



# **Kimberley Rare Earths Limited**

**ABN 20 147 678 779**

**Financial report for the half-year ended  
31 December 2011**

## Corporate directory

### Board of directors

|                   |                                     |
|-------------------|-------------------------------------|
| Mr Ian Macpherson | Chairman and Non Executive Director |
| Mr Tim Dobson     | Managing Director                   |
| Dr Allan Trench   | Non-Executive Director              |
| Mr Jon Parker     | Non-Executive Director              |

### Company Secretary

Mr Darren Crawte

### Registered Office

C/- MGI Perth  
Level 7, 1 William Street  
Perth, Western Australia, 6005

### Principal place of business

Suite 1, 83 Havelock Street  
West Perth Western Australia, 6153

Tel: +61 8 9486 4326  
Fax: +61 8 9486 4327  
Website: [www.kimberleyrareearths.com.au](http://www.kimberleyrareearths.com.au)

### Auditors

HLB Mann Judd  
Level 4, 130 Stirling Street  
Perth, Western Australia, 6000

### Share registry

Advanced Share Registry Services  
150 Stirling Highway  
Nedlands, Western Australia, 6009

### Securities exchange listing

Australian Securities Exchange  
(Home Exchange: Perth, Western Australia)  
Code: KRE

# Financial report for the half-year ended 31 December 2011

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## Directors' report

The directors of Kimberley Rare Earths Limited submit herewith the financial report for the half-year ended 31 December 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### Names of directors

The names of the directors of the Company who have held office during and since the end of the half-year and up until the date of this report are:

Ian Macpherson  
Dr Allan Trench  
Tim Dobson (appointed 3 October 2011)  
Jon Parker (appointed 10 February 2012)  
Peter Rowe (resigned 29 November 2011)  
Gerry Kaczmarek (resigned 9 February 2012)

The above named directors held office for the entire period unless otherwise noted.

### Review of operations

Following its successful IPO and ASX listing in the previous period, the Company initiated and progressed a series of activities aligned with the Strategic Aims listed in the IPO Prospectus.

#### Corporate

The Company established a head office in West Perth from which to headquarter its exploration and project development activities. The Company successfully completed a round-up of unmarketable parcels of shares, reducing the number of shareholders by around 2,500 to 2,287. Two changes to the board of directors occurred; Tim Dobson (CEO) joined the board as Managing Director, and Peter Rowe resigned as a non-executive director.

#### Cummins Range Rare Earth Project

The Company completed a series of exploration programs at its 25% owned Cummins Range rare earths project in Western Australia, in accordance with its earn-in requirements towards 55% ownership. The Company has the option to earn up to 80% of the project. These included acquisition of high resolution airborne geophysical data sets, and completion of ground gravity and soil geochemistry surveys. The Company also completed a 77 hole (4,230 m) RC drilling program aimed at (a) increasing the confidence level in the current resource, (b) extending the resource, and (c) testing newly identified drill targets. The Company also commenced metallurgical testwork on drill samples collected during a 2007 drilling campaign by Navigator Resources.

#### Malilongue Heavy Rare Earths Project

The Company entered into a Heads of Agreement (HOA) with Great Western Mining Lda (GWM, a private Mozambican gemstone producing company) to acquire up to 90% of the mineral rights (not including gemstones) at the Malilongue project in north-western Mozambique. Following successful completion of HOA conditions precedent on 9 December 2011, the Company elected to exercise its option to acquire an initial 40% of the non-gemstone rights in the project, which is highly prospective for heavy rare earth minerals. The Company paid US\$300,000 in cash and issued 1 million ordinary shares and 750,000 options over ordinary shares as consideration for the acquisition of the initial 40% interest. The Company acquired all of the geophysical data sets obtained previously by GWM at no additional cost and commenced reprocessing the data to facilitate exploration planning.

## Directors' report (continued)

The Company has the right to earn up to a further 50% interest in the project through the following farm-in steps:

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

### Auditor's independence declaration

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 3 and forms part of this directors' report for the half-year ended 31 December 2011.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



**Tim Dobson**  
Managing Director

Perth, 13 March 2012

### COMPETENT PERSON'S 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.*

*The Resource estimates were prepared by Rob Spiers (MAIG) who is a full time employee of Hellman and Schofield Pty Ltd. All resource work was supervised by Dr Philip Hellman FAIG, who is a Director of Hellman and Schofield 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 a Competent Person 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.*

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Kimberley Rare Earths Limited for the half-year ended 31 December 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 review; and
- b) any applicable code of professional conduct in relation to the review.



Perth, Western Australia  
13 March 2012

L DI GIALLONARDO  
Partner, HLB Mann Judd

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Kimberley Rare Earths Limited

### Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kimberley Rare Earths Limited ("the company"), which comprises the condensed statement of financial position as at 31 December 2011, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

#### *Directors' responsibility for the half-year financial report*

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

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

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

*Matters relating to the electronic presentation of the reviewed half-year financial report*

This review report relates to the half-year financial report of the company for the half-year ended 31 December 2011 included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The review report refers only to the half-year financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the half-year financial report. If users of the half-year 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 reviewed half-year financial report to confirm the information contained in this website version of the half-year financial report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kimberley Rare Earths Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the company's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*HLB Mann Judd*

**HLB MANN JUDD**  
Chartered Accountants

*L Di Giallonardo*

**L DI GIALLONARDO**  
Partner

**Perth, Western Australia**  
**13 March 2012**

## Directors' declaration

The directors declare that:

- i. The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
  - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b. giving a true and fair view of the Company's financial position as at 31 December 2011 and of its performance for the half-year then ended.
- ii. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



**Tim Dobson**  
**Managing Director**

Perth, 13 March 2012

## Condensed statement of comprehensive income for the half-year ended 31 December 2011

|  | <u>Note</u> | <u>31 Dec 2011</u><br>\$ |
|--|-------------|--------------------------|
| Revenue  | 2           | 432,038                  |
| Consultants & employee benefits expenses       |             | (463,424)                |
| Occupancy expenses                             |             | (66,536)                 |
| Administrative expenses                        |             | (783,677)                |
| Exploration expenditure expensed as incurred   |             | (2,078,073)              |
| <b>Loss before income tax expense</b>          |             | <b>(2,959,672)</b>       |
| Income tax expense                             |             | -                        |
| <b>Loss for the period</b>                     |             | <b>(2,959,672)</b>       |
| Other comprehensive income                     |             | -                        |
| <b>Total comprehensive loss for the period</b> |             | <b>(2,959,672)</b>       |
| <b>Loss per share:</b>                         |             |                          |
| Basic loss per share (cents per share)         |             | (2.36)                   |

The accompanying notes form part of these financial statements.

## Condensed statement of financial position as at 31 December 2011

|  | <u>Note</u> | <b>31 Dec 2011</b> | <b>30 June 2011</b> |
|--|-------------|--------------------|---------------------|
|  |             | \$                 | \$                  |
| <b>Current assets</b>                  |             |                    |                     |
| Cash and cash equivalents              |             | 13,667,537         | 16,912,312          |
| Trade and other receivables            | 4           | 301,974            | 59,214              |
| Other assets                           |             | 5,274              | 13,467              |
| <b>Total current assets</b>            |             | <b>13,974,785</b>  | <b>16,985,173</b>   |
| <b>Non-current assets</b>              |             |                    |                     |
| Property, plant and equipment          |             | 67,715             | -                   |
| Exploration and evaluation expenditure | 5           | 7,584,028          | 7,199,421           |
| <b>Total non-current assets</b>        |             | <b>7,651,743</b>   | <b>7,199,421</b>    |
| <b>Total assets</b>                    |             | <b>21,626,528</b>  | <b>24,184,594</b>   |
| <b>Current liabilities</b>             |             |                    |                     |
| Trade and other payables               |             | 251,067            | 98,774              |
| Provisions                             |             | 15,252             | -                   |
| <b>Total current liabilities</b>       |             | <b>266,319</b>     | <b>98,774</b>       |
| <b>Total liabilities</b>               |             | <b>266,319</b>     | <b>98,774</b>       |
| <b>Net assets</b>                      |             | <b>21,360,209</b>  | <b>24,085,820</b>   |
| <b>Equity</b>                          |             |                    |                     |
| Issued capital                         |             | 23,750,987         | 23,568,539          |
| Reserves                               |             | 611,233            | 559,520             |
| Accumulated losses                     |             | (3,002,011)        | (42,339)            |
| <b>Total equity</b>                    |             | <b>21,360,209</b>  | <b>24,085,820</b>   |

The accompanying notes form part of these financial statements.

## Condensed statement of changes in equity for the half-year ended 31 December 2011

|  | Issued capital<br>(fully paid<br>ordinary shares ) | Option<br>reserve | Accumulated<br>losses | Total<br>equity    |
|--|--|-------------------|-----------------------|--------------------|
|  | \$   | \$                | \$                    | \$                 |
| <b>Balance at 1 July 2011</b>                  | <b>23,568,539</b>                                  | <b>559,620</b>    | <b>(42,339)</b>       | <b>24,085,820</b>  |
| Loss for the period                            | -  | -                 | (2,959,672)           | (2,959,672)        |
| <b>Total comprehensive loss for the period</b> | <b>-</b>   | <b>-</b>          | <b>(2,959,672)</b>    | <b>(2,959,672)</b> |
| GST adjustment on share issue expenses         | 61,711   |                   |                       | 61,711             |
| Issue of shares                                | 120,737  | -                 | -                     | 120,737            |
| Share based payments expense                   | -  | 51,613            | -                     | 51,613             |
| <b>Balance at 31 December 2011</b>             | <b>23,750,987</b>                                  | <b>611,233</b>    | <b>(3,002,011)</b>    | <b>21,360,209</b>  |

The accompanying notes form part of these financial statements.

## Condensed statement of cash flows for the half-year ended 31 December 2011

|  | <b>31 Dec 2011</b> |
|--|--------------------|
|  | <b>\$</b>          |
| <b>Cash flows from operating activities</b>                        |                    |
| Payments to suppliers and employees                                | (1,282,691)        |
| Interest received  | 406,268            |
| <b>Net cash used in operating activities</b>                       | <b>(876,423)</b>   |
| <b>Cash flows from investing activities</b>                        |                    |
| Payment for property, plant and equipment                          | (72,929)           |
| Payment for exploration and evaluation                             | (2,252,867)        |
| <b>Net cash used in investing activities</b>                       | <b>(2,325,796)</b> |
| <b>Cash flows from financing activities</b>                        |                    |
| Payment for share issue costs                                      | (42,556)           |
| <b>Net cash used in financing activities</b>                       | <b>(42,556)</b>    |
| <b>Net decrease in cash and cash equivalents</b>                   | <b>(3,244,775)</b> |
| <b>Cash and cash equivalents at the beginning of the half-year</b> | <b>16,912,312</b>  |
| <b>Cash and cash equivalents at the end of the half-year</b>       | <b>13,667,537</b>  |

The accompanying notes form part of these financial statements.

## Notes to the condensed financial statements for the half-year ended 31 December 2011

### 1. Statement of significant accounting policies

#### Statement of compliance

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the entity as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2011 and any public announcements made by Kimberley Rare Earths Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2011, except as set out below.

#### Basis of preparation

The condensed financial statements have been prepared on the basis of historical cost. 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.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

As this is the first half-year financial report of the Company, no comparatives are applicable for the condensed statement of comprehensive income, condensed statement of changes in equity or the condensed statement of cashflows.

#### Change in accounting policy

During the half-year, the directors of the Company resolved to change the Company's accounting policy in relation to Exploration and Evaluation Expenditure such that exploration and evaluation costs carried forward only include initial costs incurred to acquire an area of interest, while all other exploration and evaluation costs are expensed as incurred. Previously all exploration and evaluation costs incurred were carried forward if they related to an area of interest for which rights of tenure were current and in respect of which:

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

This change in accounting policy was deemed necessary by the directors to provide a more relevant representation of the Company's net asset position, whilst still providing reliable information about the Company's exploration activities.

## Notes to the condensed financial statements for the half-year ended 31 December 2011 (continued)

This change has been applied retrospectively commencing from the period ended 30 June 2011. This change in the Company's accounting policy did not have any significant impact on the financial performance or financial position of the Company for the period ended 30 June 2011. As a result, the effects of the change in accounting policy have been reflected in the financial report for the half-year ended 31 December 2011.

### Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2011, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011.

It has been determined by the Company that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to the Company's accounting policies.

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to the Company's accounting policies.

### Significant accounting judgements and key estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this half-year report, the significant judgements made by management in applying the entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report for the year ended 30 June 2011.

## 2. Revenue

|                 | <u>31 Dec 2011</u> |
|-----------------|--------------------|
|                 | \$                 |
| Interest income | <u>432,038</u>     |

## 3. Segment Information

The Company operated predominantly in one geographical segment, being Western Australia, and in one industry, being the exploration for, and development of mineral resources for the period ended 31 December 2011.

## Notes to the condensed financial statements for the half-year ended 31 December 2011 (continued)

### 4. Trade and other receivables

|                                    | 31 Dec 2011    | 30 June 2011  |
|------------------------------------|----------------|---------------|
|                                    | \$             | \$            |
| Accrued interest income            | 47,974         | 22,204        |
| Goods and services tax recoverable | 107,881        | 16,725        |
| Security deposits                  | 125,744        | -             |
| Other debtors                      | 20,375         | 20,285        |
|                                    | <b>301,974</b> | <b>59,214</b> |

### 5. Exploration and evaluation expenditure

|  | 31 Dec 2011      | 30 June 2011     |
|--|------------------|------------------|
|  | \$               | \$               |
| Exploration and evaluation phase:                            |                  |                  |
| Balance at beginning of period                               | 7,199,421        | -                |
| Project acquisition costs capitalised during the period      | 424,218          | 7,199,421        |
| Exploration expenditure previously capitalised, now expensed | (39,611)         | -                |
|  | <b>7,584,028</b> | <b>7,199,421</b> |

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.

### 6. Contingent liabilities

There has been no change in contingent liabilities since the last annual reporting date.

### 7. Related parties

Arrangements with related parties continue to be in place. For details of these arrangements, please refer to the 30 June 2011 annual financial report.

Key management personnel continue to receive compensation in the form of short term employee benefits, post employment benefits and share-based payments.

### 8. Subsequent events

No material subsequent events have occurred since 31 December 2011 that require disclosure in this report.