

## Quarterly Activities Report and Appendix 5B

For the quarter ended 30 September 2012

**kre**

KIMBERLEY  
RARE  
EARTHS

[kimberleyrareearths.com.au](http://kimberleyrareearths.com.au)

## ASX:KRE

**Kimberley Rare Earths Limited**  
ABN 20 147 678 779

### Directors

Jon Parker – Chairman & NED  
Ian Macpherson – NED  
Tim Dobson – Managing Director  
Allan Trench – NED  
Jon Parker – NED  
Mal James – NED

### Management

Tim Dobson – Managing Director  
Geoff Collis – GM Exploration  
Michael Chan – GM Project Dev.  
Darren Crawte – Company Secretary

### Head Office

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West Perth WA 6005  
Telephone: +61 8 9486 4326  
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### Website

[www.kimberleyrareearths.com.au](http://www.kimberleyrareearths.com.au)

### Capital Structure

128.2m shares  
6.0m 25c, 2014 unlisted options  
2.5m 30c, 2014 unlisted options  
0.75m 30c, 2015 unlisted options

### Cash at 30 September 2012

\$11.1 million

### Market cap at 30 September 2012

\$8.2 million

For further information,  
please contact:

**TIM DOBSON**  
Managing Director

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Tel: +61 8 9486 4326

## Highlights

### **Malilongue Project - Mozambique** *Strategic metals exploration project*

- Three TREO prospects identified:
  - ‘Vundu’ confirmed as TREO prospect
  - ‘Tombalala’ identified as new TREO prospect
  - ‘Central’ identified as new HREO prospect
- Xenotime pebble samples return high-grade HREO assays:
  - Alluvial xenotime pebbles assay 40% TREO and 27% HREO
- Three lithium–tantalum–tin (Li-Ta-Sn) prospects identified:
  - ‘Chigaiio’ confirmed as Li-Ta-Sn pegmatite-hosted prospect
  - ‘Tombalala North’ identified as new Li-Ta-Sn prospect
  - ‘Malala’ identified as new Li-Ta-Sn prospect
- Follow-up trench sampling in progress.

### **Cummins Range Project – Western Australia** *Light rare earths project*

- 25% interest transferred to JV partner; JV agreement terminated.

### **Corporate**

- Strong cash reserves: \$11.1 million
- Share price cash backing 8.7 cents per share
- M&A strategy a key focus
- Board: NED appointment; NED retirement.



### **About Kimberley Rare Earths**

Kimberley Rare Earths Limited is a resources exploration and project development company and listed on the Australian Securities Exchange (ASX:KRE) on 18 May 2011, having raised \$18.2m under an oversubscribed Initial Public Offering.

KRE holds a 40% interest in the mineral rights (excluding gemstones), and has entered an agreement to earn up to a 90%, in the Malilongue Project in Mozambique. Malilongue comprises two tenements (Mining Concession 1133C and Prospecting License 1583L) with significant exploration potential including for pegmatite-hosted heavy rare earth elements and other strategic metals. KRE began field exploration at Malilongue in March 2012.



## Operations

### Malilongue strategic metals project, Mozambique

The Malilongue Project is located in north-western Mozambique about 300km west of the regional mining centre of Tete (Figure 1). It comprises two tenements, Mining Concession 1133C and Prospecting License 1583L.

KRE has the right to earn up to a 90% interest<sup>1</sup> in the project by spending \$4 million over 5 years, and has earned an initial 40% interest<sup>1</sup> in the project for the consideration of \$300,000 cash; 1,000,000 ordinary KRE shares; and 750,000 KRE options exercisable at 30 cents each on or before 4 years from the vesting date.

KRE has the right to earn up to a further 50% to take its interest<sup>1</sup> to 90% via the following steps:

- 15% (to 55%) by sole funding \$1 million on the project within two years (Second Farm-In Date);
- 25% (to 80%) by sole funding expenditure of \$3 million within a further three years (Third Farm-In Date); and
- 10% (to 90%) by sole funding expenditure to the point of production.



Figure 1 - Malilongue site location, 300 km from Tete, Mozambique.

### Exploration

Field exploration at Malilongue commenced in March 2012 to assess priority heavy rare earth targets identified from pre-existing regional geophysical datasets. Objectives were primarily as follows; (a) discovering HREO mineralisation within pegmatites located around the margin of the Malilongue granite; (b) locating the source of alluvial/eluvial xenotime, a HREO mineral commonly found within the licence; and (c) screening the tenements for other strategic mineral occurrences.

Systematic soil sampling geochemical surveys, at various grid spacings, have been applied to large target areas defined by combining the high-quality regional geophysical and remotely sensed datasets with ground based geological mapping. Airborne radiometric anomalies located along the margins of the granite have provided strong rare earths targets and structural analysis of the aeromagnetic data has provided reliable information on the Malilongue granite margins as well as defining targets for pegmatite hosted Li-Ta-Sn mineralisation.

Regolith conditions are ideal for soil sampling which provides a rapid and cost effective test of the large target areas. A total of 2,579 soil samples have been collected with assays available for 70% with the rest expected by the end of the current quarter.

### Three TREO prospects identified

First identified by airborne radiometric survey, and followed-up by ground-based surveys, the Vundu target is confirmed as a significant total rare earth oxide (TREO) anomaly. Assay results from 670 soil samples collected reveal that TREO anomalism correlates tightly with the Vundu radiometric anomaly (Figure 2). Values peak at over 1,100 ppm TREO and regularly exceed 5 times background. The coincident soil/radiometric anomaly has a strike of over 3 km and a maximum width of 400 m.

<sup>1</sup> Mineral rights, excluding gemstones

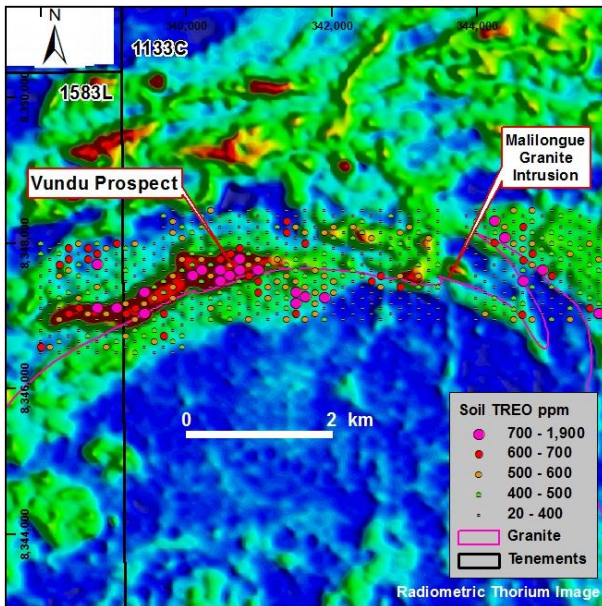


Figure 2: TREO soil geochemical results over the Vundu extended grid.

Geological mapping at Vundu has encountered limited outcrop, however sufficient exposure exists to indicate that Vundu occurs within the contact metamorphic margins of the Malilongue granite and is associated with a coarser-grained, more alkali-rich zone which is consistent with the anticipated geological model. Initial trench sampling of the Vundu target has been completed and all samples have been dispatched to the laboratory.

A large zone of highly anomalous TREO-in-soil geochemical assays has been identified within the Eastern Pegmatite Field (Figure 3). This area has been a high priority target for KRE as it contains over 40 separate pegmatite occurrences that have historically been worked by artisanal miners for high quality gemstones including topaz, aquamarine and amazonite. The anomaly measures 2 km x 0.8 km, with an assay peak of 888 ppm TREO, and is coincident with a subtle airborne radiometric high.

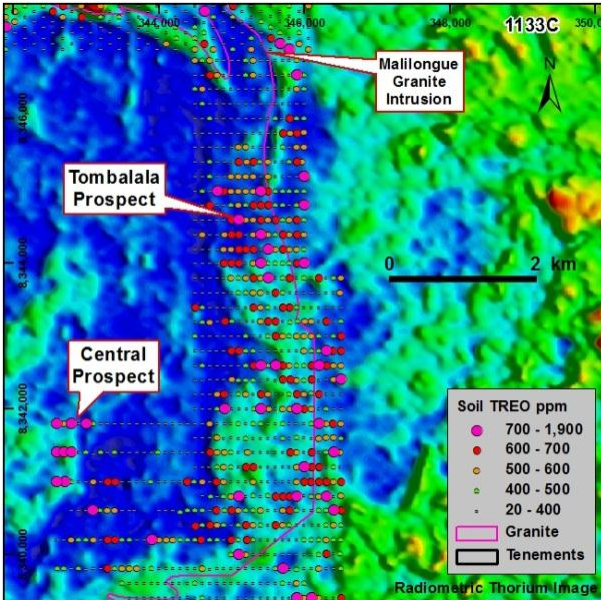


Figure 3: Tombalala prospect TREO soil assay results

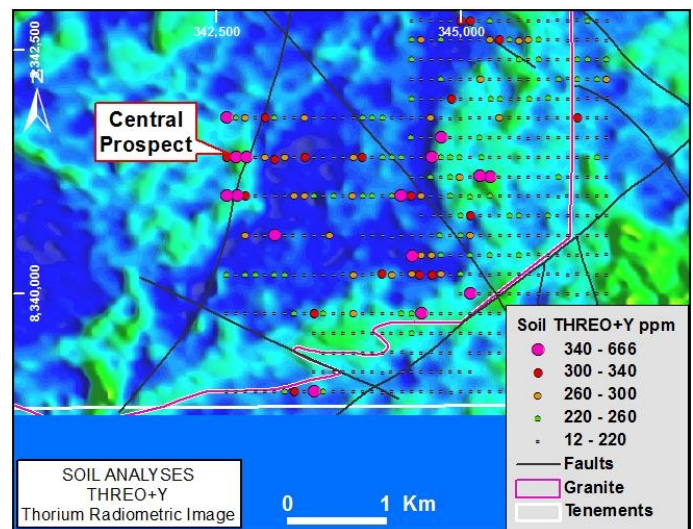


Figure 4: Central HREO-in-soil geochemical anomaly.

A significant HREO-in-soil geochemical anomaly has been identified in the centre of the Malilongue granite pluton (Figure 4). Early soil grids only just extended into this area and the anomaly was detected on the western end of three lines. HREO values reach 666 ppm from a background of less than 100 ppm HREO.

### Three lithium-tantalum-tim (Li-Ta-Sn) prospects identified

The full suite of analytical results has been interpreted and reveals considerable Li-Ta-Sn surface anomalism located within the Eastern Pegmatite Field. This area has been a high priority target for KRE as it contains over 40 separate pegmatite occurrences that have historically been worked by artisanal miners for high quality gemstones including topaz, aquamarine and amazonite. Three separate Li-Ta-Sn prospects have been identified over a combined strike length of 6 km and named Chigai, Malala and Tombalala North (Figure 6).



The granite margin location and north-south orientation of both the Malala and Tombalala North prospects are considered significant due to the strong structural control to pegmatite development in this region. Both geological mapping and aeromagnetic interpretation support a very strong N-S structural fabric along the eastern margin, potentially controlling pegmatite emplacement.

Geological mapping at Chigaio has identified that the surface Li-Ta-Sn anomalism is directly related to a large pegmatite body emplaced along a major NE trending structure that defines the SE contact of the Malilongue granite. The lithium, tantalum and tin anomalism are not entirely coherent and are slightly offset from each other. This may be indicative of zoned pegmatite bodies, which is consistent with similar deposits currently being mined around the world.

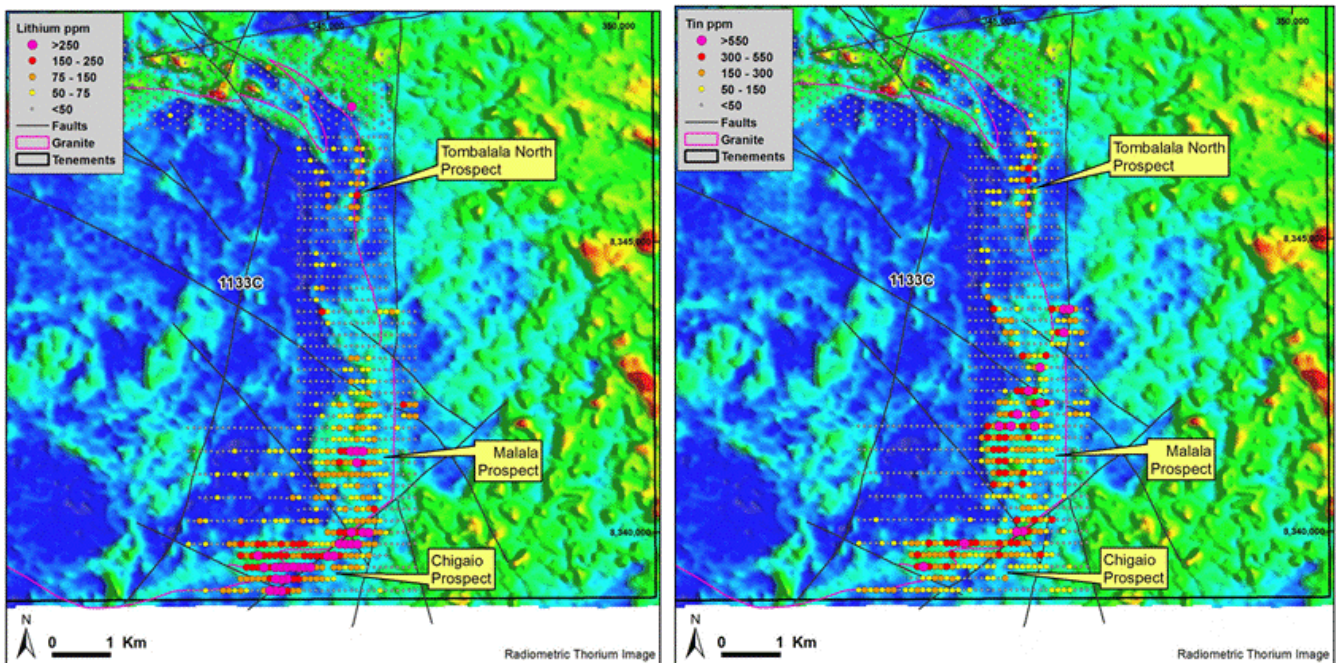


Figure 6: Location of prospects as defined by lithium and tin assay results.

**Xenotime pebble samples return high TREO and HREO grades**

KRE was attracted to the Malilongue project in 2011 due to the presence of xenotime, a well-known HREO mineral. Well rounded, dark brown, heavy alluvial pebbles (Figure 5) collected from creek systems draining the southeast margin of the granite complex have returned very high assay TREO and HREO results. Two samples were submitted for the full analytical suite and the results are summarised in Table 1:

Sample ID.	TREO	HREO	Y <sub>2</sub> O <sub>3</sub>	Dy <sub>2</sub> O <sub>3</sub>	Nd <sub>2</sub> O <sub>3</sub>	Tb <sub>4</sub> O <sub>7</sub>	Ta	Nb	Th	U
	%	%	%	%	%	ppm	%	%	%	ppm
MP011	40	27	10	2.6	2.6	2,833	0.9	3.1	2.2	3,800
T011023	39	25	10	2.7	2.9	3,144	1.6	3.2	2.0	4,600



Figure 5: Well rounded, alluvial xenotime pebbles from the SE corner of the project area.

Table 1: Assay results of xenotime pebbles collected from creeks in the SE

**Follow-up exploration in progress**

The success of the soil geochemical program has prompted the sampling of a much larger area to fully evaluate the better targets. Total geochemical coverage is shown below in Figure 7 with new grids being sampled at Central, to follow-up HREO anomalism; and new targets 'Matambazi', to follow-up anomalous stream sediment results; and 'SRA', to follow-up airborne radiometric anomalism. A program of trenching is underway to test all of the significant soil geochemical anomalies. A total of six trenches have been completed at Chigaio for 3,003 metres, two at Vundu for 894 metres and individual trenches at Tombalala, Central and Malala. All trenches are being continuously channel sampled using three meter composite samples and assay results are expected during the fourth quarter of 2012. This area exhibits a shallow weathering profile and trenching provides a low cost and effective follow-up test of the soil anomalism.

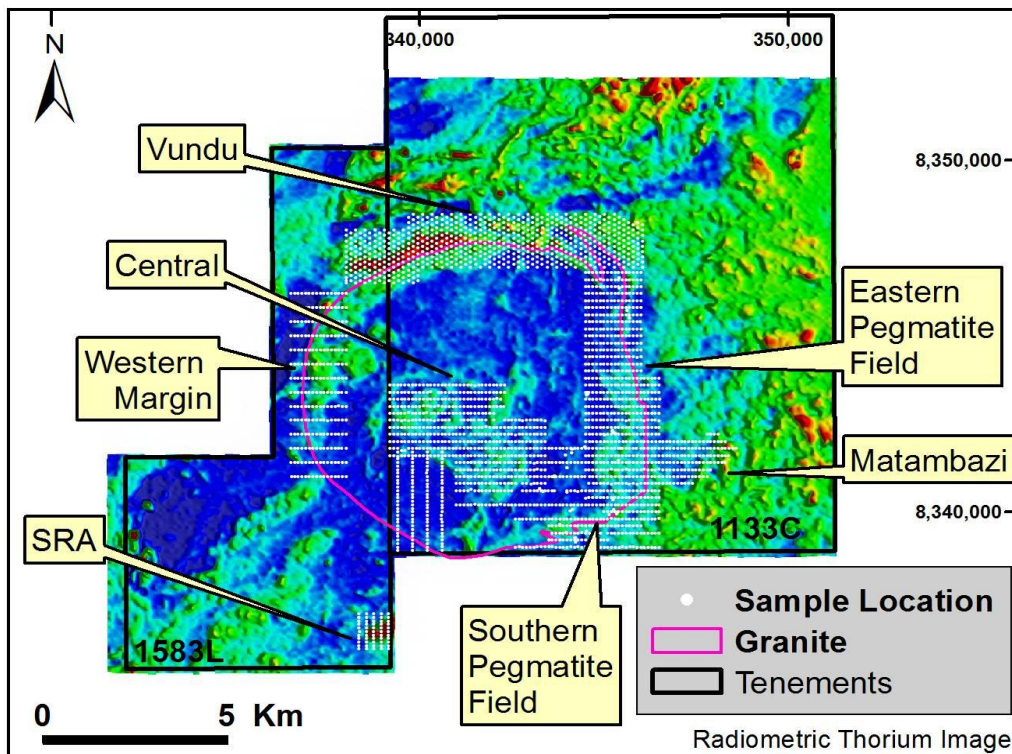


Figure 7: Soil geochemical coverage around the margins of the Malilongue Granite.

**Cummins Range light rare earths project, Western Australia**

On 26 September 2012, Kimberley Rare Earths announced its intention to cease further spending on the Cummins Range and has subsequently reached agreement with joint venture partner Navigator Resources (NAV) to terminate the Joint Venture Agreement (JVA) and transfer its 25 per cent interest in Cummins Range back to NAV. Under the terms of the JVA, KRE had an obligation to spend \$5 million on the Cummins Range Project in the first two years, with any shortfall in this expenditure to be paid in cash to NAV and a further \$5 million in the second two years for KRE to maintain management rights and increase its interest to 55 per cent. The Transaction relieved KRE of these obligations, including a contingent obligation to spend an additional \$1.8 million by May 2013 assuming KRE did not spend any further funds on the project. The Transaction is subject to KRE completing satisfactory rehabilitation of its 2011 drilling sites, work that is currently in progress.

## Corporate

The Company has 128.2 million shares on issue of which approximately 13.6 million are restricted until May 2013. The largest shareholder Navigator Resources Ltd holds 8.7 per cent of the stock (restricted), and the second largest shareholder (JP Morgan Nominees) holds 5 per cent of the stock. As at 30 September, the market capitalisation of the Company was \$8.2 million; the cash balance \$11.1 million; and with no debt.

### ***Business development***

In March 2012, the Company announced that following a strategic review it was commencing a process of reviewing M&A opportunities. Since then several target market sectors have been identified that are complementary to KRE's business model, have potential to leverage the Company's internal capabilities and have solid market outlooks. Target sectors include precious metals, base metals and strategic minor metals. KRE has assessed a large number of projects and corporate opportunities to date, none of which have met the Company's investment criteria. However, the Board notes that the number of quality opportunities is increasing as continuing negative market conditions prevail. It believes that KRE is well positioned to realise a suitable transaction. All potential transactions are being subject to rigorous evaluation based on the best interests of all shareholders.

### ***Board changes***

On 10 September 2012, the Company announced that Malcolm James had joined the Board as a Non-executive Director (NED). Mr James has also assumed the role of Chairman of the Audit Committee.

Mr James is a business graduate of RMIT University (Melbourne) with over 30 years' experience in merchant banking, engineering, manufacturing, mining, energy, financing, philanthropic and social ventures. Over the past 25 years he has had active roles in identifying, exploring, financing and developing a number of significant natural resource and energy projects in Australia, the former Soviet Union, the Middle East, Africa, Asia, South America and the USA.

Mr James has held executive and non-executive board positions on several Australian and London listed companies, business associations, sporting and not-for-profit organisations. He has been directly involved in over A\$2 billion of equity and debt financing and was a founding director of Resource & Capital Management, a boutique resource and capital management firm that was responsible for the identification, financing and listing of several projects/companies on the Australian and London Securities Exchanges. Mr James is currently: an Executive Director of Peninsula Energy Limited, an ASX-listed company; Non-executive Chairman of Triton Gold Ltd, an ASX listed company and Non-executive Chairman of Alecto Minerals plc., an AIM (UK) listed company. Mr James is also a Fellow of the Australian Institute of Company Directors (AICD) and an Associate of the Australasian Institute of Mining & Metallurgy (AusIMM).

On 26 October 2012, Ian Macpherson announced his retirement from the Board in order to accommodate his expanding executive and director duties elsewhere. Ian was the inaugural Chairman of Kimberley Rare Earths before stepping down to a Non-executive Director role on 10 September 2012. On behalf of myself, the KRE team, and the Board, I would like to thank Ian for his stewardship of the Company through its highly successful 2011 IPO and listing and wish him well with his future endeavors.

**TIM DOBSON**  
Managing Director



### **Competent Person Statement**

Information in this ASX release 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 ASX release that relates to Mineral Resources is based on a resource estimate at Cummins Range prepared by Rob Spiers (MAIG) who is a full time employee of H & S Consultants Pty Ltd. All resource work was supervised by Dr Phillip Hellman FAIG, who is a Director of H & S Consultants Pty Ltd. Both Robert and Phil have 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 Competent Persons as defined in the 2004 Edition of the "Australian Code for Reporting of Mineral Resources and Ore Reserves". Robert Spiers and Dr Phillip Hellman consent to the inclusion of these estimates in the form and context in which they appear.

### **Glossary**

<b>Aeromagnetic</b>	Airborne geophysical technique where the intensity of the Earth's magnetic field is measured in a systematic way.
<b>Alluvium</b>	Loose unconsolidated soil or sediment eroded and deposited by water.
<b>Amazonite</b>	A bright green mineral of limited occurrence that can be cut and used as a gemstone.
<b>Dykes</b>	Igneous rocks that intrude the geological sequence at a high angle to the geological layering
<b>Eluvium</b>	Loose unconsolidated soil or sediment deposited under gravitational weathering and accumulation processes.
<b>Gemstones</b>	In the Heads of Agreement signed with GWM covering farm-in rights to the Malilongue heavy rare earths project in Mozambique, gemstones is defined as topaz, aqua-marine and amazonite.
<b>HREO</b>	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) plus Yttrium (Y).
<b>LREO</b>	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.
<b>Pegmatite</b>	A very coarse grained igneous intrusive rock composed predominantly of quartz, feldspar and mica. Certain classes of pegmatite commonly host significant strategic metal ore deposits.
<b>ppm</b>	Parts per million by weight (10,000 ppm equals 1.0 %).
<b>RAB</b>	Rotary air blast, a cost-effective drilling technique used to sample weathered rock.
<b>RC</b>	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.
<b>REO</b>	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).
<b>Sills</b>	Igneous rocks that intrude the geological sequence at a low angle or sub-parallel to the geological layering
<b>TREO</b>	The sum total of the 14 rare earth oxides, Lanthanum to Lutetium plus Yttrium as defined above under REO.
<b>Xenotime</b>	A rare earth phosphate mineral comprising predominantly yttrium phosphate (YPO <sub>4</sub> ). Dysprosium, Erbium and Terbium can substitute for Yttrium.



# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

KIMBERLEY RARE EARTHS LIMITED

ABN

20 147 678 779

Quarter ended ("current quarter")

30 September 2012

### Consolidated statement of cash flows

	Current quarter \$A '000	Year to date (3 months) \$A '000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(472)	(472)
(b) development	-	-
(c) production		
(d) administration	(280)	(280)
(e) business development	(198)	(198)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	97	97
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
<b>Net Operating Cash Flows</b>	<b>(853)</b>	<b>(853)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(853)</b>	<b>(853)</b>

1.13	Total operating and investing cash flows (brought forward)	(853)	(853)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from unissued shares, options etc	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (share issue costs)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(853)	(853)
1.20	Cash at beginning of quarter/year to date	11,909	11,909
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter / year to date</b>	<b>11,056</b>	<b>11,056</b>

### Payments to directors of the entity and associates of the directors

### Payments to related entities of the entity and associates of the related entities

		Current quarter \$A '000
1.23	Aggregate amount of payments to the parties included in item 1.2	119
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Executive Director salary, Non –Executive directors fees and superannuation

### Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None.



## Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A '000	Amount used \$A '000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

## Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	416
4.2 Development	-
4.3 Production	-
4.4 Administration and business development	729
Total	1,145

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A '000	Previous quarter \$A '000
5.1 Cash on hand and at bank	1,556	1,909
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (Money market/Term Deposit)	9,500	10,000
<b>Total: cash at end of quarter</b> (item 1.22)	<b>11,056</b>	<b>11,909</b>

## Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-

## Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> (description)	N/A	N/A	N/A	N/A
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	N/A	N/A	N/A	N/A
7.3 <b>+Ordinary securities</b>	128,244,269	111,974,762	N/A	N/A
7.4 Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs	1,660,000  -	-  -	-  -	-  -
7.5 <b>+Convertible debt securities</b> (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	N/A	N/A	N/A	N/A
7.7 <b>Options</b> (description and conversion factor)	3,000,000 3,000,000 2,500,000 1,000,000 750,000	- -   	Exercise price 25 cents 25 cents 30 cents 30 cents 30 cents	Expiry date 11 May 2014 30 June 2014 30 June 2014 31 December 2014 8 June 2016
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	-	-	-	-
7.10 Expired during quarter	-	-	-	-
7.11 <b>Debentures</b> (totals only)	N/A	N/A		
7.12 <b>Unsecured notes</b> (totals only)	N/A	N/A		



## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:   
(Company secretary)

Date: 29 October 2012

Print name: Darren Crawte

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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