ian Macpherson	12	12	-	-	-	-
Allan Trench	12	11	-	-	-	-
Gerry Kaczmarek	12	12	-	-	-	-
Peter Rowe	10	10	-	-	-	-

PROCEEDINGS ON BEHALF OF THE COMPANY

No persons have applied for leave pursuant to s.237 of the Corporation Act 2001 to bring, or intervene in, proceedings on behalf of Kimberley Rare Earths Limited.

NON-AUDIT SERVICES

Details of amounts paid to the auditor for non-audit services provided during the period by the auditor are outlined in note 20 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 37 of the financial report and forms part of this directors' report.

DIRECTORS' REPORT

REMUNERATION REPORT

This remuneration report, which forms part of the Directors' report, sets out information about the remuneration of Kimberley Rare Earths Limited's key management personnel for the period ended 30 June 2011. Disclosures required under AASB 124 Related Party Disclosures have been transferred from the financial report and have been audited. The additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 have not been audited.

The prescribed details for each person covered by this report are detailed below under the following headings:

- key management personnel details;
- remuneration policy and relationship between the remuneration policy and Company performance;
- remuneration of key management personnel; and
- key terms of employment contracts.

KEY MANAGEMENT PERSONNEL DETAILS

The key management personnel of Kimberley Rare Earths Limited during the period or since the end of the year were:

Ian Macpherson	Non - Executive Chairman (appointed on 2 December 2010)
Allan Trench	Non - Executive Director (appointed on 2 December 2010)
Gerry Kaczmarek	Non - Executive Director (appointed on 2 December 2010)
Peter Rowe	Non - Executive Director (appointed on 21 January 2011)
Tim Dobson	Chief Executive Officer (commenced 27 June 2011)
Geoff Collis	General Manager - Exploration (commenced 20 June 2011)

REMUNERATION POLICY AND RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

The Board policy for determining remuneration is based on the principle of remunerating Directors and senior executives on their ability to add value to the Company (taking into account the Company's strategic plan and operations) whilst also considering market packages for similar positions within the industry and, where relevant, in consultation with external consultants. The Board appreciates the interrelationship between this policy and Company performance. It acknowledges that it is in the best interests of shareholders to provide challenging but achievable incentives to reward senior executives for reaching the Company's stated goals.

Key management personnel (excluding non-executive Directors)

The Remuneration Committee is responsible for determining the remuneration policies for the Company, including those affecting Directors and other key management personnel. The Committee may seek appropriate external advice to assist in its decision making. Remuneration policies and practices are directed primarily at attracting, motivating and retaining key management personnel.

The remuneration policy for senior executives has the following key elements:

- Primary benefits (being salary, fees, bonus and non monetary benefits);
- Post-employment benefits (being superannuation);
- Equity (being share options granted at the discretion of the Board); and
- Other benefits.

DIRECTORS' REPORT

Non-Executive Directors

The Company's non-executive Directors receive only fees (including statutory superannuation) for their services and the reimbursement of reasonable expenses. The fees paid to the Company's non-executive Directors reflect the demands on, and responsibilities of these Directors. They do not receive any retirement benefits (other than compulsory superannuation). The Board decides annually the level of fees to be paid to non-Executive Directors with reference to market standards.

Non-Executive Directors may also receive share options where this is considered appropriate by the Board as a whole and with regard to the stage of the Company's development. Such options vest across the life of the option and are primarily designed to provide an incentive to non-Executive Directors to remain with the Company.

A Non-Executive Directors' fee pool limit of \$300,000 per annum was approved by the Directors and will be presented for ratification by the shareholders at this year's annual general meeting. This pool is currently utilised to a level of \$180,000 per annum. The fees currently paid to non-Executive Directors are \$60,000 per annum for the Non-Executive Chairman and \$40,000 per annum for the Non-Executive Directors Remuneration of key management personnel

Directors	Short-term employee benefits				Postemployment benefits	Other long term employee benefits	Share based payments	Total	% of compensation consists of options
	Salary & fees \$	Bonus \$	Nonmonetary \$	Other \$	Superannuation \$		Options \$		
DIRECTORS									
Ian Macpherson	6,418	-	-	-	578	-	-	6,996	-
Allan Trench (i)	9,664	-	-	-	-	-	-	9,664	-
Gerry Kaczmarek(ii)	4,279	-	-	-	385	-	-	4,664	-
Peter Rowe(iii)	16,190	-	-	-	1,457	-	-	17,647	-
EXECUTIVES									
Tim Dobson	-	-	-	-	-	-	-	-	-
Geoff Collis	-	-	-	-	-	-	-	-	-
	36,551				2,420			38,971	

(i) Fees paid to Dr. Trench include a one off payment of \$5,000 to reflect marketing and investor relations services performed by Dr. Trench during the Initial Public Offering that the Board resolved were over and above his usual duties as a non-executive director.

(ii) Directors fees for Mr. Kaczmarek are paid to Navigator Resources Limited, of which Mr. Kaczmarek is the Company Secretary and Chief Financial Officer.

(iii) Directors fees for Mr. Rowe accrued from his date of appointment, whilst directors fees for the other directors accrued from date of listing on ASX.

During the period no options were issued to key management personnel.

No options granted as remuneration were exercised by key management personnel or lapsed during the period.

Key terms of employment contracts

Remuneration and other terms of employment for the Chief Executive Officer, Tim Dobson are formalised in a service agreement. Major provisions of this agreement are set out below:

- Term of agreement - ongoing commencing 27 June 2011;
- Base salary reviewed annually, currently \$360,000 per annum (inclusive of superannuation entitlements);
- Short term incentive comprising an annual performance bonus of up to 30% of base salary which will be assessed against key performance indicators set by the Board;
- Long term incentive comprising 1.5 million options exercisable at 30 cents each on or before 30 June 2014. The options will vest in two equal tranches on 30 June 2012 and 30 June 2013;
- No additional remuneration entitlement is payable upon resignation or termination other than the settlement of ordinary annual and long service entitlements; and
- Notice period of 90 days or by the Company giving 180 days notice in writing.

DIRECTORS' REPORT

Remuneration and other terms of employment for the General Manager - Exploration, Geoff Collis are formalised in a service agreement. Major provisions of this agreement are set out below:

- Term of agreement - ongoing commencing 20 June 2011;
- Base salary reviewed annually, currently \$225,000 per annum (inclusive of superannuation entitlements);
- Short term incentive comprising an annual performance bonus of up to 30% of base salary which will be assessed against key performance indicators set by the Board;
- Long term incentive comprising 1 million options exercisable at 30 cents each on or before 30 June 2014. The options will vest in two equal tranches on 30 June 2012 and 30 June 2013;
- No additional remuneration entitlement is payable upon resignation or termination other than the settlement of ordinary annual and long service entitlements; and
- Notice period of 90 days.

This Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



Ian Macpherson

Chairman

Perth, 27 September 2011

AUDITOR'S INDEPENDENCE DECLARATION



AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Kimberley Rare Earths Limited for the period ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kimberley Rare Earths Limited.

Perth, Western Australia
27 September 2011



L DI GIALLONARDO
Partner, HLB Mann Judd

INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

To the members of KIMBERLEY RARE EARTHS LIMITED

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Kimberley Rare Earths Limited ("the company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the company.

Directors' Responsibility for the Financial Report

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

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

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INDEPENDENT AUDITOR'S REPORT



MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL REPORT

This auditor's report relates to the financial report and remuneration report of Kimberley Rare Earths Limited for the financial period ended 30 June 2011 included on Kimberley Rare Earths Limited's website. The company's directors are responsible for the integrity of the Kimberley Rare Earths Limited website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report identified in this report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

- (a) the financial report of Kimberley Rare Earths Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in the directors' report for the period ended 30 June 2011. 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.

Auditor's Opinion

In our opinion, the Remuneration Report of Kimberley Rare Earths Limited for the period ended 30 June 2011 complies with section 300A of the Corporations Act 2001.

HLB MANN JUDD
Chartered Accountants

L DI GIALLONARDO
Partner

Perth, Western Australia
27 September 2011

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DIRECTORS' DECLARATION

The directors declare that:

- (a) the financial statements, notes and the additional disclosures of the company are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the period then ended; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (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.
- (c) note 2 confirms that the financial statements also comply with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the period ended 30 June 2011.

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

On behalf of the Directors



Ian Macpherson

Chairman

Perth, 27 September 2011

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2011

	Note	2011 \$
CONTINUING OPERATIONS		
Revenue	5	112,154
Consultants & employee benefits expense		(39,970)
Administration expense		(110,868)
Finance costs		(3,655)
Loss before income tax expense		(42,339)
Income tax expense	6	-
Loss for the period		(42,339)
Other comprehensive income:		-
Total comprehensive loss for the period		(42,339)
Loss per share:		
Basic (cents per share)	13	0.27

Notes to the financial statements are included on pages 45 to 62.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011 \$
CURRENT ASSETS		
Cash and cash equivalents		16,912,312
Trade and other receivables	7	59,214
Other assets	8	13,647
Total current assets		16,985,173
NON-CURRENT ASSETS		
Exploration and evaluation expenditure	9	7,199,421
Total non-current assets		7,199,421
Total assets		24,184,594
CURRENT LIABILITIES		
Trade and other payables	10	98,774
Total current liabilities		98,774
Total liabilities		98,774
Net assets		24,085,820
EQUITY		
Issued capital	11	23,568,539
Reserves	12	559,620
Accumulated losses		(42,339)
		24,085,820
Total equity		24,085,820

Notes to the financial statements are included on pages 45 to 62.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2011

	Issued capital \$	Option reserve \$	Accumulated losses \$	Total \$
Loss for the period	-	-	(42,339)	(42,339)
Total comprehensive loss for the period	-	-	(42,339)	(42,339)
Recognition of share-based payments		559,620	-	559,620
Issue of shares	25,116,856	-	-	25,116,856
Share issue expenses	(1,548,317)	-	-	(1,548,317)
Balance at 30 June 2011	23,568,539	559,620	(42,339)	24,085,820

Notes to the financial statements are included on pages 45 to 62.

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2011

	Note	2011 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees		(145,277)
Interest and other costs of finance paid		(3,655)
Interest received		89,950
Net cash used in operating activities	16 (b)	(58,982)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditure		(39,611)
Net cash used in investing activities		(39,611)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of equity securities		18,236,856
Payment of share issue costs		(1,225,951)
Borrowings from controlling entity		312,985
Repayments to controlling entity		(312,985)
Net cash provided by financing activities		17,010,905
Net increase in cash and cash equivalents		16,912,312
Cash and cash equivalents at the end of the period	16 (a)	16,912,312

Notes to the financial statements are included on pages 45 to 62.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

1. GENERAL INFORMATION

Kimberley Rare Earths Limited (the Company) is a public company listed on the Australian Securities Exchange (trading under the code "KRE"), which is incorporated and operates in Australia.

The Company's registered office and its principal place of business are as follows:

REGISTERED OFFICE	PRINCIPAL PLACE OF BUSINESS
C/-MGI Perth Pty Ltd	Suite 1, 83 Havelock Street
Level 7, the Quadrant, 1 William Street	West Perth WA 6005
Perth WA 6000	

The entity's principal activities are mineral exploration and project development in Western Australia.

2. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 27 September 2011.

BASIS OF PREPARATION

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experiences 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 the 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 the current and future periods.

Refer to Note 3 for a discussion of critical judgements in applying the Company's accounting policies and key sources of estimation uncertainty.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Company has reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2011. As a result of this review the Directors have determined that there is no material impact, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

These Standards and Interpretations will be first applied in the financial report of the Company that relates to the annual reporting period beginning after the effective date of each pronouncement.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Kimberley Rare Earths Limited.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand; cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

(c) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity in respect of services provided by employees up to reporting date.

(d) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Investments in subsidiaries are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at cost price, net of transaction costs.

(e) Financial instruments issued by the Company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

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

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

(g) Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is provided on all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business Combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

Income tax (contd)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(i) Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred may be accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- (i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
- (ii) exploration and evaluation activities in the area have not, at balance date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit or loss in the year in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Notwithstanding the fact that a decision not to abandon an area of interest has been made, based on the above, the exploration and evaluation expenditure in relation to an area may still be written off if considered appropriate to do so.

(j) Operating Cycle

The operating cycle of the entity coincides with the annual reporting cycle.

(k) Receivables

Trade and other receivables are recorded at amounts due less any allowance for doubtful debts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

(l) Payables

Trade payables and other accounts payable are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services.

(m) Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

(n) Property, Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a diminishing value basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

<i>Class of fixed asset</i>	<i>Depreciation rate (%)</i>
Office furniture & equipment	20%
Exploration equipment	20%

(o) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(p) Provisions for Restoration and Rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites, removing facilities and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the balance date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

Provisions for Restoration and Rehabilitation (contd)

The initial estimate of the restoration and rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

(q) Revenue recognition

Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(r) Share-based payments

Equity-settled share-based payments are measured at the fair value of the equity instrument at the grant date. The fair value at grant date is measured by use of the Black and Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(s) Earnings per share

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

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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(t) Comparatives

No comparatives have been disclosed in the report as this is the first financial reporting period of the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

3. CRITICAL ACCOUNTING JUDGEMENTS & KEY SOURCES OF ESTIMATION UNCERTAINTY

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant note to the financial statements.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. No impairment loss was recorded in the period.

Share based payments

The Company measures the cost of equity settled transactions with consultants and employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black & Scholes model using various assumptions.

4. SEGMENT INFORMATION

The Company currently operates in one geographical segment being Western Australia, and in one industry, being the exploration for, and development of, mineral resources.

5. REVENUE

An analysis of the Company's revenue for the period, from continuing operations, is as follows:

	2011 \$
CONTINUING OPERATIONS	
Interest income	112,154
	112,154

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

6. INCOME TAXES

Income tax recognised in profit or loss

	2011 \$
TAX EXPENSE COMPRISES:	
Current tax expense	-
Deferred tax expense relating to the origination and reversal of temporary differences	-
Total tax expense	-

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Loss from operations	(42,339)
Income tax expense calculated at 30%	(12,701)
Effect of expenses that are not deductible in determining taxable profit	10,110
Effect of changes in unrecognised temporary differences	(78,168)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	80,759
	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

Unrecognised deferred tax assets and liabilities

	2011 \$
THE FOLLOWING DEFERRED TAX ASSETS AND (LIABILITIES) HAVE NOT BEEN BROUGHT TO ACCOUNT AS ASSETS:	
Tax losses - revenue	80,759
Temporary differences	(2,057)
	78,702
Deferred tax assets not recognised in equity - share issue costs	304,442

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

7. TRADE AND OTHER RECEIVABLES

	2011 \$
CURRENT	
Goods and services tax recoverable	16,725
Accrued interest income	22,204
Other debtors	20,285
	59,214

8. PREPAYMENTS

	2011 \$
CURRENT	
Prepayments	13,647
	13,647

9. EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation phase:	2011 \$
On incorporation	-
Capitalised during the period	7,199,421
Balance at end of period	7,199,421

The ultimate recoupment of costs carried forward in respect of areas of interest still in the exploration and/or evaluation phases is dependent on successful development and commercial exploitation or, alternatively, sale of the respective areas of interest.

10. TRADE AND OTHER PAYABLES

	2011 \$
Trade and other payables (i)	98,774
	98,774

(i) The average credit period on purchases and services is 30 days. No interest is charged on the trade payables for the first 30 to 60 days from the date of the invoice. Thereafter, interest may be charged at various penalty rates on the outstanding balance. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

11. ISSUED CAPITAL

	2011 \$
125,584,269 fully paid ordinary shares	23,568,539

	2011	
	No.	\$
FULLY PAID ORDINARY SHARES		
Ordinary shares issued on incorporation	2	2
Ordinary shares issued as consideration for purchase of assets	34,399,998	6,880,000
Issue of shares under initial public offering	91,184,269	18,236,854
Share issue costs		[1,548,317]
Balance at end of period	125,584,269	23,568,539

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options on issue

Share options issued by the Company carry no rights to dividends and no voting rights.

As at 30 June 2011, the Company has 6,000,000 share options on issue exercisable on a 1:1 basis for 6,000,000 shares at an exercise price of 25 cents. The options will expire between 11 May 2014 and 30 June 2014.

12. RESERVES

	2011 \$
Share-based payments reserve	559,620
	559,620

The share-based payments reserve arose on the grant of share options issued as consideration for the purchase of exploration and evaluation assets and of options issued as payment for capital raising services rendered to the Company during the initial public offering. Further information regarding share-based payments made during the period is disclosed in note 18 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

13. LOSS PER SHARE

	2011 Cents per share
Basic loss per share	0.27

Basic loss per share

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2011 \$
Net loss	42,339

	2011 No.
Weighted average number of ordinary shares for the purposes of basic loss per share	15,454,586

Diluted loss per share

Diluted loss per share has not been calculated as the result does not increase loss per share.

14. COMMITMENTS FOR EXPENDITURE

	2011 \$
(a) OTHER EXPENDITURE COMMITMENTS	
Exploration expenditure	
Not longer than 1 year	70,000
Longer than 1 year and not longer than 5 years	-
Longer than 5 years	-
	70,000

15. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the opinion of the Directors, there were no material contingent liabilities as at 30 June 2011 and no contingent liabilities have arisen in the interval between the period end and the date of this financial report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

16. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the period as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	2011 \$
Cash at bank	4,912,312
Term deposits	12,000,000
	16,912,312

Non cash financing and investing activities

During the period the Company issued 34,399,998 ordinary shares at 20 cents and 3,000,000 options over ordinary shares exercisable at 25 cents to Navigator Resources Limited for the acquisition of 25% of the Cummins Range project.

During the period the Company also issued 3,000,000 options over ordinary shares exercisable at 25 cents to BGF Equities Pty Ltd as part of their broking fee for managing the listing of the Company.

(b) Reconciliation of loss for the period to net cash flows from operating activities

	2011 \$
Loss for the period	(42,339)

Changes in net assets and liabilities, net of effects
from acquisition and disposal of businesses:

Increase in assets:

Trade and other receivables	(59,214)
Prepayments	(13,647)

Increase in liabilities:

Trade and other payables	56,218
Net cash from operating activities	(58,982)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

17. FINANCIAL INSTRUMENTS

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Interest rate risk; and
- Capital management.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this note and the financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Liquidity risk management is the responsibility of the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities and identifying when further capital raising initiatives may be required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non derivative financial assets and liabilities and have been prepared on the following basis:

- Financial assets - based on the undiscounted contractual maturities including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period; and
- Financial liabilities - based on undiscounted cash flows on the earliest date on which the Company can be required to pay, including both interest and principal cash flows.

2011	Less than 1 month \$	1 - 3 months \$	3 months to 1 year \$	1 - 5 years \$	5+ years \$	Total \$
FINANCIAL ASSETS						
Non-interest bearing	37,010	-	-	-	-	37,010
Variable interest rate	4,912,312	-	-	-	-	4,912,312
Fixed interest rate	3,013,425	6,073,975	3,093,450	-	-	12,180,850
	7,962,747	6,073,975	3,093,450	-	-	17,130,172
FINANCIAL LIABILITIES						
Non-interest bearing						
Financial liabilities	44,487	7,287	47,000	-	-	98,774
	44,487	7,287	47,000	-	-	70,98,774

Interest rate risk management

The Company is exposed to interest rate risk as it places funds at predominantly fixed interest rates but for varying periods of time. The Company manages this risk by maintaining an appropriate mix between short and long term investments, which also facilitates access to money and allows regular review of the most favourable interest rates attainable.

Although some of the Company's assets are subject to interest rate risk, it is not dependent on this income. Interest income is only incidental to the Company's operations and operating cash flows.

The Company is not exposed to interest rate risk associated with borrowed funds.

Interest rate sensitivity analysis

The sensitivity analyses of the Company's exposure to interest rate risk at the reporting date has been determined based on a change of 50 basis points in interest rates.

At reporting date, if interest rates had been 50 basis points higher and all other variables were constant, the Company's net loss after tax would have decreased by \$85,466 with a corresponding increase in equity. Where interest rates decreased, there would be an equal and opposite impact on the loss after tax and equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital structure of the Company consists of equity only, comprising issued capital and reserves, net of accumulated losses. The Company's policy is to use capital market issues to meet the funding requirements of the Company.

The Company is not subject to externally imposed capital requirements.

Fair value of financial assets and liabilities

AASB 7 - Financial Instruments: Disclosures requires disclosure of the fair values of financial assets and liabilities categorised by the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Company has no financial assets or liabilities at 30 June 2011 which have been measured at fair value using any of the above measurements.

Unless otherwise stated, the carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 2. The carrying amount of trade payables is assumed to approximate their fair value due to their short term nature.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

18. SHARE BASED PAYMENTS

(i) Share based payment arrangements in existence during period

The following share-based payment arrangements were in existence during the current period:

Number	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
3,000,000 (i)	13 May 2011	11 May 2014	25 cents	279,810
3,000,000 (ii)	13 May 2011	30 June 2014	25 cents	279,810

(i) Issued to Navigator Resources Limited as consideration for the purchase of a 25% interest in the Cummins Range project.

(ii) Issued to BGF Equities Pty Ltd as part of their broking fee in relation to managing the listing of the Company.

Each option issued under the arrangement converts into one ordinary share of Kimberley Rare Earths Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. Options neither carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The fair value of the share options granted during the period is \$559,620. These options were priced using a Black & Scholes pricing model. Expected volatility is based on the movement of the underlying share price around its average share price over the expected term of the option. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

Inputs into the model	Option series	
Grant date share price (cents)	20 cents	20 cents
Exercise price (cents)	25 cents	25 cents
Expected volatility	75%	75%
Option life	3 years	3 years
Dividend yield	-	-
Risk-free interest rate	5.16%	5.16%

No other features of options granted were incorporated into the measurement of the fair value.

The following table illustrates the number and weighted average exercise prices of and movements in share options issued during the period:

	2011	
	Number of Options	Weighted average exercise price \$
Granted during the period	6,000,000	0.25
Exercised during the period	-	-
Lapsed during the period	-	-
Balance at end of the period (i)	6,000,000	0.25
Exercisable at end of the period	6,000,000	0.25

(i) Balance at end of the period

The share options outstanding at the end of the period had a weighted average remaining contractual life of 2.9 years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

19. RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in the Remuneration Report which forms part of the Directors' Report and has been audited. The aggregate compensation of the key management personnel is summarised below:

	2011 \$
Short term employee benefits	36,551
Post employment benefits	2,420
Other long term employee benefits	-
Share based payments	-
	38,971

Key management personnel equity holdings

Fully paid ordinary shares of Kimberley Rare Earths Limited:

	Purchased during the period No.	Granted as compensation No.	Other (i) No.	Balance on resignation No.	Balance at 30 June No.
2011					
Ian Macpherson	250,000	-	103,522	N/A	353,522
Allan Trench	254,265	-	127,131	N/A	381,396
Gerry Kaczmarek	100,000	-	15,900	N/A	115,900
Peter Rowe	50,000	-	-	N/A	50,000
Tim Dobson	-	-	-	N/A	-
Geoff Collis	-	-	-	N/A	-
	654,265	-	246,553		900,818

(i) acquired in capacity as shareholders of Navigator Resources Limited, which distributed the majority of its shareholding in KRE to its shareholders as part of an in specie return of capital in June 2011.

Other transactions with key management personnel of the Company

There were no other transactions with key management personnel of the Company during the period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2011

(b) Transactions with other related parties

Other related parties include:

- entities with significant influence over the Company;
- associates;
- joint ventures in which the entity is a venturer; and
- other related parties.

During the period, the Company received a loan from Navigator Resources Limited to the value of \$312,895 to assist with meeting IPO expenses. The terms of the loan stated that interest would be charged at the RBA cash rate plus 2% and the loan was repayable within five days of KRE's shares listing on ASX, or such other date as agreed by Navigator Resources Limited and the Company. This loan was fully repaid before the reporting date. The Company paid \$3,655 interest on this loan.

20. REMUNERATION OF AUDITORS

	2011 \$
AUDITOR OF THE COMPANY	
Audit or review of the financial report	18,000
Other services - Independent Accountants Report	8,000
	26,000

The auditor of Kimberley Rare Earths Limited is HLB Mann Judd.

21. SUBSEQUENT EVENTS

There has been no matter or circumstance, other than that referred to in the financial statement or notes thereto, that has arisen since the end of the period, that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 27 SEPTEMBER 2011

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. This information is current as at 27 September 2011.

1. SHAREHOLDINGS

(a) Distribution of shareholder number

Category (size of holding)	Ordinary shares	Number of holders
1 – 1,000	692,218	2,408
1,001 – 5,000	2,784,672	1,077
5,001 – 10,000	2,991,404	401
10,001 – 100,000	28,175,181	867
100,000 and over	90,940,794	152
Total shareholding	125,584,269	4,905

(b) Less than marketable parcels of shares

The number of shareholdings held in less than marketable parcels is 3,293 given a share value of 12.5 cents per share.

(c) Voting rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has vote on a show of hands.

Options

Options over ordinary shares do not carry voting rights.

ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 27 SEPTEMBER 2011

(d) 20 Largest shareholders – ordinary shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1 JP Morgan Nominees Australia Limited	11,515,675	9.17
2 Navigator Resources Limited	11,110,390	8.85
3 Citicorp Nominees Pty Limited	8,457,523	6.73
4 Hsbc Custody Nominees	3,473,413	2.77
5 Gregorach Pty Ltd	2,954,300	2.35
6 Meriwee Pty Ltd – Merriwee Super Fund Account No 2	2,550,000	2.03
7 Ie Properties Pty Ltd	2,240,378	1.78
8 Navigator Resources Limited – KRE Shares (*)	2,107,460	1.68
9 BT Portfolio Services Limited	1,875,000	1.49
10 Bannaby Investments Pty Ltd	1,791,016	1.43
11 ABN Amro Clearing Sydney Nominees Pty Ltd	1,500,421	1.19
12 National Nominees Limited	1,396,772	1.11
13 Chalmsbury Nominees Pty Ltd	1,359,546	1.08
14 Meriwee Pty Ltd – Merriwee Super Fund Account	1,350,000	1.08
15 Interdale Pty Ltd	1,200,000	0.96
16 Fergus & Co Pty Ltd	1,092,500	0.87
17 Mr Malcolm Arnold Haines & Mrs Jennifer Haines	1,021,260	0.81
18 Ugumjil Pty Ltd	989,085	0.79
19 Forsyth Barr Custodians Ltd	957,686	0.76
20 Fergus & Co Pty Ltd	665,390	0.53
Total	59,607,815	47.46

(*) This holding comprises residual KRE shares that are due to be distributed to parties related to Navigator Resources Limited following the return of capital completed by Navigator in June 2011. As at the date of this report KRE has not received ASX restrictions agreements in relation to those holdings. Once those restriction agreements have been received by KRE, KRE will authorise the transfer of those shares to the relevant parties.

(e) Substantial shareholders

Substantial shareholders listed in the company's holding register who have notified the Company as at 27 September 2011:

Name	Number of fully paid ordinary shares held
1 Navigator Resources Ltd	11,110,390

ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 27 SEPTEMBER 2011

2. COMPANY SECRETARY

The name of the company secretary is Darren Crawte.

3. REGISTERED OFFICE AND PRINCIPLE ADMINISTRATIVE OFFICE

The address of the registered office in Australia is c/- MGI Perth Level 7, The Quadrant 1 William Street PERTH WA 6000

Telephone +61 8 9463 2463

The principle administrative office is 1/83 Havelock Street WEST PERTH WA 6005

Telephone +61 8 9486 4326

4. REGISTERS OF SECURITIES ARE HELD AT THE FOLLOWING ADDRESS:

Advanced Share Registry Services

150 Stirling Highway, Nedlands WA 6009

Telephone +61 8 9389 8033

5. SECURITIES EXCHANGE LISTING

Quotation has been granted for all the ordinary shares of the company on the Australian Securities Exchange Limited.

6. UNQUOTED EQUITY SECURITIES

Terms	Unlisted options	
	Number	Number of Holders
1 Unlisted options exercisable at 25 cents on or before 11 May 2014	3,000,000	1
2 Unlisted options exercisable at 25 cents on or before 30 June 2014	3,000,000	1
3 Unlisted options exercisable at 30 cents on or before 30 June 2014	2,500,000	2
	8,500,000	4

Unquoted equity security holdings greater than 20%

Option holder	Unlisted options	
	Number	%
1 Navigator Resources Ltd - Unlisted options exercisable at 25 cents on or before 11 May 2014	3,000,000	100%
2 BGF Equities Pty Ltd - Unlisted options exercisable at 25 cents on or before 30 June 2014	3,000,000	100%

ADDITIONAL SECURITIES EXCHANGE INFORMATION AS AT 27 SEPTEMBER 2011

7. RESTRICTED SECURITIES

		Number of securities	Escrowed until
1	Navigator Resources – ordinary fully paid shares	11,110,390	16 May 2013
2	Navigator Resources – ordinary fully paid shares held on trust for parties related to Navigator pending receipt of ASX restriction agreements	2,499,117	16 May 2013
2	Navigator Resources Ltd - Unlisted options exercisable at 25 cents on or before 11 May 2014	3,000,000	16 May 2013
3	BGF Equities Pty Ltd - Unlisted options exercisable at 25 cents on or before 30 June 2014	3,000,000	16 May 2013

8. ON-MARKET BUY BACK

At the date of this report, the Company is not involved in an on-market buy back.

9. USE OF CASH AND ASSETS

From the date of admission to the date of this report, the Company has used the cash and assets readily convertible to cash available at the time of admission solely for the purpose and objectives as described in the Company's prospectus.

10. INTERESTS IN MINING INTERESTS - 25%

State	Tenement	Status	Area km 2	Grant date	Expiry date	Current commitment
WA	EL 80/2232	Granted	48.5	21 March 2011	3 May 2012	\$70,000





kre
KIMBERLEY
RARE
EARTHS

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