

Rare Earth Elements Letter

INTERNATIONAL

the independent information and advice bulletin for Rare Earth Elements and related investments

Special Situation – November 2011 Update

www.kimberleyrareearths.com.au



Kimberley Rare Earths (A\$ 0.11)

ASX	: KRE
H + L prices (12 months)	: A\$ 0.24 – 0.10
Net shares issued	: 125.6 million
Fully diluted shares	: 131.6 million
Market Capitalization	: A\$ 16.1 million

Next price target: A\$ 0.30

Company profile

Kimberley Rare Earths ("KRE") became listed on the Australian Stock Exchange on May 18, 2011, having raised A\$ 18.2 million at a price of A\$ 0.20 per share under an oversubscribed IPO.

KRE was incorporated by Navigator Resources (ASX:NAV) to be a specialist Rare Earths company and following listing, now holds a 25% interest in the **Cummins Range Project** in the East Kimberley region, northern Western Australia via a sale agreement with NAV.

An additional 30% interest may be earned from NAV with expenditure of A\$ 10 million in exploration over a 4-year period. An additional 25% interest may be earned for a total 80% interest through the completion of a bankable feasibility study. The Cummins Range Project has a JORC compliant Inferred Resource of 4.17 million tonnes at an average of 1.72% TREO for 71,700 tonnes TREO, 11% P₂O₅ and 187 ppm U₃O₈ at a cut-off grade of 1.0%.

For the first year, KRE has outlined a budget of A\$9.1 million, including A\$1.2 million of administration and overhead costs.

As part of its strategic objectives, KRE plans to assess, and if warranted, acquire other rare earths projects that have potential to add value to the Company.

On September 29, 2011, KRE announced that it had entered into a Heads of Agreement with Great Western Mining Lda to earn up to a 90% interest in the pegmatite-hosted **Maliiongue Project** in western **Mozambique**, with significant exploration potential, including for xenotime-hosted yttrium, dysprosium and erbium.

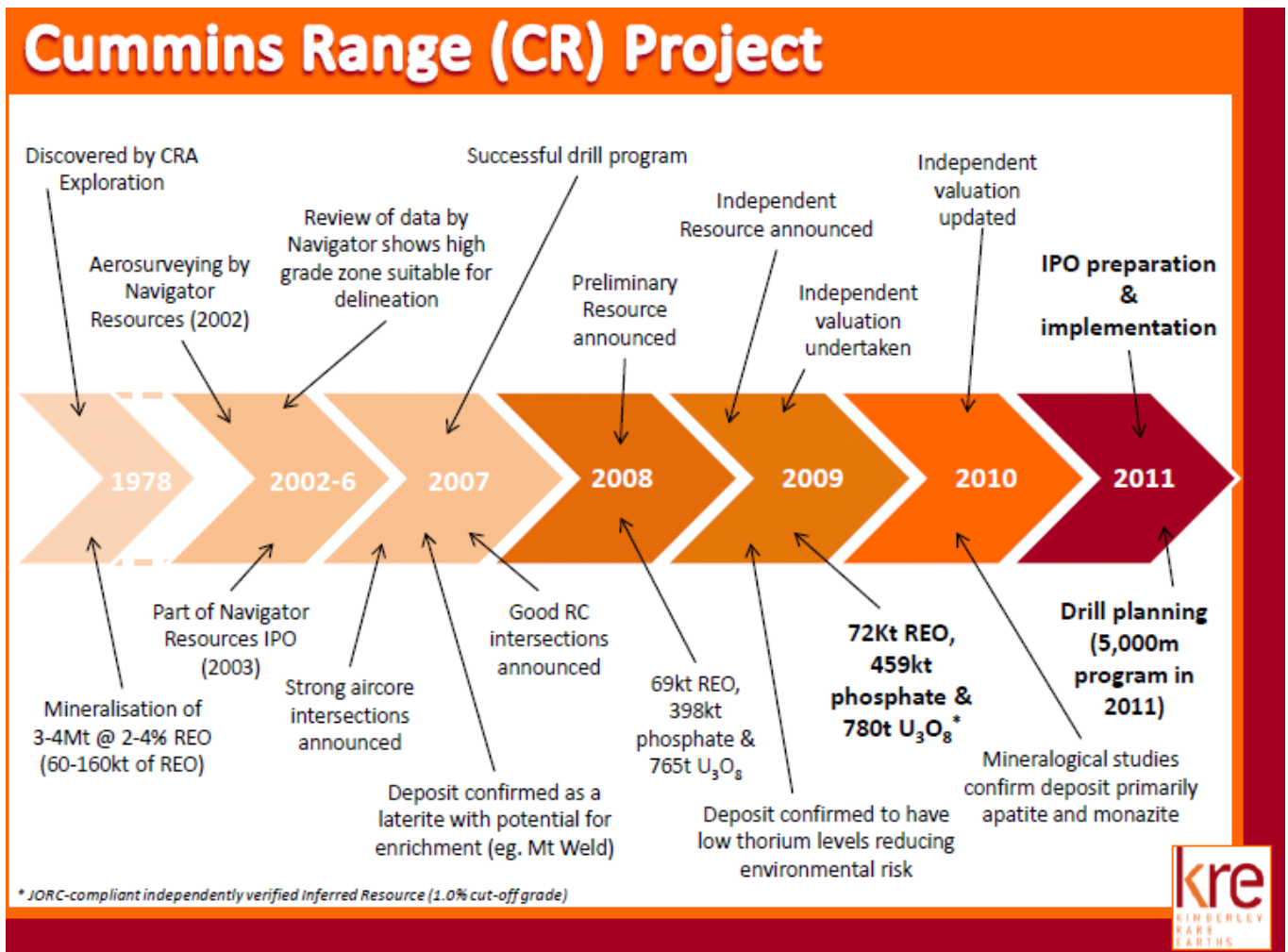
Historical data include rock chip samples assaying over 20% TREO.

Overview of Project

➤ Cummins Range Project – northern Australia

The Cummins Range Project, located 130 km southwest of Halls Creek in the Easy Kimberley region of Western Australia, comprises 1 granted exploration licence (80/2232) with an area of 48.5 km². NAV applied for the tenement in October 1996 and the application was granted in May 2001. It expires on May 3, 2012 and is to be extended for further periods of one year.

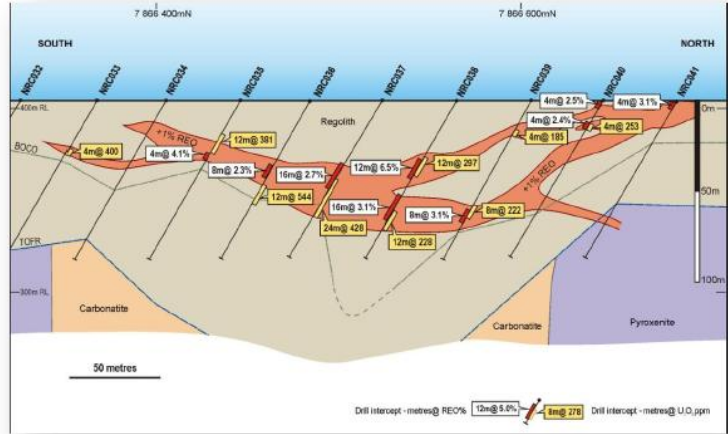
The REO-uranium-phosphate mineralisation at Cummins Range is up to 50 metres in thickness and occurs in a sub-horizontal geometry within a deeply weathered regolith, which is developed over carbonatite and pyroxenite rocks. The Deposit contains a mix of light rare earths (LREO) and has low thorium levels.



An initial drilling program completed in 2007 by NAV consisted of 93 RC drill holes for 9,293 metres over an area of approximately 500 metres (north-south) by 400 metres (east-west). This area represents only a small portion of diatreme and there is good potential to expand the size of the resource with further exploration. A north-westerly trend of higher grade mineralisation has been noted within the main zone. This trend remains open in the northwest portion of the Resource and is an obvious area to test for extensions to the existing resource during future drilling programs.

In September 2009, NAV announced a Mineral Resource for the Cummins Range project estimated by independent resource geologists Hellman and Schofield, with an estimated JORC compliant Inferred Resource of 4.17 million tonnes at an average grade of 1.72% TREO (Total Rare Earth Oxide) for 71,700 tonnes TREO, 11% P₂O₅ and 187 ppm U₃O₈ at a cut-off grade of 1.0%.

- **Carbonatite Hosted**
Similar to Mt Weld geology
- **Historically Processed Minerals**
Predominantly monazite and minor apatite mineralogy
- **Near Surface**
Rare earths concentrated in weathered zone of earths crust



Cross section of Cummins Range deposit showing horizontal mineralisation within the weathered layer overlying an intrusive carbonatite pipe

Best 2007 NAV drill intersections

Drill hole	Width	Grade	Depth
NRC038	17m	5.27% REO	42m
NRC058	29m	4.57% REO	27m
NRC038	20m	5.55% REO	2m
NRC059	33m	382ppm U ₃ O ₈	24m
NRC066	20m	919ppm U ₃ O ₈	73m
NRC058	35m	962ppm U ₃ O ₈	27m

Cummins Range: A Developing REO Resource

Cummins Range Inferred Resource – September 2009

Tonnage (Mt)	Cut-off grade	REO (%)	P ₂ O ₅ (%)	U ₃ O ₈ (ppm)	Th (ppm)	Total REO (kt)
4.17	1.0 %	1.72	11.0	187	41	71.7

- Inferred Resource containing:
 - 72,000t of rare earth oxides
 - 460,000t of phosphate
 - 780t of uranium oxide
- Rare earth oxide blend similar to Mt Weld
- Low thorium levels
- 120,000t of rare earth oxides at 0.5% cut-off grade (11Mt at 1.1%REO)



Favourable Terrain at the Cummins Range Prospect

The average mix of light rare earth oxides at the Cummins Range Project is comparable to other well known deposits such as the Mt Weld Rare Earth Project, Western Australia, owned by Lynas Corporation. Cummins Range has significant phosphate mineralization (1-13%), which is comparable in grade with the rare earth-phosphate deposits at the Mt Weld and Nolans Bore projects, owned by Lynas Corporation and Arafura Resources, respectively. The economic potential of the Cummins Range phosphate mineralization, potentially as a feedstock to phosphoric acid production, and of uranium mineralization, will be further investigated.

KRE strategic objectives

The strategic objectives of KRE are to create shareholders value by materially advancing the scale, geological and metallurgical understanding of the Cummins Range Rare earth deposit, initially through drill-focused exploration aimed at increasing the size of the JORC-compliant Inferred Resource at the Project, supported by independent SRK Consulting having reported in March 2011 that there is considerable potential to extend the currently known resource and to identify additional mineralisation within the Cummins Range carbonatite.

In addition, the value of the Project will be built by undertaking metallurgical test work studies targeting the test-scale production of rare earth metal concentrates. Such metallurgical studies will assist KRE with a preliminary understanding of the scoping level economics of producing saleable rare earth products from Cummins range.

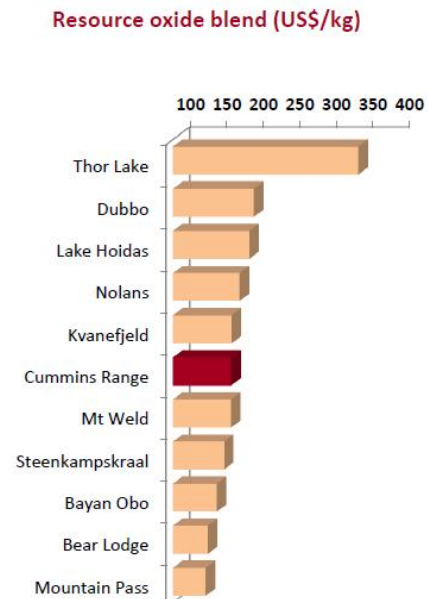
As part of its strategic objectives, KRE plans to assess, and if warranted, acquire other Rare Earths projects that have potential to add value to the Company.

Having raised A\$18.2 million under the IPO, KRE has budgeted exploration expenditures in part of satisfaction of the Company's obligations under the Joint Venture Agreement with NAV to acquire a 55% interest in Cummins Range of A\$3.26 million in year 1 and A\$5.83 million in year 2.

On August 25, 2011, KRE announced that new high-resolution aeromagnetic data have defined considerable REO potential within the Cummins range pipe. The data reveal excellent correlation between the existing REO resource and a central magnetic low. Multiple extensions of magnetic lows beyond existing drill coverage support resource extension potential. Untested magnetic lows within the Cummins Range pipe are to be targeted and tested through increased drilling commitment.

A 5,500 metre drilling program has commenced in the week ending September 9. An additional Program of Works submitted for additional 11,000 metres of drilling has been lodged with the regulator in order to facilitate an extension of drilling to test the new targets.

Cummins Range Resource Composition			
Metal	1 st -13 th Sep 2011 oxide price (US\$/kg)	Proportion in resource (%)	Value of resource oxide blend (US\$/kg)
Lanthanum	110	27.3%	30.03
Cerium	110	47.7%	52.47
Praseodymium	248	4.8%	11.93
Neodymium	309	15.2%	46.99
Samarium	128	1.6%	2.06
Europium	4,810	0.4%	19.24
Gadolinium	192	1.0%	1.93
Terbium	3,710	0.1%	3.71
Dysprosium	2,290	0.5%	11.45
Others	-	1.4%	-
Total		100.0	US\$179.80/kg



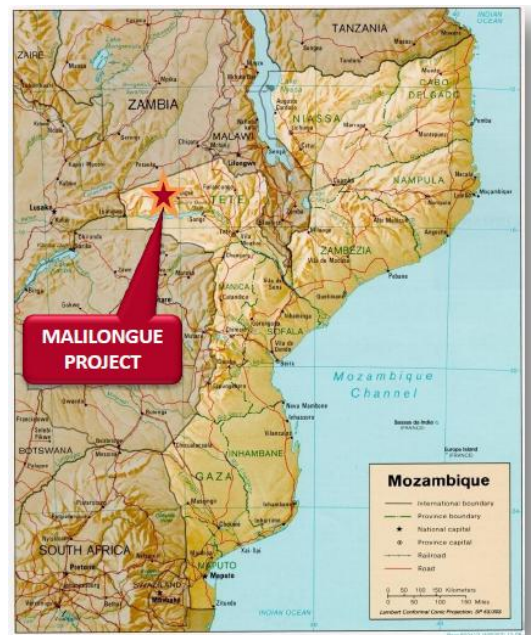
Data Compilation: John P. Sykes Mining Consultancy; Oxide prices: Metals Pages; Resource data: Green Leader Cummins Range Rare Earth Project – March 2011

➤ Malilongue Project – western Mozambique

On September 29, 2011, KRE announced that it had entered into a Heads of Agreement with Great Western Mining Lda to earn up to a 90% interest in a pegmatite-hosted RE Malilongue Project in Mozambique, with significant exploration potential, including for xenotime-hosted yttrium, dysprosium and erbium. The HOA sets out the terms of a farm-in joint venture in which KRE can earn up to 90% of the non-gemstone rights in the Malilongue Project.

The terms of the HOA include total cash consideration of \$300,000 payable upfront to earn a 40% JV interest in non-gemstone rights, then cumulative \$4 million over 5 years to earn up to 80%, with a right to increase the interest to 90% by sole funding to production.

The Malilongue Project is located in western Mozambique about 300 kilometres of the regional mining centre of Tete. It comprises two tenements, Mining Concession 1133C and Prospecting Licence 1683L. Access to the Project is good with grid hydroelectric power and mobile phone coverage located only 50 km to the east. GWM has established considerable infrastructure within the mining concession.



Historical data includes rock chip samples assaying over 20% TREO and concentrates from 38 separate pits located throughout the pegmatite field sampled by current owner averaged over 1,000 ppm TREO with 55% being LREO, 25% HREO and 20% yttrium oxide.

Management

Tim Dobson, BAppSc, MAusIMM, GAICD, Managing Director, has 23 years of continuous, broad-based experience in a range of ASX-listed and international mining companies. His early career was focused on process/technical roles at large scale gold operations including the original Boddington Gold Mine, the complex Porgera mine in PNG, and the Granny Smith mine north of Kalgoorlie. Four years with Placer Dome's project development team followed, including roles in Canada and Chile, before moving into a lead management role commissioning the first nickel laterite operation in Australia - Centaur Mining's Cawse operation. Mr. Dobson then undertook an equally challenging management role at PNG's giant Lihir Gold Mine before relocating back to Cawse as Operations Director where he oversaw the ownership change from US-based OMG to Russian-based Norilsk Nickel. He joined Polymetals Group in November 2008 in the role of Chief Operating Officer / EGM-Operations where he oversaw the implementation of the successful White Dam Gold mine in South Australia, and took part in the Company's recent successful ASX listing.

Geoff Collis, MSc. MAusIMM, F Fin, General Manager – Exploration, has 26 years continuous experience as an exploration geologist working throughout Africa and Australia for a number of highly successful companies. Geoff has held senior exploration positions within Delta Gold, the Gutnick group of companies and Avoca Resources and his experience covers a range of commodities within a variety of different geological terrains. Mr. Collis has been an integral member of small exploration teams responsible for the discovery of numerous gold deposits including Makaha (400koz) in Zimbabwe, Saxon Extended (120koz), Trident (1.2moz), Wills (20koz) and Musket (70koz) all within Western Australia. Other career highlights include the discovery of the Youanmi vanadium deposit in Western Australia and participation in the Hartley Platinum Project prefeasibility study which culminated in a major production joint venture with BHP. Most recently Mr. Collis was Exploration Manger of Avoca Resources from pre-IPO through to the commencement of the recent corporate merger which resulted in the creation of Alacer Gold.

Board of Directors

Ian Mcpherson, Chairman and Non-Executive Director, graduated from the University of Western Australia with a Bachelor of Commerce in 1977. He was admitted as a partner of the firm that became known as KMG Hungerfords in 1986, having built up a specialist practice in the provision of corporate and financial advice to the mining and mineral exploration industry. In 1987 the firm merged with Arthur Andersen & Co. In 1990 Mr Macpherson left Arthur Andersen & Co to establish Ord Partners, Chartered Accountants. He has since specialised in the area of corporate advice with a particular emphasis on capital structuring, equity and debt raising, corporate affairs and Stock Exchange compliance procedures for public companies, both mining and industrial. Mr. Mcpherson has acted in the role of director and company secretary for a number of his clients and has been involved in numerous asset acquisition and disposal engagements involving the preparation of detailed Information Memoranda, preacquisition reviews and Independent Reports.

Dr. Alan Trench, B.Sc (Hons. Geology), Ph.D (Geophysics), M.Sc (Mineral Economics), MBA (Oxon) , GAICD and MAusIMM, Non Executive Director, 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 & gas and LNG. He 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, organisation and operations issues. Dr Trench has direct hands-on experience in managing gold assets, including spending 18 months at Australia's largest gold mine, the Golden Mile of Kalgoorlie.

Gerry Kaczmarek, B.Ec (Accounting), CPA, MAICD, Non-Executive Director, graduated from the Australian National University (ANU) with a Bachelor of Economics and Accounting in 1980. He is an accountant and an economist with almost 30 years experience in the resources and minerals processing industry covering projects in Australia and overseas.

Mr. Kaczmarek was Company Secretary and Chief Financial Officer of Troy Resources for 10 years and prior to that, spent seven years each at explorer and miner Burmine Ltd, prior to its merger with Sons of Gwalia. He commenced his career with the base metals division of CRA, now Rio Tinto. Mr. Kaczmarek is currently Company Secretary of Navigator Resources.

Peter Rowe, B.Sc (Chem Eng), FAusIMM, FAICD, Non Executive Director, has over a 35 years of international experience, 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 until his retirement in 2009. Mr Rowe also undertakes consulting engagements and has previously provided advice pertaining to the processing of rare earth oxides to other companies.

Finance

Under the Sale Agreement with NAV 34.4 million shares were issued to NAV representing an interest of 27.40% in KRE. Eligible NAV shareholders were entitled to subscribe for 1 KRE share at A\$0.20 for each 10 NAV shares, equal to 66.18 million shares representing an interest of 52.7% in KRE.

Under the IPO 25 million shares were issued at A\$0.20 per share representing an interest of 19.9% in KRE.

Investment recommendation:

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According to SRK Consulting, there is a considerable potential to extend the currently known resource and to identify additional mineralization within the Cummins Range carbonatite which will be tested by an aggressive exploration program. The total budget for the first year is A\$ 9.1 million.

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Based on a current market capitalization of just A\$ 16 million and the current share price representing a discount of 45% to the IPO price, in our view, KRE is substantially undervalued.

Our next price objective is A\$ 0.30.