

ASX:KRE

27 October 2011

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

**Directors**

Ian Macpherson – Chairman & NED  
Tim Dobson – Managing Director  
Allan Trench – NED  
Gerry Kaczmarek – NED  
Peter Rowe – NED

**Management**

Tim Dobson – CEO  
Geoff Collis – GM- Exploration  
Darren Crawte – Company Secretary

**Principal Place of Business**

Suite 1, 83 Havelock St  
West Perth WA 6005  
Telephone: +61 8 9486 4326  
Facsimile: +61 8 9486 4327

**Registered Office**

C/- MGI Perth  
Level 7, The Quadrant  
1 William St, Perth WA 6000  
Telephone: +61 8 9463 2463  
Facsimile: +61 8 9463 2499

**Website**

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

**Capital Structure**

125.6m shares  
6.0m 25c, 2014 unlisted options  
2.5m 30c, 2014 unlisted options

**For further information, please contact**

**TIM DOBSON**  
Managing Director

[info@kimberleyrareearths.com.au](mailto:info@kimberleyrareearths.com.au)  
Tel: +61 8 9486 4326

The Manager  
Company Announcement Office  
Australian Securities Exchange

By Electronic Lodgement

Dear Sir

**NOTICE OF ANNUAL GENERAL MEETING**

Please find attached the Notice of Annual General Meeting which has been dispatched to shareholders today.

Yours faithfully



Darren Crawte  
Company Secretary

**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.*





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## KIMBERLEY RARE EARTHS LIMITED

ABN 20 147 678 779

### NOTICE OF ANNUAL GENERAL MEETING EXPLANATORY STATEMENT AND PROXY FORM

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**TIME:** 10.00 am (WST)

**DATE:** 29 November 2011

**PLACE:** Seminar Room 3,  
University Club of Western Australia  
UWA, M800, 35 Stirling Highway  
Crawley, Western Australia

*This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.*

*Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 9463 2463.*

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**TIME AND PLACE OF MEETING AND HOW TO VOTE**

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**VENUE**

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The Annual General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 10.00 am (WST) on 29 November 2011 at:

Seminar Room 3,  
University Club of Western Australia  
UWA, M800, 35 Stirling Highway  
Crawley, Western Australia

**YOUR VOTE IS IMPORTANT**

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The business of the Annual General Meeting affects your shareholding and your vote is important.

**VOTING IN PERSON**

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To vote in person, attend the Annual General Meeting on the date and at the place set out above.

**VOTING BY PROXY**

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To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

- (a) post to Kimberley Rare Earths Limited, GPO Box 2570, Perth, WA 6001; or
- (b) facsimile to the Company on facsimile number +61 8 9463 2499.

so that it is received not later than 10.00 am (WST) on 27 November 2011.

**Proxy Forms received later than this time will be invalid.**

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## NOTICE OF ANNUAL GENERAL MEETING

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Notice is given that the Annual General Meeting of Shareholders will be held at 10.00 am (WST) on 29 November 2011 at Seminar Room 3, University Club of Western Australia, UWA, M800, 35 Stirling Highway, Crawley, Western Australia.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders of the Company at 10.00 am (WST) on 27 November 2011.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

### AGENDA

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#### 1. ANNUAL REPORT

To receive and consider the annual financial report of the Company together with the directors' report, the remuneration report and the auditor's report for the financial year ended 30 June 2011.

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#### 2. RESOLUTION 1 – ADOPTION OF THE REMUNERATION REPORT

To consider and, if thought fit, to pass the following resolution as a **non-binding resolution**:

*“That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the remuneration report for the financial year ended 30 June 2011 be adopted”.*

**Short Explanation:** The Remuneration Report is contained in the Directors' Report section of the Company's Annual Report. Listed companies are required to put the Remuneration Report to the vote for adoption at the Company's Annual General Meeting. The vote on this Resolution is advisory only and does not bind the Directors or the Company.

**Voting Prohibition Statement:** A vote on this Resolution must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person described above may cast a vote on this Resolution if:

- (c) the person does so as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution; and
- (d) the vote is not cast on behalf of a person described in paragraphs (a) or (b) above.

**If you appoint the Chairman of the Meeting as your proxy, the Company encourages you to direct the Chairman how to vote on this advisory Resolution. The Chairman, as one of the Key Management Personnel of the Company, is not permitted to cast any votes in respect of this advisory Resolution that arise from undirected proxies held.**

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### 3. RESOLUTION 2 – RE-ELECTION OF DR ALLAN TRENCH AS A DIRECTOR

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, Dr Allan Trench, a director of the Company who retires by rotation in accordance with clause 11.3 of the Company’s Constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company”.*

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### 4. RESOLUTION 3 – RE-ELECTION OF MR PETER ROWE AS A DIRECTOR

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, Mr Peter Rowe, a director of the Company who retires in accordance with clause 11.11 of the Company’s Constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company”.*

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### 5. RESOLUTION 4 – RATIFICATION OF PRIOR ISSUE OF INCENTIVE OPTIONS TO EMPLOYEES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, the shareholders ratify and approve the issue of 2,500,000 Options to Employees on the terms and conditions set out in the Explanatory Statement.”*

**Short Explanation:** An equity issue can be ratified by shareholders in accordance with ASX Listing Rule 7.4. This allows the company the flexibility to issue shares and options to subscribe for fully paid ordinary shares in the future up to the threshold of 15% of its total ordinary securities in any 12 month period. Please refer to the Explanatory Statement for details.

**Voting Exclusion Statement:** The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons . However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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### 6. RESOLUTION 5 – APPOINTMENT OF AUDITORS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That for the purposes of section 327B(1)(a) of the Corporations Act and for all other purposes , HLB Mann Judd, having been nominated by a member of the company and consented in writing to act, be appointed as auditors of the Company with effect from the end of the Meeting. “*

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### 7. RESOLUTION 6 – ADOPTION OF THE KRE EMPLOYEE LONG-TERM INCENTIVE PLAN

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of ASX Listing Rule 7.2, exception 9(b), as an exception to ASX Listing Rule 7.1, section 260C(4) of the Corporations Act, and for all other purposes, the Shareholders approve the KRE Employee Long-Term Incentive Scheme (**Scheme**) for employees (including executive Directors) of the Company or a

subsidiary of the Company and the issue of Shares pursuant to the Plan, the terms of which are summarised in the Explanatory Statement accompanying this Notice of Meeting.”

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by a Director of the Company (except one who is ineligible to participate in any employee incentive plan in relation to the Company) and any associate of that person . However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or if it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Voting Prohibition Statement:** A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

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**DATED: 27 OCTOBER 2011**

**BY ORDER OF THE BOARD**



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**DARREN CRAWTE**  
**COMPANY SECRETARY**

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## **EXPLANATORY STATEMENT**

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This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Annual General Meeting to be held at 10.00 am (WST) on 29 November 2011 at Seminar Room 3, University Club of Western Australia, UWA, M800, 35 Stirling Highway, Crawley, Western Australia.

The purpose of this Explanatory Statement is to provide information which the directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

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### **1. ANNUAL REPORT**

Section 317 of the Corporations Act requires director's report, the auditor's report and the Annual Report, including the financial statements to be put before the Annual General Meeting and the Constitution provides for those reports and statements to be received and considered at the Annual General Meeting. Neither the Corporations Act nor the Constitution requires a vote of Shareholders at the Annual General Meeting on the reports or statements. However, Shareholders will be given the opportunity to raise questions on the reports and the statements at the Annual General Meeting.

The Company's 2011 Annual Report is available at [www.kimberleyrareearth.com.au](http://www.kimberleyrareearth.com.au). Those holders that elected to receive a printed copy of the Annual Report will have received a copy with this Notice of Annual General Meeting.

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### **2. RESOLUTION 1 – ADOPTION OF THE REMUNERATION REPORT**

The Remuneration Report is contained in the Directors' Report section of the Company's Annual Report for the year ended 30 June 2011.

By way of summary, the Remuneration Report:

- (a) explains the Company's remuneration policy and the process for determining the remuneration of its Directors and executive officers;
- (b) addresses the relationship between the Company's remuneration policy and the Company's performance; and
- (c) sets out remuneration details for each Director and each of the Company's executives named in the Remuneration Report for the financial year ended 30 June 2011.

Section 250R(2) of the Corporations Act requires companies to put a resolution to their members that the Remuneration Report be adopted. The vote on this resolution is advisory only, however, and does not bind the Board or the Company. The Board will consider the outcome of the vote and comments made by Shareholders on the Remuneration Report at the meeting when reviewing the Company's remuneration policies.

The Chairman will give Shareholders a reasonable opportunity to ask questions about or to make comments on the Remuneration Report.

Under the Corporations Act, if 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive AGMs, Shareholders will be required to vote at the second of those AGMs on a resolution that a further meeting is held at which all of the Company's Directors (other than the Managing Director) must go up for re-election. Voting on this resolution will be determined by a poll at the meeting rather than a show of hands.

## Undirected proxies

Any undirected proxies held by the Chair of the meeting will not be voted on this resolution.

**Accordingly, if you appoint the Chair of the meeting as your proxy, you should direct him how to vote on this resolution if you want your shares to be voted.**

The same will apply if you appoint any other Director of the Company, any other of its key management personnel or any of their closely related parties.

Key management personnel of the Company has the same meaning as set out in the accounting standards and includes the Directors of the Company and those other persons having authority and responsibility for Planning, directing and controlling the activities of the Company, directly or indirectly. The Remuneration Report identifies the Company's key management personnel for the financial year to 30 June 2011. Their closely related parties are defined in the Corporations Act, and include certain members of their family, dependents and companies they control.

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### 3. RESOLUTION 2 – RE-ELECTION OF DR ALLAN TRENCH AS A DIRECTOR

Clause 11.3 of the Constitution requires that at the Company's annual general meeting in every year, one-third of the Directors for the time being, or, if their number is not a multiple of 3, then the number nearest one-third, shall retire from office, and any Director not in such one third who has held office for 3 years or more (who is not the Managing Director) provided always that no Director (except a Managing Director) must retire from office.

The Directors to retire at an annual general meeting are those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots.

A Director who retires by rotation is eligible for re-election under clause 11.4 of the Constitution.

The Company currently has 3 Directors who are counted for the purpose of determining retirement by rotation and accordingly one must retire.

Dr. Trench retires from office in accordance with these requirements and being eligible, offers himself for re-election by shareholders as a director of the Company, with effect from the end of the meeting.

Dr Trench was appointed as a director on incorporation of the Company 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.

The Board unanimously recommends that shareholders vote in favour of the re-election of Dr. Trench as a Director.



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#### **4. RESOLUTION 3– RE-ELECTION OF MR PETER ROWE AS A DIRECTOR**

Clause 11.11 of the Constitution provides that a Director appointed during the year must retire from office at the next annual general meeting and is eligible for re-election at that annual general meeting.

Mr. Rowe retires from office in accordance with these requirements and being eligible, offers himself for re-election by shareholders as a director of the Company, with effect from the end of the meeting.

Mr. Rowe was appointed as a Director 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.

The Board unanimously recommends that Shareholders vote in favour of the re-election of Mr. Rowe as a Director.

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#### **5. RESOLUTION 4 – RATIFICATION OF PRIOR ISSUE OF INCENTIVE OPTIONS TO EMPLOYEES**

##### **5.1 General**

As announced on 19 July 2011, the Company allotted and issued 2,500,000 Incentive Options to Tim Dobson, then Chief Executive Officer of the Company, and Mr Geoff Collis, General Manager - Exploration and/or their respective nominees on the terms and conditions set out below.

The Incentive Options have an exercise price of 30 cents per Incentive Option and an expiry date of 30 June 2014.

Tim Dobson was subsequently appointed as Managing Director of the Company on 1 October 2011.

ASX Listing Rule 7.4 states that an issue by a company of securities made without approval under ASX Listing Rule 7.1 is treated as having been made with approval for the purpose of ASX Listing Rule 7.1 if the issue did not breach ASX Listing Rule 7.1 and the company's members subsequently approve it.

Resolution 4 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of the 2,500,000 Incentive Options issued on 19 July 2011 (**Ratification**). By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% threshold set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

##### **5.2 Technical Information Required by ASX Listing Rule 7.5**

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the ratification:

- (a) a total of 1,500,000 Incentive Options were issued to Tim Dobson, Chief Executive Officer; and
- (b) a total of 1,000,000 Incentive Options were issued to Geoff Collis, General Manager - Exploration.
- (c) neither Tim Dobson nor Geoff Collis were related parties of the Company at the time the Incentive Options were issued;

- (d) the exercise price per Incentive Option is 30 cents and the Incentive Options have an expiry date of 30 June 2014. The Incentive Options vest in two equal tranches on 30 June 2012 and 30 June 2013 respectively;
- (e) each Incentive Option, once exercised, will convert into one fully paid ordinary share in the capital of the Company issued on the same terms and conditions as, and ranking equally (from the date of their issue) with, the Company's existing Shares;
- (f) the Incentive Options were issued in accordance with the agreed contract of employment between the Company and the respective employees;
- (g) the full terms and conditions of the Incentive Options are set out in Annexure A; and
- (h) the Incentive Options were issued for no consideration and as such no funds were raised during the issue.

The Directors unanimously recommend that Shareholders vote in favour of Resolution 4.

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## **6. RESOLUTION 5 – APPOINTMENT OF AUDITORS**

In accordance with section 327A of the Corporations Act, the Board has appointed HLB Mann Judd as the Company's auditor to hold office until the Company's first annual general meeting.

Section 327B(1)(a) of the Corporations Act provides that a public company must appoint an auditor at its first annual general meeting. HLB Mann Judd resigns in accordance with sections 327 A&B of the Corporations Act and offer themselves for re-appointment as the auditors of the Company.

Resolution 5 seeks shareholder approval to re-appoint HLB Mann Judd to the office of auditor of the Company.

The Company has received:

- (a) a nomination under section 328B of the Corporations Act, from a member to be appoint HLB Mann Judd as the Company's auditor, a copy of which is annexed as Annexure B to the Explanatory Statement; and
- (b) a consent to act as auditor of the Company duly executed by HLB Mann Judd, a registered company auditor.

The Board unanimously recommends that Shareholders vote in favour of Resolution 5.

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## **7. RESOLUTION 6 – ADOPTION OF THE KRE EMPLOYEE LONG-TERM INCENTIVE SCHEME**

The Board has developed the KRE Employee Long-Term Incentive Scheme (**Scheme**) to enable the Board to provide appropriate performance incentives to employees (including Directors) of the Company and its subsidiaries, through ownership of Shares. The Board believes that this will align the interests of employees with the interests of the Company, for the benefit of all Shareholders.

Resolution 6 seeks Shareholder approval under exception 9(b) of ASX Listing Rule 7.2 to allow the issue of Shares under the Scheme as an exception to ASX Listing Rule 7.1.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

Exception 9(b) of ASX Listing Rule 7.2 provides that a company may make an issue of securities under an employee incentive scheme (such as the Scheme) if, within three years before the date of issue, holders of ordinary securities in the company have approved the issue of securities under the scheme as an exception to ASX Listing Rule 7.1.

If Resolution 6 is passed, the Company will have the ability to issue Shares to eligible participants under the Scheme over a period of three years without impacting on the Company's 15% placement capacity under ASX Listing Rule 7.1.

The Directors and employees of the Company have been, and will continue to be, instrumental in the growth of the Company. The Directors consider that the Scheme is an appropriate method to:

- (a) reward Directors and employees for their past performance;
- (b) provide long term incentives for participation in the Company's future growth;
- (c) motivate Directors and generate loyalty from senior employees; and
- (d) assist to retain the services of Directors and employees.

The Scheme will be used as part of the remuneration planning for executive Directors and employees. The Corporate Governance Council Guidelines recommend that executive remuneration packages involve a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the company's circumstances and goals.

The Scheme will also be used as part of the remuneration planning for non-executive Directors. Although this is not in accordance with the recommendations contained in the Corporate Governance Council Guidelines, the Company considers that it is appropriate for non-executive Directors to participate in the Scheme given the size of the Company.

No Shares have yet been issued under the Scheme.

A copy of the Scheme is attached in Annexure C to this Explanatory Statement.

Shareholder approval will be sought by the Company (if required under the ASX Listing Rules or the Corporations Act) where the Company invites a Director or associate to participate in the Scheme.

## GLOSSARY

**\$** means Australian dollars.

**Annual General Meeting** or **Meeting** means the meeting convened by the Notice of Meeting.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited.

**ASX Listing Rules** means the Listing Rules of ASX.

**Board** means the current board of Directors of the Company.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

**Closely Related Party of a member of the Key Management Personnel** means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the Corporations Regulations 2001 (Cth).

**Company** means Kimberley Rare Earths Limited (ABN 20 147 678 779).

**Constitution** means the Company's constitution.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Directors** means the current directors of the Company.

**Explanatory Statement** means the explanatory statement accompanying the Notice of Meeting.

**Incentive Option** means Options on the terms summarised in Section 5 and Annexure A of the Explanatory Statement.

**Key Management Personnel** has the same meaning as in the accounting standards and broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

**Notice of Meeting** or **Notice of Annual General Meeting** means this notice of annual general meeting including the explanatory statement.

**Options** means an option to acquire a Share.

**Remuneration Report** means the remuneration report contained in the Directors' Report section of the Company's annual report for the financial year ending 30 June 2011.

**Resolutions** means the resolutions set out in the Notice of Meeting or any one of them, as the context requires.

**Scheme** means the KRE Long-Term Incentive Scheme, as summarised in Section 8 and Annexure C of the Explanatory Statement.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of a Share.

**WST** means Western Standard Time as observed in Perth, Western Australia.

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**ANNEXURE A – TERMS AND CONDITIONS OF INCENTIVE OPTIONS**

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**Granted to:** Tim Dobson and Geoff Collis

**Total number of options granted:** 1,500,000 and 1,000,000 respectively.

**Vesting Conditions:** Options will vest in two equal tranches on 30 June 2012 and 30 June 2013 respectively.

**Exercise Price:** The exercise price will be 30 cents per Incentive Option.

**Expiry date:** 30 June 2014.

**General Terms of Incentive Options:**

Other than the exercise price, expiry date and vesting conditions as set out above, the terms of the Incentive Options are as follows:

1. The Incentive Options will be issued for no consideration.
2. Each Incentive Option entitles the holder of an Incentive Option to subscribe for one Share.
3. The Incentive Options are non transferable.
4. The Incentive Options may be exercised by notice in writing to the Company. Any notice of exercise of an Incentive Option received by the Company will be deemed to be a notice of the exercise of that Incentive Option as at date of receipt.
5. Cheques shall be in Australian currency made payable to the Company and crossed "not negotiable". The application for Shares on exercise of the Incentive Options with the appropriate remittance should be lodged at the Company's share registry.
6. After an Incentive Option is validly exercised, the Company must, within, 20 Business Days of the notice of exercise and receipt of cleared funds equal to the sum payable on the exercise of the Incentive Option issue and allot the Share and do all things necessary to obtain the grant of official quotation of the Shares on ASX no later than five business days after issuing the Shares.
7. Shares issued on exercise of the Incentive Options will rank equally with the then issued Shares of the Company.
8. There are no participation rights or entitlements inherent in the Incentive Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Incentive Options.

However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 10 business days after the issue is announced. This will give holders of Incentive Options the opportunity to exercise their Incentive Options prior to the date for determining entitlements to participate in any such issue.

9. If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction, of dividends or by way of dividend reinvestments):
  - (a) The number of Shares which must be issued on the exercise of an Incentive Option will be increased by the number of Shares which the Option holder would have received if the Option holder had exercised the Incentive Option before the record date for the bonus issue; but
  - (b) no change will be made to the Exercise Price.

10. If the Company makes an issue of Shares pro rata to existing Shareholders (other than an issue in lieu of in satisfaction of dividends or by way of dividend reinvestment) the exercise price of an Incentive Option will be reduced according to the following formula:

$$\text{New exercise price} = \frac{O - E [P - (S + D)]}{N+1}$$

O = the old exercise price of the Incentive Option.

E = the number of underlying shares into which one Incentive Option is exercisable.

P = average market price per Share weighted by reference to volume of the underlying Shares during the 5 trading days ending on the day before the ex rights date or ex entitlements dates.

S = the subscription price of a Share under the pro rata issue.

D = the dividend due but not yet paid on the existing underlying Shares (except those to be issued under the pro rata issue).

N = the number of Shares with rights or entitlements that must be held to receive a right to one new Share.

11. If there is any reconstruction of the issued share capital of the Company, the rights of Incentive Option holders will be varied to comply the ASX Listing Rules which apply to the reconstruction at the time of the reconstruction.

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**ANNEXURE B – AUDITOR NOMINATION LETTER**

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**F.A.T.S. PTY LTD**  
**Funds Administration & Trustee Services**

GPO Box 2570  
PERTH WA 6001

ACN: 008 899 474

Telephone: (08) 9463 2463  
Facsimile: (08) 9463 2463

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24 October 2011

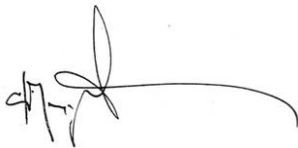
The Directors  
Kimberley Rare Earths Limited  
PO Box 519  
West Perth WA 6872

Dear Sirs

**NOMINATION OF HLB MANN JUDD AS AUDITOR OF THE COMPANY**

For the purposes of section 328B(1) of the Corporations Act, I Ian Macpherson, a director of F.A.T.S. Pty Ltd, being a member of Kimberley Rare Earths Limited, hereby nominate HLB Mann Judd of Level 4, 130 Stirling Street, Perth, WA, 6000 to be appointed as auditors to the Company at the forthcoming Annual General meeting or any adjournment thereof.

Yours faithfully



Ian Macpherson  
Director



**Kimberley Rare Earths Limited**

**Long-Term Incentive Scheme**

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## Background

- A The following are the terms and conditions of the KRE Long-Term Incentive Scheme.
- B The purpose of the Scheme is to provide a sense of ownership in KRE and to reward Employees of KRE. The Scheme is designed to encourage broad equity ownership and to align the rewards of Participants with the strategic long term goals and performance of KRE.

## Operative provisions

### 1 DEFINITIONS AND INTERPRETATION

#### Definitions

- 1.1 In the construction of this document, unless the contrary intention appears:
- Act** means the *Corporations Act 2001* (Cth) as amended from time to time;
- Approved CS Facility** has the meaning given to that term in the Listing Rules;
- ASX** means Australian Securities Exchange;
- Board** means the KRE's board of Directors;
- Business Day** means any day other than a Saturday, Sunday or day which is a public holiday in Western Australia;
- Buyback Agreement** has the meaning given to that term in clause 16.1;
- Cash Dividend** means a dividend declared and paid by KRE to holders of Shares in the form of money, whether by cheque or direct credit, and includes any such dividend which is reinvested under the DRP but excludes any amount paid on a buyback of Shares;
- Company Employee Incentive Plan** means this Scheme and any other scheme which may be implemented by KRE from time to time pursuant which Shares may be offered to an Eligible Person;
- Condition** means a condition imposed by the Directors in respect of a Participant's Scheme Shares that must be satisfied before the Scheme Shares are released from the restrictions under clause 8.5, such condition being specified in the written invitation made under clause 6.2 to take up those Scheme Shares;
- Directors** means the directors of KRE from time to time;
- Dismissal for Serious Misconduct** means the valid termination of a Participant's employment with KRE or its Subsidiary without notice as a result of serious misconduct on the part of the Participant;
- DRP** means the KRE Dividend Reinvestment Plan that may be in place from time to time;
- Eligible Person** has the meaning given to that term in clause 6.1;
- Employee** means a full time or part time employee of KRE or a Subsidiary and includes a director who is a salaried employee excluding a non-executive director
- Holding Lock** has the same meaning given by the Listing Rules;
- Holding Lock Period** has the meaning given in clause 12.2;
- Initial Loan Amount** means, in respect of a Scheme Loan, an amount equal to the total Issue Price of the Shares (excluding any Shares issued under the DRP) acquired under the Scheme with that Scheme Loan;
- Issue Price** means the issue price of Shares issued under the Scheme, as adjusted in accordance with clause 5.3;
- KRE** means Kimberley Rare Earths Limited ACN 147 678 779;
- Lender** means the lender of a Scheme Loan which shall be either KRE or a Subsidiary of KRE;
- Listing Rules** means the Listing Rules of ASX from time to time, subject to any waiver or modification granted by ASX;

**Participant** means an Employee who has accepted an invitation to participate in the Scheme in accordance with clause 7 and in the event of the death or Permanent Disability means the Participant's legal personal representative;

**Permanent Disability** means physical or mental disability caused through bodily injury, illness, disease, infirmity or accident which the Board after considering such medical or other evidence as it thinks fit considers will render the person concerned unlikely ever to be able to perform his or her duties as an Employee of KRE or its Subsidiary;

**Prescribed Security Value** means, in relation to a Participant, the amount of the principal of the Participant's Scheme Loan from time to time;

**Proceeds** has the meaning given to that term in clause 11.7;

**Scheme** means the KRE Long-Term Incentive Scheme, established by this document;

**Scheme Loan** means a loan made to a Participant under the Scheme;

**Scheme Shares** means Shares which are subject to the Scheme in accordance with clause 4;

**Secretary** means the secretary of KRE or, if there is more than one secretary, one of the secretaries of KRE;

**Share** means an ordinary share in the capital of KRE;

**Subsidiary** means a subsidiary as defined in the Act; and

**Terms and Conditions** means these terms and conditions as amended from time to time.

## Interpretation

- 1.2 This document, unless the context otherwise requires, must be read subject to the following interpretive rules:
- 1.2.1 headings are for convenience only and must be disregarded in the construction of this document;
  - 1.2.2 the schedules, annexures and attachments to this document form part of this document;
  - 1.2.3 words importing the singular include the plural and vice versa;
  - 1.2.4 words importing any gender include all other genders;
  - 1.2.5 a reference to a statutory provision is to that provision, subject to any statutory modification, amendment or re-enactment, for the time being in force;
  - 1.2.6 a reference to any agreement or document is to that agreement or document as amended, novated, supplemented or replaced from time to time;
  - 1.2.7 unless otherwise stated, a reference to a clause, part, schedule or attachment is a reference to a clause, part, schedule or attachment of, or to, this document;
  - 1.2.8 a reference to a 'person' includes any natural person, company, trust, partnership, joint venture, association, corporation, body corporate or governmental agency;
  - 1.2.9 if the day on which any act, matter or thing is to be done under this document is not a Business Day, that act, matter or thing must be done on the next Business Day;
  - 1.2.10 an agreement, representation or warranty made by, or in favour of, two or more persons is made by, or for the benefit of, them jointly and severally;
  - 1.2.11 references to time are to the time in Perth, Western Australia; and
  - 1.2.12 references to money are references to Australian dollars.

## 2 NAME OF THE SCHEME

- 2.1 This Scheme shall be known as the 'KRE Long-Term Incentive Scheme' or such other name as the Directors may from time to time determine.

### 3 REGULATORY REQUIREMENTS

- 3.1 The operation of the Scheme and, in particular, the issue of new Shares under the Scheme is subject to the requirements of:
- 3.1.1 the Listing Rules;
  - 3.1.2 ASIC Class Order 03/184; and
  - 3.1.3 the Act.

### 4 SCHEME SHARES

- 4.1 The Shares subject to the Scheme shall be the Shares which are acquired by Participants pursuant to the Scheme together with all bonus Shares issued in respect of Shares which were then Scheme Shares.
- 4.2 Subject to clause 4.3, no offer that is or includes an offer of Scheme Shares may be made unless the total number of:
- 4.2.1 Scheme Shares offered to Eligible Persons under the Scheme;
  - 4.2.2 Scheme Shares which would be issued if each outstanding offer with respect to the Shares, pursuant to the Scheme were accepted; and
  - 4.2.3 Shares issued during the previous 5 years pursuant to a Company Employee Incentive Plan, but disregarding any offer of Shares referred to in sub-paragraphs (c) to (g) of paragraph 3 of the schedule to ASIC Class Order 03/184, does not exceed 5% of the total number of issued Shares at the time of the offer.
- 4.3 The Directors may, from time to time, in their absolute discretion, make an offer of additional Scheme Shares to Eligible Persons if the offer does not need disclosure because of section 708 of the Act.
- 4.4 Notwithstanding anything in this document including clauses 4.1 and 4.3, KRE may not issue more than the maximum number of Shares which are permitted to be subject to the Scheme under the Listing Rules.
- 4.5 Where KRE declares a bonus issue of Shares, then the bonus Shares are also deemed subject to the Scheme.
- 4.6 A Share held by a Participant shall cease to be a Scheme Share if the Share has been released from the lien granted by the Participant to the Lender under clause 12 in accordance with that clause 12.

### 5 ISSUE PRICE

- 5.1 The Issue Price of each Share shall be determined by the Directors prior to making each invitation to an Employee to participate in the Scheme.
- 5.2 In no event shall the Issue Price be less than the weighted average of the prices at which KRE Shares were traded on ASX during the 5 Business Days up to and including the date, of determination of the Issue Price by the Directors.
- 5.3 On each occasion that bonus Shares are issued in respect of a Participant's Scheme Shares, the Issue Price for those Scheme Shares immediately prior to such bonus issue shall be averaged down and spread equally between those Scheme Shares and the bonus Shares. Those bonus Shares shall, from the time of issue, become Scheme Shares and, for the purposes of these terms and conditions, have an Issue Price determined by such averaging down.

### 6 INVITATION TO PARTICIPATE

- 6.1 A person is eligible to participate in the Scheme if the person is an Employee of KRE or a Subsidiary of KRE (**Eligible Person**).
- 6.2 The Directors may, from time to time, invite an Eligible Person to participate in the Scheme. Such invitations may be made to persons who are already Participants and more than one invitation may be made to the same person. The Scheme Shares acquired by a Participant pursuant to each such invitation and the Scheme Loan made in respect of those Scheme Shares shall be treated separately from, and not

consolidated with, any other Scheme Shares held by or Scheme Loan made to the Participant and these Terms and Conditions shall apply accordingly (as if the Participant were several people each with the separate Scheme Shares and Scheme Loan).

- 6.3 Each such invitation shall be in writing, signed by a Secretary or a Director, and shall:
- 6.3.1 specify the number of Shares being offered to the Employee;
  - 6.3.2 specify the Issue Price of each Share being offered;
  - 6.3.3 specify any Conditions applicable to the Shares being offered;
  - 6.3.4 specify the time period within which the invitation may be accepted by the Employee;
  - 6.3.5 contain an offer by KRE or by a Subsidiary of KRE to make a Scheme Loan (together with applicable terms and conditions) to the Employee of such amount as will enable the Employee to acquire, pursuant to the Scheme, the number of Shares offered at the Issue Price per Share; and
  - 6.3.6 contain such other matters as the Directors may from time to time determine.
- 6.4 An offer of Shares subject to a particular Condition shall be made in a separate invitation under clause 6.2 and on the basis of a separate Scheme Loan.

## **7 ACCEPTANCE OF INVITATION**

- 7.1 An Employee who has received an invitation to participate in the Scheme may accept that invitation by sending an acceptance to the Secretary.
- 7.2 An acceptance shall be in such form as the Directors may from time to time determine and shall:
- 7.2.1 specify the name and address of the Employee;
  - 7.2.2 contain an application by the Employee to KRE to subscribe for the number of Shares offered at the Issue Price per Share;
  - 7.2.3 contain an acceptance of these Terms and Conditions;
  - 7.2.4 contain an acceptance of the offer of a Scheme Loan made by the Lender;
  - 7.2.5 contain an agreement to be bound by KRE's constitution;
  - 7.2.6 contain an agreement to the application of a Holding Lock for the Holding Lock Period pursuant to Listing Rule 8.10.1(i);
  - 7.2.7 contain an authority to the Board to request and receive from the Lender of the Employee's Scheme Loan the full advance under the Employee's Scheme Loan and immediately apply it in paying the full amount of the Issue Price for each of the Shares applied for by the Employee;
  - 7.2.8 contain an authority to the Lender of the Employee's Scheme Loan to retain possession of the Share certificates (if any) in respect of such number of Scheme Shares and any bonus Shares issued to the Employee in respect of those Scheme Shares of the Employee as is determined in accordance with clause 12;
  - 7.2.9 contain a power of attorney in favour of the Lender in accordance with clause 17; and
  - 7.2.10 contain such other documents as the Directors may from time to time determine.
- 7.3 An acceptance shall be effective only if:
- 7.3.1 it is received by the Secretary within the period stipulated in the invitation given under clause 6.2 for acceptance; and
  - 7.3.2 it is accompanied by such other documents as the Directors may from time to time determine.

## **8 ISSUE OF SCHEME SHARES**

- 8.1 When an invitation has been duly accepted, the Shares applied for by the Participant shall be allotted by KRE to the Participant and issued fully paid.

- 8.2 Upon issue of any Scheme Shares, KRE shall apply for their quotation by ASX within the period required under the Listing Rules.
- 8.3 The Share certificates (if any) in respect of a Participant's Scheme Shares, and all bonus Shares issued in respect of such Scheme Shares, shall upon issue be delivered to the Lender of the Participant's Scheme Loan as security for repayment of the Participant's Scheme Loan in accordance with these Terms and Conditions.
- 8.4 Subject to these Terms and Conditions, all Scheme Shares shall have the same rights as apply to the other Shares of KRE, including rights to dividends, participation in rights issues and bonus issues, and voting.
- 8.5 If a Participant's Scheme Shares are subject to a Condition that has not been satisfied the Participant must not:
- (a) elect to reinvest dividends on those Scheme Shares under the DRP;
  - (b) repay any of the Scheme Loan relating to those Scheme Shares under clause 11.8;
  - (c) request the release of any of the Scheme Shares from the lien granted to the Lender under clause 12.1; or
  - (d) deal with the Scheme Shares otherwise than in accordance with clause 14.

## **9 MAKING SCHEME LOANS**

- 9.1 A Lender of a Participant's Scheme Loan shall make the full advance to the Participant under the Participant's Scheme Loan at the request of the Board.
- 9.2 A Participant, and the Board on behalf of the Participant, shall use a Scheme Loan for the sole and immediate purpose of paying the full amount of the Issue Price for each of the Shares applied for by the Participant.
- 9.3 If a Participant has more than one Scheme Loan, each Scheme Loan will be treated separately from and not consolidated with any other Scheme Loan.

## **10 NO INTEREST ON SCHEME LOANS**

- 10.1 No interest is payable on the Participant's Scheme Loan.

## **11 REPAYMENT OF SCHEME LOANS: LIMITED RECOURSE**

- 11.1 The Participant shall not be obliged to repay the outstanding balance of the Participant's Scheme Loan other than in the manner specified in this clause 11.

### **Conditions not satisfied**

- 11.2 If on the earliest to occur of:
- 11.2.1 the expiration of six months after the Participant ceases for any reason, other than death or Permanent Disability, to be an Employee of KRE or a Subsidiary of KRE (including by reason that the Participant's employer ceases to be a Subsidiary of KRE); and
  - 11.2.2 the fifth anniversary of the making of the Participant's Scheme Loan,
- the Conditions attaching to the Participant's Scheme Shares are not satisfied, then KRE may, at its discretion, either:
- 11.2.3 accept the Participant's offer to enter into a buy back agreement under clause 16 and buy back the Participant's Scheme Shares in accordance with the procedure in clause 16; or
  - 11.2.4 sell (or direct the Lender to sell) the Participant's Scheme Shares on or off market in accordance with the procedure in clause 13.

### **Conditions satisfied**

- 11.3 If on the earliest to occur of:

- 11.3.1 the expiration of six months after the Participant ceases for any reason, other than death or Permanent Disability, to be an Employee of KRE or a Subsidiary of KRE (including by reason that the Participant's employer ceases to be a Subsidiary of KRE);
  - 11.3.2 the fifth anniversary of the making of the Participant's Scheme Loan,
- the Conditions attaching to the Participant's Scheme Shares **are** satisfied, then the Lender may make written demand on the Participant for the repayment of the outstanding amount of the Participant's Scheme Loan.
- 11.4 Any demand under clause 11.3 must specify in it the date for repayment of the outstanding balance of the Participant's Scheme Loan, such date to be not less than one month after the giving of such written demand.
  - 11.5 If the Participant fails to pay the Scheme Loan in accordance with the demand made under clause 11.4 then KRE may, at its discretion, either:
    - 11.5.1 accept the Participant's offer to enter into a buy back agreement under clause 16 and buy back the Participant's Scheme Shares in accordance with the procedure in clause 16; or
    - 11.5.2 sell (or direct the Lender to sell) the Participant's Scheme Shares on or off market in accordance with the procedure in clause 13.

### **Death or Permanent Disability**

- 11.6 At the expiration of 12 months after the Participant's death or Permanent Disability, clauses 11.5.1 and 11.5.2 apply (whether or not the Conditions attaching to the Participant's Scheme Shares have been satisfied at the time of the Participant's death or Permanent Disability).

### **Limited recourse Loan**

- 11.7 Each party acknowledges and agrees that the Participant's liability with respect to the Participant's Scheme Loan is in all cases limited to the proceeds arising from the sale or buyback of the Participant's then Scheme Shares (**Proceeds**) and the Lender will have no further recourse against the Participant in respect of the Participant's Scheme Loan or any costs, charges or expenses incurred in or incidental to the exercise or performance of any of the powers or authorities conferred by these Terms and Conditions.

### **Voluntary repayments**

- 11.8 A Participant may, subject to clause 8.5, repay the whole or part of the outstanding balance of the Participant's Scheme Loan at any time provided that, if the Participant repays part of the outstanding balance of the Participant's Scheme Loan, any such repayments must be made in multiples of \$10,000.

## **12 SECURITY**

- 12.1 Without limiting KRE's or the Lender's rights under clauses 11, 13 and 16 of these Terms and Conditions, each Participant grants to the Lender a lien over all of their Scheme Shares as security for the payment of all monies owing under the Participant's Scheme Loan. If a Participant has more than one Scheme Loan, a separate lien will be granted over, and only apply to, the Scheme Shares applicable to each Scheme Loan and such lien will be treated separately from any other lien granted by the Participant.
- 12.2 For the purposes of protecting its rights under any lien granted under clause 12.1 and enforcing any restrictions under clause 8.5, the Lender may request an Approved CS Facility to apply a Holding Lock to prevent the transfer of a Participant's Scheme Shares until the Scheme Loan is fully repaid (Holding Lock Period). The Lender may instruct the Approved CS Facility to remove the Holding Lock if the Participant dies, acquires a Permanent Disability, or in the case of a takeover bid.
- 12.3 The Directors may, from time to time, in their absolute discretion, release any number of Scheme Shares of a Participant from the lien held by the Lender. In accordance with clause 4.5, Shares which are so released cease to be Scheme Shares.
- 12.4 If, as a consequence of the application of any of the Terms and Conditions, the security under this clause 12 is at any time is less than the Prescribed Security Value, the Lender shall not be entitled to obtain further security and the Participant shall be under no obligation to top up such security.



## 13 SALE OF SHARES

- 13.1 If KRE elects to sell the Scheme Shares under clause 11.2.4, then the Lender will have the power to sell all of the Participant's Scheme Shares then retained by the Lender on or off market and the following applies:
- 13.1.1 the Participant will not be entitled to any of the Proceeds (even if such Proceeds exceed the Participant's outstanding balance of the Participant's Scheme Loan);
  - 13.1.2 the Lender will be entitled to the Proceeds in full, without any deduction or set-off; and
  - 13.1.3 the Lender will repay the Participant any amounts paid by the Participant pursuant to clause 11.8 on completion of the sale of the Scheme Shares.
- 13.2 The Participant acknowledges and agrees that any surplus of the Proceeds (in excess of the Participant's outstanding balance of the Scheme Loan) retained by the Lender under clause 13.1:
- 13.2.1 will, in whole or in part, be used to meet the costs and expenses incurred by the Lender and KRE in selling the Participant's Scheme Shares;
  - 13.2.2 represents KRE's and the Lender's loss due to the Participant's failure in fulfilling the Conditions attaching to the Scheme Shares; and
  - 13.2.3 is not a penalty.
- 13.3 If KRE elects to sell the Scheme Shares under clause 11.5.2, then the Lender will have the power to sell all of the Participant's Scheme Shares then retained by the Lender on or off market and the following applies:
- 13.3.1 the Proceeds will:
    - (a) first be applied to repay the outstanding balance of the Participant's Loan; and
    - (b) second be applied against all of the costs and expenses incurred by the Lender in respect of the sale of the Scheme Shares; and
  - 13.3.2 the remainder of the Proceeds after the payments under clause 13.3.1 will be paid to the Participant.

## 14 TAKEOVERS

- 14.1 In the event that a person has made takeover offers for the Shares in KRE in accordance with Chapter 6 of the Act (takeover offer), each Participant shall be entitled to accept such offer with respect to the Participant's Scheme Shares provided that the takeover offer has been recommended by a majority of the Directors. For the avoidance of doubt, clause (d) allows a Participant to accept a recommended takeover offer in respect of some or all Scheme Shares that it currently holds, notwithstanding any unsatisfied Conditions that apply to the Shares.
- 14.2 If a Participant wishes to accept a takeover offer the Participant shall supply the Lender with:
- 14.2.1 all things necessary to accept the takeover offer in respect of such number of Shares as the Participant chooses and direct that the proceeds of sale are to be remitted to the Lender at the Lender's address; and
  - 14.2.2 a written direction from the Participant to the Lender to forward any documents in the manner prescribed for acceptance of the takeover offer.
- 14.3 Upon receipt of such direction the Lender shall comply with the direction.
- 14.4 When the Lender comes into possession of the net proceeds of sale of Shares arising from sales contemplated by this clause, the Lender shall apply only so much of it as is attributable to the Participant's Scheme Shares to repay the Participant's Scheme Loan and pay any balance to the Participant.
- 14.5 If, despite a direction given under clause 14.2.1, the proceeds of sale are sent to the Participant, the Participant shall immediately remit to the Lender an amount equal to that which the Lender would have been entitled to under clause 14.4.
- 14.6 The forwarding of documents by the Lender in accordance with clause 14 shall not cause the Shares concerned to cease being Scheme Shares unless and until the Lender is in receipt of the proceeds of sale contemplated by clauses 14.4 and 14.5 together with any paper contemplated by clause 14.7.

- 14.7 If a Participant:
- 14.7.1 does not accept a takeover offer; or
  - 14.7.2 accepts the takeover offer in respect of some (but not all) of its Scheme Shares,
- then the Participant must, within 15 Business Days after the end of the offer period, repay its Scheme Loan. For the purposes of this clause 14.7, the offer period is the period referred to in the definition of "bid period" in section 9 of the Act.
- 14.8 If the Participant does not repay its Scheme Loan in accordance with clause 14.7, then KRE may, at its discretion, either:
- 14.8.1 accept the Participant's offer to enter into a buy back agreement under clause 16 and buy back the Participant's Scheme Shares in accordance with the procedure in clause 16; or
  - 14.8.2 sell (or direct the Lender to sell) the Participant's Scheme Shares on or off market in accordance with the procedure in clause 13.
- 14.9 Where the offeror under a takeover offer is offering consideration other than only cash (such non-cash component called '**paper**')
- 14.9.1 the cash component (if any) attributable to the Participant's Scheme Shares shall be dealt with under clauses 14.4 and 14.5;
  - 14.9.2 if, after clause 14.9.1 has been done, there is no amount owing on the Participant's Scheme Loan the paper attributable to the Participant's Scheme Shares shall belong to the Participant absolutely and any certificates in respect of such paper shall be immediately forwarded to the Participant;
  - 14.9.3 if, after clause 14.9.1 has been done, there is an amount owing on the Participant's Scheme Loan, the paper attributable to the Participant's Scheme Shares shall be dealt with as follows:
    - (a) the Lender shall be entitled to possession of any certificates in respect of such paper pending the following steps being undertaken;
    - (b) the Participant shall sell such amount of that paper as will realise net proceeds equal to the outstanding balance of the Participant's Scheme Loan and pay that amount to the Lender;
    - (c) any proceeds in excess of that required to repay the outstanding balance of the Participant's Scheme Loan and any paper then remaining shall belong to the Participant absolutely and any certificates in respect of such paper shall be immediately forwarded to the Participant;
    - (d) if the proceeds from the sale of paper are insufficient to repay the outstanding balance of the Participant's Scheme Loan, the Lender's only rights shall be in respect of any remaining Scheme Shares of the Participant.
- 14.10 The provisions of this clause will not qualify the limitations on the liability of a Participant to repay a Scheme Loan as set out in clause 11.7.

## 15 INFORMATION TO PARTICIPANTS

- 15.1 On 31 August in each year, and as soon as practicable after receipt of a written request from a Participant, the Secretary shall send to the Participant a statement setting out:
- 15.1.1 the total number of the Participant's then Scheme Shares;
  - 15.1.2 the outstanding balance of the Participant's Scheme Loan at the beginning of the period to which the statement relates;
  - 15.1.3 the amount and source of any payments made by the Participant in repayment of the Participant's Scheme Loan during the period to which the statement relates;
  - 15.1.4 the balance of the Participant's Scheme Loan at the end of the period to which the statement relates; and
  - 15.1.5 other information relevant to these matters.

## 16 BUYBACK

- 16.1 Each Participant irrevocably offers to enter into an agreement with KRE under which KRE will buyback all of the Participant's Scheme Shares in accordance with this clause 16 (Buyback Agreement).
- 16.2 KRE may only accept the Participant's offer under clause 16.1 in the circumstances contemplated by clause 11.2.3, clause 11.5.1 or clause 14.8.1.
- 16.3 KRE may accept a Participant's offer to enter into a Buyback Agreement under clause 16.1 by giving a written notice to the Participant (**Buyback Notice**). The Buyback Notice must contain the following details:
- the name and address of the Participant;
  - the price at which KRE will buyback the Participant's Scheme Shares (**Buyback Price**);
  - the number of the Participant's Scheme Shares; and
  - the date for completion of the buyback by KRE (**Completion Date**).
- 16.4 Upon KRE giving a Buyback Notice, the Participant must sell and KRE must buyback the Participant's Scheme Shares for the Buyback Price on the Completion Date.
- 16.5 The Completion Date shall be a date between 5 and 15 Business Days from the date of the Buyback Notice. Completion of the buyback must take place on the Completion Date at 1.00pm at KRE's registered office, or at any other time and place that KRE and the Participant agree.
- 16.6 The Buyback Price in relation to each Scheme Share that is being bought back by KRE shall:
- 16.6.1 be equal to the Issue Price of the Scheme Shares if the buy-back offer is accepted by KRE under clause 11.2.3; or
  - 16.6.2 be not less than the average of the last sale prices quoted for KRE Shares on ASX for the 20 consecutive Business Days preceding the date of the Buyback Notice if the buy-back offer is accepted by KRE under clause 11.5.1.
- 16.7 At the Completion Date, the Participant must give KRE:
- 16.7.1 a duly completed transfer executed by the Participant transferring to KRE the Participant's Scheme Shares; and
  - 16.7.2 any other documents that KRE may require to give effect to the buyback of the Participant's Scheme Shares.
- 16.8 At the Completion Date, subject to the Participant complying with clause 16.7, KRE must:
- 16.8.1 apply so much of the total Buyback Price as is required to satisfy the outstanding balance of the Participant's Scheme Loan; and
  - 16.8.2 pay the balance of the total Buyback Price (if any), to the Participant.
- 16.9 Notwithstanding any term of these Terms and Conditions, the buyback of the Participant's Scheme Shares pursuant to this clause 16 must be performed in accordance with Division 2, Part 2J.1 of the Act.

## 17 POWER OF ATTORNEY

- 17.1 Each Participant irrevocably appoints KRE and the Lender as the Participant's attorney to execute all documents and do all things on the Participant's behalf that may be necessary or expedient to:
- 17.1.1 enter into a Buyback Agreement in accordance with clause 16 and complete the buyback of the Participant's Scheme Shares in accordance with that agreement; and
  - 17.1.2 sell the Participant's Scheme Shares in accordance with clause 13.

## 18 ADMINISTRATION OF THE SCHEME

- 18.1 The Scheme shall be administered by the Board who shall have power to:
- 18.1.1 determine the appropriate procedures for the administration of the Scheme consistent with these Terms and Conditions;

- 18.1.2 delegate to any 2 or more of them, for such period and on such conditions as they may determine, the exercise of their powers or discretions arising under the Scheme; and
  - 18.1.3 subject to clause 19, amend or add to these Terms and Conditions.
- 18.2 If any doubt shall arise as to whether or when:
- 18.2.1 a person has become or ceased to be an Employee of KRE or a Subsidiary of KRE; or
  - 18.2.2 a person's employer has become or ceased to be a Subsidiary of KRE,
- then a certificate signed by the Secretary shall be deemed conclusive evidence of that fact.

## **19 ALTERATIONS**

- 19.1 Subject to clause 19.2, these Terms and Conditions may, at any time and from time to time, be amended by the Directors.
- 19.2 No amendment to these Terms and Conditions shall be made by the Directors:
- 19.2.1 unless the Directors or KRE (as the case may be) complies with the Act and the Listing Rules; or
  - 19.2.2 without the prior express written consent of the Participant concerned, if the amendment detrimentally affects the rights of a Participant with regard to either the Participant's Scheme Shares or Scheme Loan.

## **20 SECURITY HOLDER APPROVAL BEFORE SHARES ISSUED OR LOAN GRANTED TO RELATED PARTIES**

- 20.1 A Scheme Loan will only be granted under this Scheme to an Eligible Person after the members of KRE have approved by resolution the proposed Loan, if such approval is required by the Listing Rules or the Act.
- 20.2 Shares will only be issued under the Scheme to an Eligible Person who is also a related party of KRE after the members of KRE have approved by resolution the proposed issue, if such approval is required by the Listing Rules or the Act.

## **21 GOVERNING LAW**

- 21.1 These Terms and Conditions shall be governed by and construed in accordance with the laws for the time being in force in the State of Western Australia.

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KIMBERLEY RARE EARTHS LIMITED

ABN 20 147 678 779

PROXY FORM

The Company Secretary
Kimberley Rare Earths Limited
GPO Box 2570
Perth WA 6001
Ph (+61 8) 9463 2463/Fax (+61 8) 9463 2499

ANNUAL GENERAL MEETING

I/We
Of
being a member(s) of Kimberley Rare Earths Limited and entitled to attend and vote at the Annual General Meeting, hereby

Appoint
Name of proxy

OR
Mark this box if you wish to appoint the Chair of the Annual General Meeting as your proxy

or failing the person/body corporate so named or, if no person/body corporate is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the Annual General Meeting of the Company to be held at 10.00 am (WST), on 29 November 2011 at Seminar Room 3, UWA Club, 35 Stirling Highway, Crawley, Western Australia, and at any adjournment thereof.

Important Proxy Notice for Resolution 1: Where your proxy is the Chair of the Meeting, or any member of the Key Management Personnel of the Company whose remuneration details are included in the Remuneration Report, or a Closely Related Party of that member:

- (a) if you have not directed your proxy to vote on Resolution 1, your proxy will be prevented from casting your votes on Resolution 1; and
(b) in order for your votes to be counted on Resolution 1, you must direct your proxy how to vote on Resolution 1.

Important Proxy Notice for Resolutions 4 and 6: Where your proxy is any member of the Key Management Personnel of the Company, or a Closely Related Party of that member, your proxy will be prevented from casting your votes on Resolutions 4 and 6 unless:

- (a) you direct your proxy how to vote; or
(b) where you do not wish to direct your proxy how to vote, you appoint the Chair as your proxy and tick the box below.

If the Chair of the Annual General Meeting is appointed as your proxy, or may be appointed by default, and you do not wish to direct your proxy how to vote as your proxy in respect of Resolutions 4 and 6 please place a mark in this box.

By marking this box, you acknowledge that the Chair of the Annual General Meeting may exercise your proxy even if he has an interest in the outcome of Resolutions 4 and 6 and that votes cast by the Chair of the Annual General Meeting for Resolutions 4 and 6 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 4 and 6 and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 4 and 6.

If no directions are given, the Chair will vote in favour of all the Resolutions in which the Chair is entitled to vote undirected proxies.

OR

Voting on Business of the General Meeting

Table with 3 columns: FOR, AGAINST, ABSTAIN. Rows include Resolution 1-6 with checkboxes for each option.

If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is %

Signed this day of 2011

By: Individuals and joint holders Companies (affix common seal if appropriate)

Signature boxes for individuals and Director/Company Secretary/Sole Director and Sole Company Secretary.

**KIMBERLEY RARE EARTHS LIMITED**  
**ABN 20 147 678 779**

**Instructions for Completing Proxy Form**

1. A member entitled to attend and vote at an Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.

2. If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting, please write the full name of that individual or body corporate in the space provided. If you leave both the box and this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the Company. A proxy may be an individual or a body corporate.

Under recent changes to the Corporations Act, if your appointment of a proxy specifies the way the proxy is to vote on a particular resolution and your appointed proxy is not the Chairman of the meeting and at the meeting a poll is duly demanded on the question that the resolution be passed, then if either your proxy is not recorded as attending the meeting (if a record of attendance is made) or your proxy does not vote on the resolution, the Chairman is taken, before voting on the resolution closes, to have been appointed as your proxy for the purposes of voting on the resolution at that meeting.

3. You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction, unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate place. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Under recent changes to the Corporations Act, if you direct your proxy how to vote on a particular resolution, the proxy need not vote on a show of hands but if the proxy does so, the proxy must vote as directed. If the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands. If the proxy is the Chairman, the proxy must vote on a poll, and must vote as directed and if the proxy is not the Chairman, the proxy need not vote on the poll, but if the proxy does so, the proxy must vote as directed.

If the Chairman of the Meeting or any other member of the Key Management Personnel of the Company or a Closely Related Party of a member of the Key Management Personnel is your nominated proxy and you have not directed the proxy how to vote on Resolution 1 (Remuneration Report), that person will not cast any votes on Resolution 1.

4. Where a member's holding is in one name the holder must sign. Where the holding is in more than one name, all members should sign.

5. Where a Proxy Form of a corporate representative is lodged and is executed under a power of attorney, the power of attorney must be lodged in like manner as this Proxy Form.

6. Corporate members should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of Section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:

- 2 directors of the company;
- a director and a company secretary of the company; or
- for a proprietary company that has a sole director who is also the sole company secretary – that director.

For the Company to rely on the assumptions set out in Section 129(5) and (6) of the Corporations Act, a document must appear to have been executed in accordance with Section 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable. In particular, a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.

7. Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.

8. To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

- (a) post to Kimberley Rare Earths Limited, GPO Box 2570, Perth, 6001; or
- (b) facsimile to the Company on facsimile number +61 8 9463 2499.

so that it is received not later than 10.00 am (WST) on 27 November 2011.

**Proxy forms received later than this time will be invalid.**