

## Quarterly Activities Report and Appendix 5B

For the quarter ended 31 December 2011

**kre**

KIMBERLEY  
RARE  
EARTHS

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

**ASX:KRE**

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

**Directors**

Ian Macpherson – Chairman & NED  
Tim Dobson – Managing Director  
Allan Trench – NED  
Gerry Kaczmarek – 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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Telephone: +61 8 9486 4326  
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**Website**

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

**Capital Structure**

126.6m shares  
6.0m 25c, 2014 unlisted options  
2.5m 30c, 2014 unlisted options  
0.75m 30c, 2015 unlisted options

**Cash at 31 December 2011**

\$13.7 million

**Market Cap at 31 December 2011**

\$10.3 million

**For further information,  
please contact:**

**TIM DOBSON**  
Managing Director

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**HIGHLIGHTS**

**CUMMINS RANGE RARE EARTHS PROJECT**

*Light Rare Earths Development Project, Western Australia*

- 4,230m RC drilling program completed
- Drill assaying completed – results confirm quality of deposit
- High grade mineralisation identified at surface
- Geological structural controls identified
- Deposit confirmed as open along strike and at depth
- Preliminary Evaluation (Scoping) Study activities commenced
- Metallurgical testing commenced
- Resource re-estimation commenced

**MALILONGUE PROJECT**

*Heavy Rare Earths Exploration Project, Mozambique*

- Legal due-diligence completed and Agreement executed
- Satellite and geophysical data purchased and processed
- Field exploration program scheduled to commence during first quarter 2012

**CORPORATE**

*Team expanded to include significant rare earths experience*

- Cash reserves of \$13.7 million
- Cash backing of 10.8 cents per share
- Board restructure commenced
- Michael Chan, Project Development GM commenced
- Australia-wide corporate marketing and awareness program completed
- Unmarketable parcel round-up completed

**About Kimberley Rare Earths**

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

KRE is a specialist rare earths company and holds a 25% interest in the Cummins Range Project in Western Australia. KRE has the right to earn up to 80% of the project by funding exploration and development through to delivery of a bankable feasibility study. KRE's first target is to spend \$10m within four years to increase its interest to 55%. The Cummins Range project comprises 1 granted exploration license (80/2232) in the East Kimberley within which is contained a JORC compliant Inferred Resource of 4.17 Mt at 1.72% TREO (total rare earth oxide), 11.0% P<sub>2</sub>O<sub>5</sub> and 187 ppm U<sub>3</sub>O<sub>8</sub> (using a 1% TREO cut off). The Cummins Range project is one of only a few Australian rare earths projects with a Resource reported under the JORC Code.

KRE has also signed a Heads of Agreement to earn up to a 90% interest in a pegmatite-hosted rare earth project in Mozambique with significant exploration potential, including for xenotime-hosted yttrium, dysprosium and erbium.





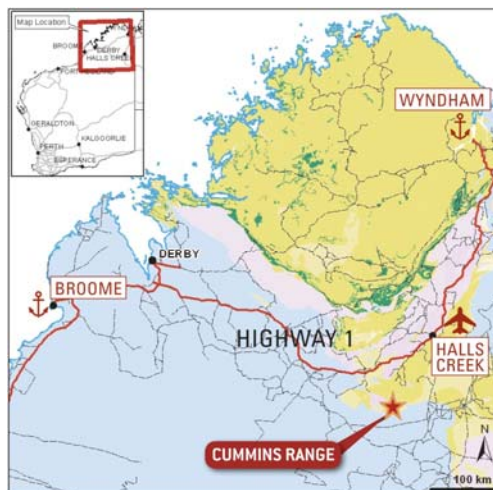
## Operations

### CUMMINS RANGE RARE EARTHS PROJECT

The Cummins Range deposit is one of only 25 formally defined rare earths mineral resources outside of China<sup>1</sup>.

Located 130 km directly 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 earth's crust and is locally exposed at surface.

The Inferred JORC-compliant 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 rare earth world demand.



*Cummins Range project site location East Kimberley, WA*

### Site Activities – Drilling Program Confirms Quality of Deposit

A total of 4,230 metres of RC drilling was completed in 77 holes initially aimed at extending and upgrading the existing Inferred Resource. This drilling generated 4,499 x 1 metre split samples which were submitted to Intertek/Genalysis in Perth for analysis via sodium peroxide fusion Ni crucible/ICP-MS techniques. Each sample was assayed for the full suite of rare earths plus uranium, thorium, phosphorus, scandium, niobium, tantalum and a range of gangue elements to assist metallurgical characterisation. All results were received during the quarter and the full intercept tables were released to the market in two batches on the 6th December and the 19th December. Table 1 summarises the best intercepts achieved during the 2011 field season.

**Table 1: Selected TREO Intercepts achieved during 2011.**

Intercept Length (m)	Grade (% TREO)	From (m)	Hole ID	Hole Type
41	3.85	11	KRC112	Infill
61	2.04	2	KRC114	Infill
30	2.93	37	KRC101	Extension
75	1.16	4	KRC158	Infill
39	2.15	2	KRC159	Infill
39	1.81	21	KRC147	Infill
40	1.41	25	KRC111	Infill
31	1.52	19	KRC149	Infill
13	3.45	51	KRC124	Infill
23	1.88	15	KRC121	Infill
8	4.71	1	KRC113	Infill
24	1.34	48	KRC103	Extension

<sup>1</sup> TMR Advance Rare-Earth Projects Index Advanced Rare-Earth Projects Index – 14 December 2011  
([www.techmetalsresearch.com/metrics-indices/tmr-advanced-rare-earth-projects-index](http://www.techmetalsresearch.com/metrics-indices/tmr-advanced-rare-earth-projects-index))

Difficult drilling conditions including binding clays, voids and water flow in several holes curtailed a component of the planned drilling resulting in a reduced program over the central resource area. Such ground conditions are characteristic of the most strongly mineralized zones of the Cummins Range rare earth resource.

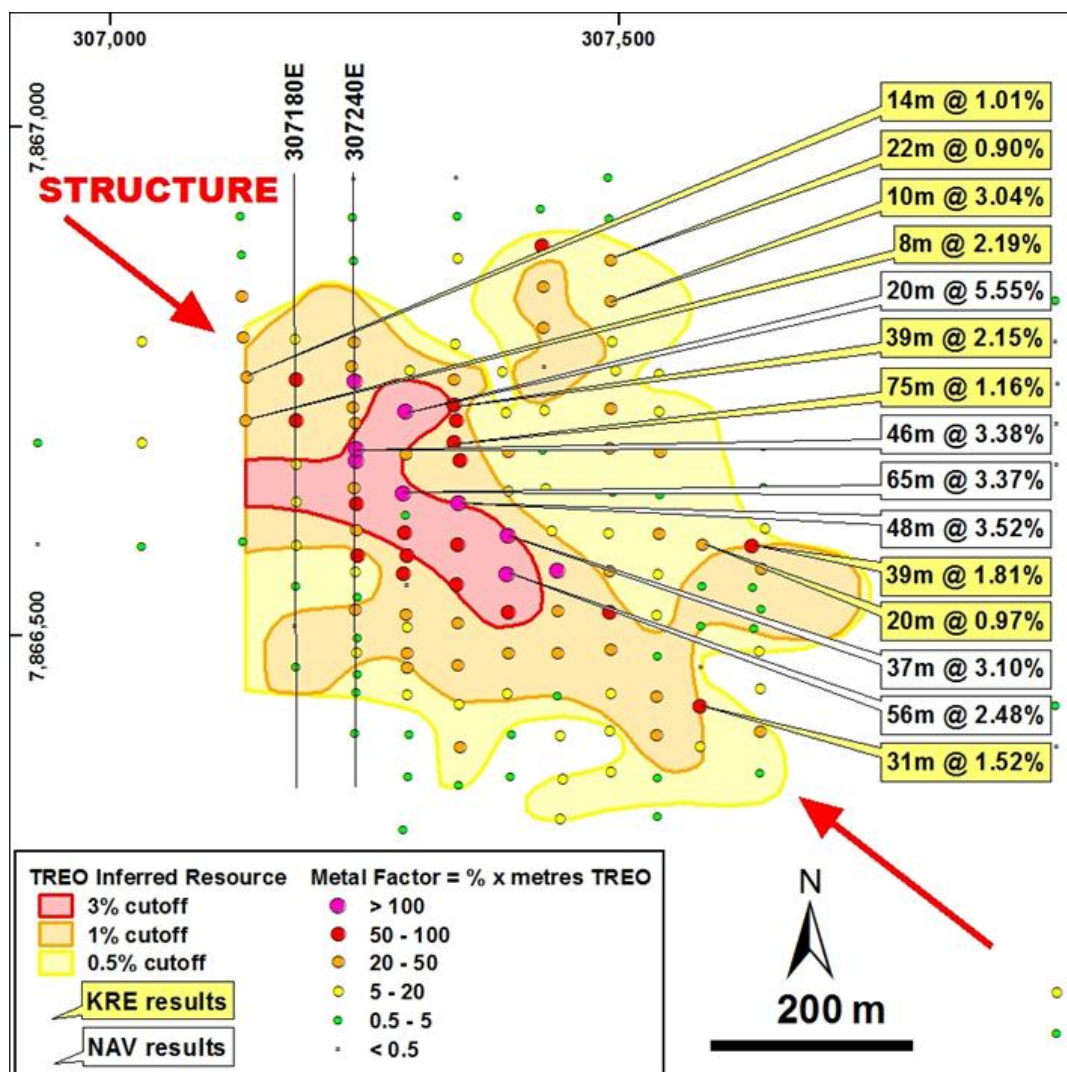


Figure 1: Cummins Range Resource Area Drilling

The figure above depicts the drilling completed in and around the existing Inferred Resource. Both historic (NAV) drilling results used for the initial resource estimation and the recent KRE drilling are shown. All holes are colour and size coded based on a "metal factor" calculated as the sum of all TREO values down hole over a cutoff of 0.5% (TREO% x metres), and serves to illustrate the distribution of metal within the deposit.

A strong NW-SE trend to the high grade mineralisation has been confirmed. This orientation is parallel to the regional structural fabric identified within the country rock surrounding the Cummins Range pipe. The deposit is therefore determined to be structurally controlled with a central shear zone creating the focal point for both carbonatite intrusion and a deeper weathering profile. These two phenomena have combined to create a significant near surface rare earth resource.

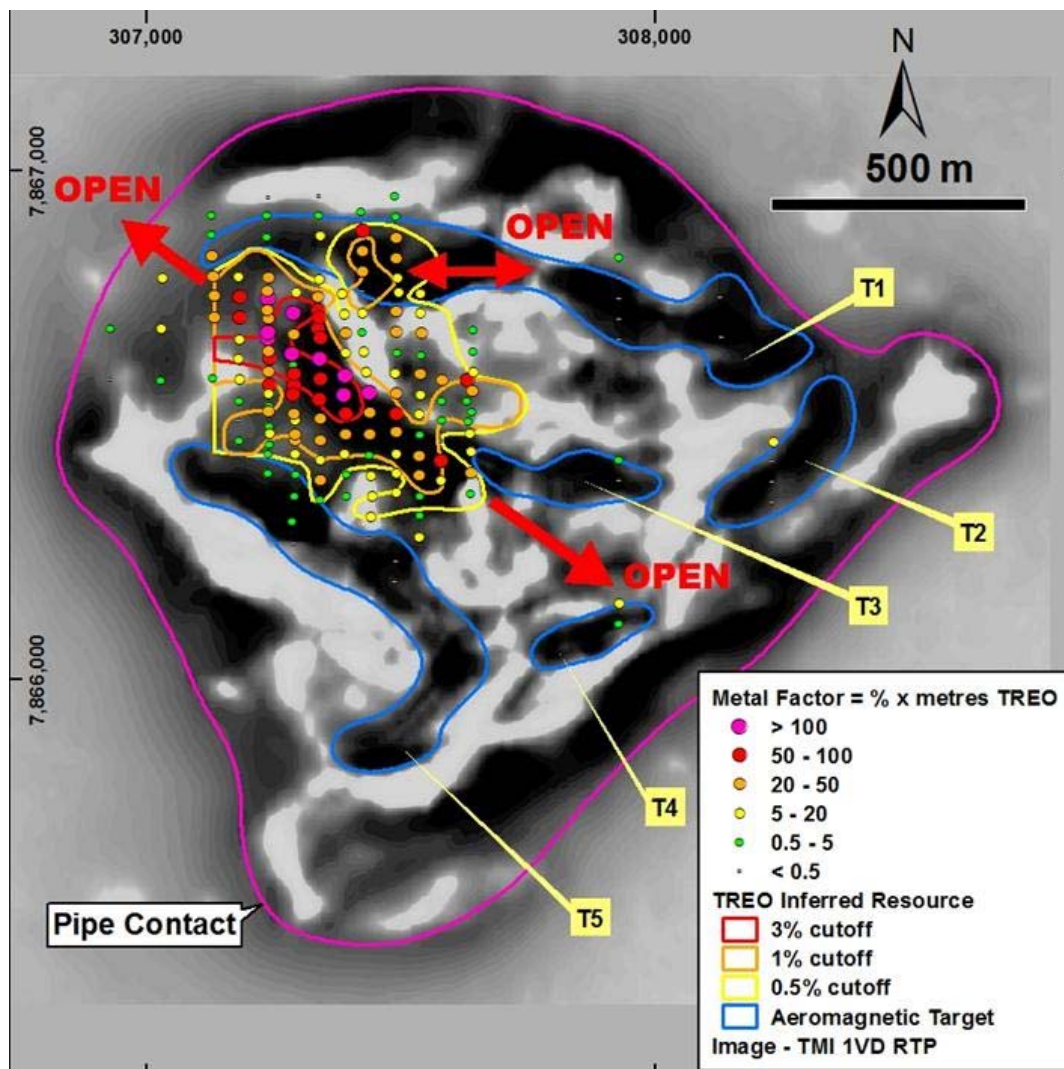


Figure 2: Total RC Drilling Completed at Cummins Range

The figure above shows all of the effective RC drilling completed within the Cummins Range pipe. The controlling NW-SE structure can be seen on the underlying aeromagnetic image which is a first vertical derivative of the pole reduced, total magnetic intensity. The structure controlling the high grade mineralisation remains untested for at least 200m to the NW and 400m to the SE, indicating clear potential to expand the resource further.

A welcome aspect of the 2011 RC drilling results was the number of holes reporting high grade rare earth mineralisation as summarized below in Table 2.

**Table 2:** Selected high grade TREO Intercepts achieved during 2011.

Intercept Length (m)	Grade (% TREO)	From (m)	Hole ID
29	4.99	11	KRC112
18	3.94	38	KRC101
11	4.06	5	KRC114
15	3.13	36	KRC147
13	3.07	26	KRC159
7	4.90	30	KRC121
6	6.09	1	KRC113
3	11.14	51	KRC124

These high grade results should be read in the context that the central, rich core of the deposit was not drilled during this campaign. Previously reported drilling from this zone (NAV, 2007) has achieved considerably higher grades as shown below:

- 18m at 5.17% TREO from 40m in NRC068.
- 17m at 4.63% TREO from 39m in NRC078.
- 14m at 6.10% TREO from 42m in NRC038.
- 20m at 5.31% TREO from 36m in NRC058.
- 17m at 4.38% TREO from 45m in NRC077.

Other significant aspects to note from both the KRE and historic drilling is that much of the deposit outcrops, or occurs within the first 50m of surface, and hence is amenable to exploitation by open pit methods. This is demonstrated in the cross section shown in Figure 3.

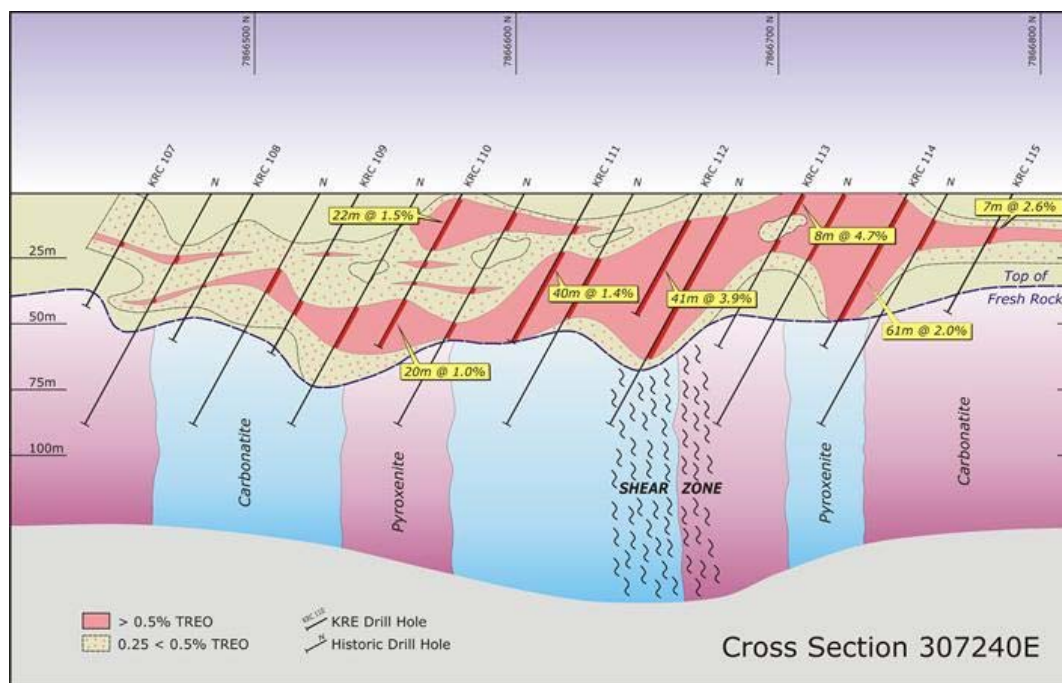


Figure 3: Cummins Range Resource Cross Section at 307240E



As shown below, much of the central rich core of the deposit remains open at depths of greater than 75m. The sheared, deeply weathered carbonatite produces challenging drilling conditions and much of the 500m central rich core zone remains open below these depths.

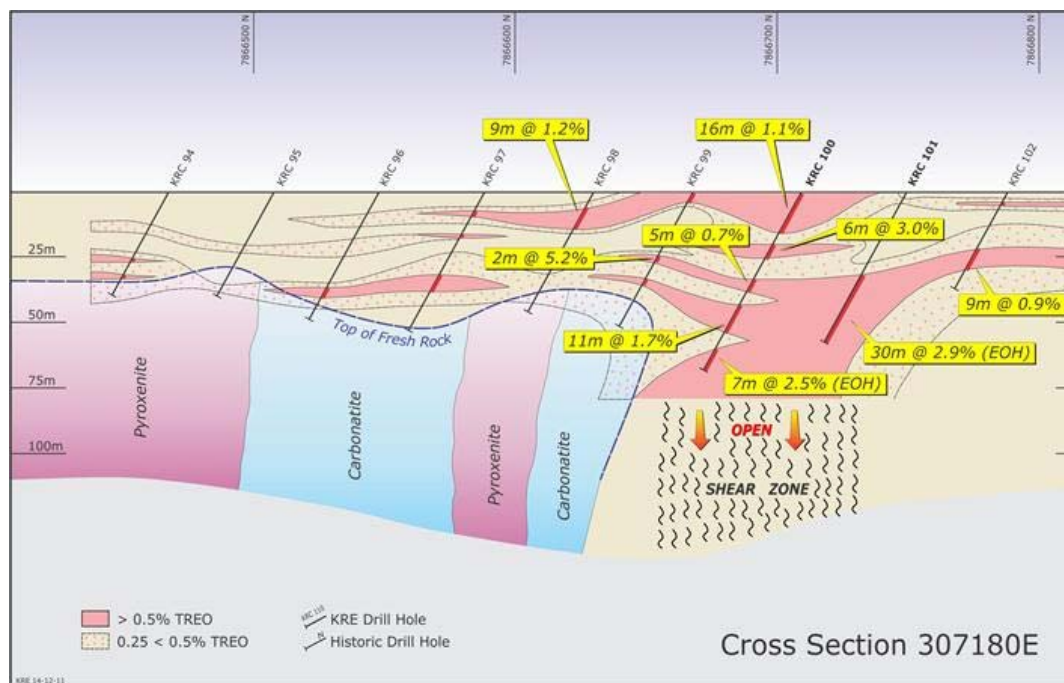


Figure 4: Cummins Range Resource Cross Section at 307180E

The 2011 assay results have confirmed the low levels of thorium encountered by the KRE drilling program. The average of all thorium assays from the KRE resource drilling program (i.e. holes within the current resource only) was 42 ppm, entirely consistent with the current resource grade of 41 ppm.

It has also been observed that segments of the deposit are preferentially enriched in the heavy rare earth oxides and studies are being undertaken to determine if these can be taken advantage of during the early stages of mining. Some of the HREO intercepts are quoted below.

**Table 3: Selected heavy rare earth oxide (HREO) intercepts.**

Intercept Length (m)	Grade (ppm HREO)	From (m)	Hole ID
22	2397	21	KRC112
27	1086	38	KRC101
18	1157	26	KRC111
12	1689	5	KRC114
12	1529	66	KRC100
5	2408	1	KRC113
6	1152	23	KRC102

Five high priority aeromagnetic targets (designated T1 to T5 in Figure 2 above) defined previously within the Cummins Range pipe, were tested by scout RC drilling. Drill sites were selected by combining the gravity and geochemical data to prioritise the more prospective zones within the five aeromagnetic targets.

Three of the targets returned positive results:

- **Target T1** - The western portion of T1 achieved ore grade intercepts including 10m at 3.04% TREO from 25m in KRC130, and 22m at 0.90% TREO from 6m in KRC131.
- **Target T4** - Highly anomalous results from two holes drilled into T4 including 5m at 0.86% TREO and 2m at 0.68% TREO not only indicate the potential of this target but also the possibility of extending the known resource further to the SE as shown in Figure 2.
- **Target T3** - T3 returned a single 1m intercept grading 1.28% TREO and is perceived as being a potential bifurcation off the main mineralising structure with potential to expand the existing resource.

Targets T2 and T5 remain prospective given that only a small fraction of the target areas have been tested with these initial scout drilling results. Further drill testing on all five targets is being considered for inclusion in the planned 2012 drill program.

All of the recent KRE drilling data, including good quality downhole density measurements have been combined with the 2007 Navigator Resources Ltd drilling data set, and transferred to Hellman and Schofield<sup>2</sup> for independent resource estimation work. Results of this work are expected during the first quarter of 2012.

### Metallurgy – Towards Marketable Rare Earth Products

Cummins Range material is very similar to that occurring at the Mt Weld deposit (currently being mined and concentrated by Lynas Corporation) in that it exists in a similar geological environment and the rare earth oxides are hosted predominately in the mineral monazite, one of only three minerals commercially exploited for rare earths to date. Previous metallurgical testwork on Cummins Range samples has been limited to gravity and magnetic separation techniques, both of which produced poor metallurgical responses. This is consistent with the experience on Mt Weld material, and Lynas Corporation have since gone on to develop and commercialise a flotation-based (see Figure 5) flowsheet for beneficiation of rare earth bearing minerals.

KRE will benefit from this first-mover experience and has scheduled flotation testwork programs to be conducted on representative composite samples developed from the recent drilling program. As previously disclosed, some of this work will be completed under the direct supervision of Kwan Wong<sup>3</sup> in Adelaide. Kwan has vast experience with Mt Weld flotation studies and it is anticipated that the flotation regime for Cummins Range material will be rapidly optimised. Flotation test work commenced at AMMTEC<sup>4</sup> in Adelaide during December and early results are expected to be announced during the first quarter of 2012.

Michael Chan commenced with the company as GM Project Development on the 12th December (see Corporate section). Michael's initial priorities are to determine a conceptual process flow sheet for Cummins Range through metallurgical testing, and to deliver a Preliminary Evaluation (Scoping) Study on the project by July 2012. Michael has significant experience in the development of processing technology for this type of deposit having co-authored technical papers on process flow sheet development at Mt Weld with Dudley Kingsnorth<sup>5</sup> when both were involved with the project in the late 1980's and early 1990's.

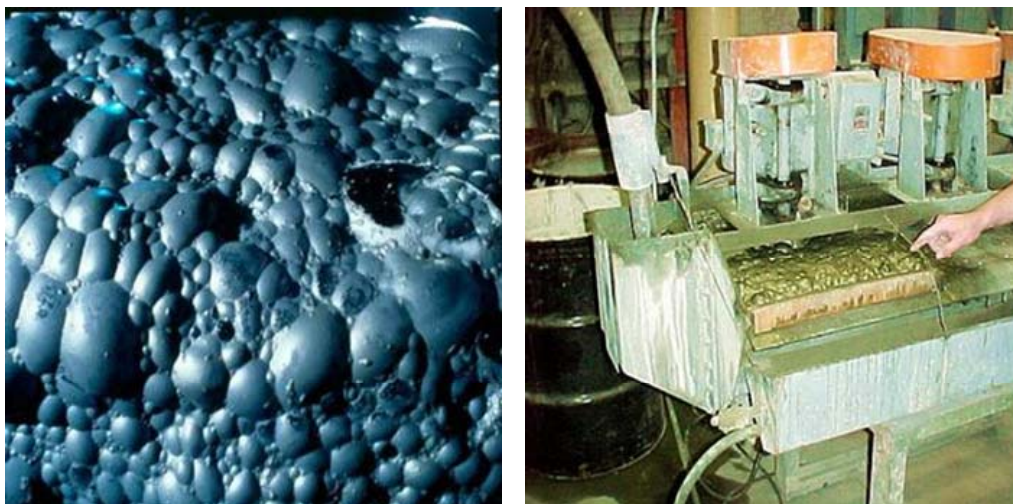
<sup>2</sup> Hellman & Schofield are an independent geological consultancy with recognised resource modeling expertise.

<sup>3</sup> Kwan Wong is a recognised expert in the field of complex oxide-ore flotation.

<sup>4</sup> AMMTEC – Australian Metallurgical and Mineral Testing Consultants

<sup>5</sup> Dudley Kingsnorth, IMCOA, is a recognised expert in the field of rare earth processing and markets





*Figure 5: Froth flotation is a widely-used method used to separate valuable minerals (attached to the floating froth) from unwanted gangue minerals (remaining in the slurry).*

## MALILONGUE HEAVY RARE EARTHS PROJECT

On the 29<sup>th</sup> September the Company announced it had entered into an Heads of Agreement (HOA) with GWM, a gemstone mining company incorporated in Mozambique, to earn up to a 90% interest of the non-gemstone rights in a pegmatite-hosted rare earth project by spending \$4 million over 5 years. The Malilongue Project is located in western Mozambique about 300km west of the regional mining centre of Tete. It comprises two tenements, Mining Concession 1133C and Prospecting License 1583L. Following the completion of legal due diligence, KRE exercised its option to farm into the mineral rights<sup>6</sup> held over two tenements comprising the Malilongue project on the 9<sup>th</sup> December.

In line with the Agreement, KRE has exercised its option under the HOA to acquire an initial 40% interest<sup>6</sup> in the project by:

- Making a further cash payment to GWM of \$250,000 (taking total payments to \$300,000);
- Issuing 1,000,000 ordinary KRE shares (issued at the 5 day VWAP prior to the execution date). The shares will be held under voluntary escrow for a period of 6 months; and
- Issuing 750,000 KRE options exercisable at 30 cents each on or before 4 years from the vesting date. The vesting date is 6 months after the date of issue.

KRE now has the right to earn up to a further 50% to take its interest<sup>6</sup> to 90% through the following farm-in steps:

- 15% (to 55%) by sole funding \$1,000,000 on the project within two years (Second Farm-In Date);
- 25% (to 80%) by sole funding expenditure of \$3,000,000 within a further three years (Third Farm-In Date); and
- A further 10% (to 90%) by sole funding expenditure to the point of production.

When KRE reaches 90% ownership of the project, GWM can elect to transfer its residual interest to KRE and revert to a 2% net smelter royalty (NSR).

<sup>6</sup> KRE mineral rights in the Malilongue project do not include gemstones.

### Exploration – Quality Regional Data Sets Accessed

The Company has acquired good quality airborne aeromagnetic/radiometric data flown previously by Aerodata (UTS) in 2008 covering the entire project area. The data was collected using a 100 metre flight line spacing and an altitude of 80 metres. This comprehensive data set has been reprocessed by a local geophysical consultant and the resulting images are currently being interpreted to define targets for field follow-up. Results of this exercise are due for release during the first quarter of 2012.

Two separate remote sensing data sets purchased previously by the joint venture partner to cover the wider Malilongue area have been acquired. Both the Thermal Mapper (TM7) series and an ASTER dataset are currently being reprocessed by Geoimage to aid with the detailed geological mapping planned for the project area.

A field geologist will commence mapping, cataloguing and sampling all of the pegmatite occurrences within the tenement area as soon as practicable after the wet season finishes in mid-March. This will be immediately followed by a drill targeting program consisting of stream sediment sampling, soil geochemistry and ground radiometric surveys. It is anticipated that the first drilling campaign for this project will be commenced in quarter 2 of 2012.



*Figure 6: Coarse grained pegmatite exposure from Malilongue showing amazonite (green), biotite (black), quartz (grey) and feldspar (white) minerals.*

## CORPORATE

The Company has 126.6 million shares on issue of which approximately 13.6 million are restricted until May 2013. The largest shareholder Navigator Resources Ltd holds 8.7% of the stock (restricted) and the second largest shareholder (JP Morgan Nominees) holds 7% of the stock.

### Share Price Performance

The Company commenced trading on the Official List on 18 May 2011 with an IPO share price of \$0.20 per share. After initially trading above the float price, the share price has drifted down to be trading in the range \$0.10 to \$0.12 per share. As reflected in the Bloomberg Rare Earth Mineral Resources Index<sup>7</sup> (see Figure 7 below), KRE's downward share price trend is consistent with rare earth stocks in general over the same period.

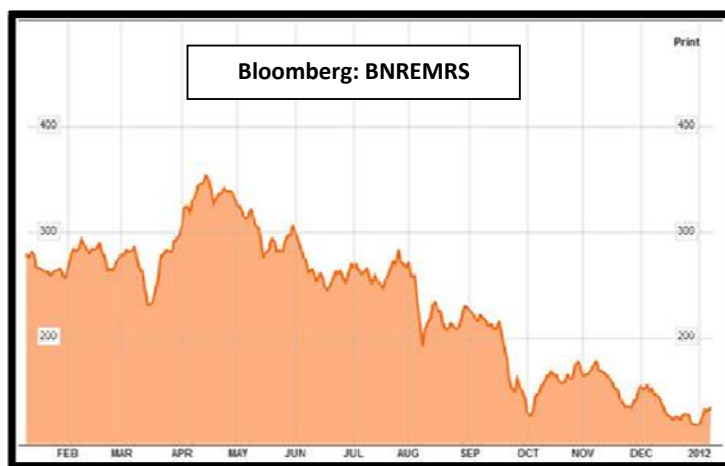


Figure 7: Bloomberg Rare Earth Mineral Resources Index (BNREMRS) - 2012

Rare earth company share prices have declined due to the combination of several factors:

1. Global economic fears that have negatively affected equity markets in general. Equities associated with emerging technologies, consumer products, and perceived high risk have been most affected by the ongoing bearish market conditions.
2. Sustained decline in reported rare earth prices and trading volumes since August after several years of continuous rise. Selective media reporting has exacerbated the perception that prices have returned to their previous levels. Rare earth prices remain an order of magnitude higher than they were two years ago and back.
3. Well-publicised delays to the commencement of production from non-Chinese rare earth projects (in particular Lynas Corporation's Malaysian LAMP<sup>8</sup> facility, and Molycorp's new Mountain Pass facility in California) have added to the perception of risk associated with the sector. Market conditions have also curtailed the ability of other advanced rare earth projects to achieve study and project financing.

<sup>7</sup> The Bloomberg Rare Earth Mineral Resources Index is a modified market capitalization weighted index whose equities are capped at 15%. For inclusion, a company needs to have a mineral resource whose definition is compliant with either the National Instrument 43-101 or Joint Ore Reserves Committee Code classification rule. Technology Metals Research consulted on the index creation. Kimberley Rare Earths Ltd is included in the Index.

<sup>8</sup> LAMP - Lynas Advanced Material Plant, currently under construction in Malaysia, to be used for downstream processing of rare earth concentrates from the Lynas' Mt Weld mine.



### Board Restructure

As announced on 29<sup>th</sup> November, KRE has commenced a board restructure process with the objective of appointing up to two independent non-executive directors with appropriate skill sets to complement the existing KRE board and senior management.

Non-executive director and current CFO of Navigator Resources Limited (NAV), Mr Gerry Kazmarek, has advised that he will stand down from the board once the board restructure is complete. It is envisaged that the board restructure process will be completed by the end of March, 2012.

### Company marketing

The company completed a campaign including conference presentations, exhibitions and road shows, to promote widespread investor and broker awareness of the stock within Australia.

### Unmarketable Parcel Round-Up

The Company completed a round-up and sale of unmarketable parcels which reduced the number of shareholders by around 2,500 to 2,287 with an associated reduction in share register-related administrative costs. The sale of the consolidated parcel of shares resulting from the round-up (1,617,061 shares) was made to a single existing shareholder.

### Appointments

#### GM Project Development

The Company has appointed Michael Chan to the role of GM Project Development:

- BSc (Hons) Minerals Engineering, AIMM, MIEAust, CEng(UK)
- Malaysian born Australian citizen of 26 years
- Metallurgist with 35 years industry experience in senior operations, project development and commercial roles
- 10 years of extensive rare earth project experience including complex metallurgical flow sheet development
- Co-author of technical papers on Mt Weld rare earths project
- Residential country experience in China and Malaysia
- Language skills in Mandarin, Malay/Indonesian, Cantonese, Hokkien
- Well versed in Asian commercial dealings



*Michael Chan*

### Business Development

Whilst the Company's priority focus is the development of the Cummins Range project, KRE intends to add to its project portfolio through judicious assessment, and acquisition if warranted, of other advanced rare earths projects both within Australia and offshore.

A number of projects have been assessed and the Company completed one new commercial arrangement (Malilongue Project described above) during the period. Several assessed projects were rejected during the period and a number remain under review.

**TIM DOBSON**

**Managing Director**

**COMPETENT PERSONS 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 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**

<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>ASTER</b>	Advanced Spaceborne Thermal Emission and Reflection Radiometer – a remote sensory device on board the Terra satellite, launched by NASA in 1999, that provides high-resolution images of the planet Earth in 15 different electromagnetic spectrum bands ranging from visible to thermal infrared light
<b>Carbonatites</b>	Intrusive igneous rocks with a composition of greater than 50% carbonate minerals.
<b>Diamond Drilling</b>	(or <b>Core Drilling</b> ) A drilling technique which uses a diamond-set drill bit to produce a cylindrical core of rock.
<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.
<b>Pipe</b>	Cylindrical intrusion of younger igneous rocks into an older geological terrain.
<b>ppm</b>	Parts per million by weight (10,000ppm equals 1.00%).
<b>Pyroxenite</b>	Ultramafic igneous rock comprising predominantly minerals of the pyroxene group.
<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>Thermal Mapper (TM7)</b>	Remote sensory device on board the LANDSAT-7 satellite, launched by NASA in 1999, that provides imagery of the planet Earth with high image resolution, sharp spectral separation and geometric fidelity, and strong radiometric accuracy and resolution.
<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")

31 December 2011

### Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A '000	Year to date (6 months) \$A '000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for		
	(a) exploration and evaluation	(1,614)	(2,252)
	(b) development	-	-
	(c) production		
	(d) administration	(622)	(1,283)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	238	406
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other	-	-
<b>Net Operating Cash Flows</b>		<b>(1,998)</b>	<b>(3,129)</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	(4)	(73)
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>(4)</b>	<b>(73)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(2,002)</b>	<b>(3,202)</b>

1.13	Total operating and investing cash flows (brought forward)	(2,002)	(3,202)
	<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)	-	(43)
	<b>Net financing cash flows</b>	-	(43)
	<b>Net increase (decrease) in cash held</b>	(2,002)	(3,245)
1.20	Cash at beginning of quarter/year to date	15,669	16,912
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter / year to date</b>	<b>13,667</b>	<b>13,667</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	137
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

The Company issued 1,000,000 ordinary shares and 750,000 options over ordinary shares for the acquisition of 40% interest in a rare earths project in Mozambique.

#### 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	382
4.2 Development	286
4.3 Production	-
4.4 Administration	493
Total	1,161

## 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	1,356	3,567
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (Money market/Term Deposit)	12,311	12,102
<b>Total: cash at end of quarter (item 1.22)</b>	<b>13,667</b>	<b>15,669</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	MC 1133C PL 1583L	40% interest acquired in a project in Mozambique with the future possibility to increase holding up to 90% by way of certain predetermined expenditure targets being met	-	40%



## 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>	126,584,269	111,974,762	N/A	N/A
7.4	Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs	1,000,000	1,000,000	12 cents	12 cents
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 2,500,000 750,000	- - - -	Exercise price 25 cents 25 cents 30 cents 30 cents	Expiry date 11 May 2014 30 June 2014 30 June 2014 8 June 2016
7.8	Issued during quarter	750,000	- -	Exercise price 30 cents	Expiry date 8 June 2016
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: 25 January 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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