



**Hastings Rare Metals Limited**

**ABN 43 122 911 399**

**Interim Financial Report**

**31 December 2012**

| <b>Contents</b>                             | <b>Page</b> |
|---------------------------------------------|-------------|
| Directors' Report                           | 3           |
| Auditor's Independence Declaration          | 10          |
| Condensed Statement of Comprehensive Income | 11          |
| Condensed Statement of Financial Position   | 12          |
| Condensed Statement of Changes in Equity    | 13          |
| Condensed Statement of Cash Flows           | 14          |
| Notes to the Condensed Financial Statements | 15          |
| Directors' Declaration                      | 21          |
| Independent Auditor's Review Report         | 22          |

## DIRECTORS' REPORT

Your directors submit the financial report of the Company for the half-year ended 31 December 2012. In accordance with the provisions of the Corporations Act 2001, the directors report as follows:

### Directors

The names of directors who held office during or since the end of the interim and until the date of this report are noted below. Directors were in office for this entire period unless otherwise stated.

|                 |                                              |
|-----------------|----------------------------------------------|
| Anthony Ho      | Chairman                                     |
| Steve Mackowski | Executive Director                           |
| Guy Robertson   | Executive Director appointed 24 October 2012 |
| David Nolan     | Resigned 28 November 2012                    |

### Company Secretary

Guy Robertson

### Operating Results

The loss of the Group for the half-year after income tax was \$1,089,017 (31 December 2011 loss: \$1,028,448).

### Events Subsequent to Reporting Date

On 25 January 2013, the Company issued 3,500,000 listed options with an exercise price of 15 cents per share and exercisable before 31 March 2014 to corporate advisors.

On 17 February 2013, the Company issued 7,233,333 ordinary shares and cancelled 52,500,000 unlisted share options. The shares are subject to escrow for six months.

### Review of Operations

#### Summary

Hastings continued to advance both the Hastings rare earths-rare metals project and the Yangibana rare earths project during the period. Expenditure was dominated by the ongoing processing testwork being carried out on samples of the Hastings mineralisation. Results from this work were combined with geological, mining, and plant capital and operating parameters to enable the completion of a Scoping Study that confirmed the robust nature of the project economics.

Further sampling at Yangibana continued to confirm the potential of this project to host rare earth mineralisation of potential economic interest. The Company applied for a new exploration licence to encompass a new exploration target identified for the area.

#### Hastings Project

During the period the Company acquired an additional mineral tenement (E80/4555) adjacent to its existing project locations (PL's) at Hastings. The terms of the acquisition provide Hastings with the rights to all minerals other than precious and base metals.

The new tenement (Figure 1) provides the Company with increased flexibility regarding the location of the various infrastructure site locations for the project.

## Review of Operations (continued)



Figure 1 – Hastings Project Location showing acquired EL

During the period the Company continued its processing testwork at the Australian Nuclear Science and Technology Organisation (ANSTO). ANSTO successfully recovered niobium, zirconium and hafnium from the sulphation bake and water leach liquor using a modified solvent extraction (SX) circuit at levels consistent with those reported from previous testwork carried out in the 1980s. ANSTO subsequently separated yttrium (Y) and rare earth elements (REE) from the same liquor with excellent removal of the major impurities.

Using results of work achieved by ANSTO along with engineering input by Jacobs Engineering, the Company completed a Scoping Study for the project confirming a strong business case for development. The Scoping Study confirmed that:

- The resource at the Hastings Project can be mined by conventional open-cut methods
- The mine life would be 25 years based on the existing Resources of 36.2 million tonnes. With further drilling, the resource could be increased
- Ore would be processed through a plant built on-site in Western Australia, without the need to transport intermediate products interstate or overseas
- The flow sheet has been confirmed, with metallurgical recoveries of 75% for rare earths and 70% to 75% for rare metals
- The project is to produce over 10,000 tonnes of rare earths oxides and rare metal oxides annually for 25 years. The saleable products will be high purity oxides that are significantly more valuable than rare earth carbonates or concentrates

## Review of Operations (continued)

- The strong demand and supply shortage projected for heavy rare earths are highly opportune for the Project. Heavy rare earths, such as Dysprosium and Yttrium that are both on the US Department of Energy's 'critical' list, represent the majority of the projected revenue
- The project has a base case net present value (NPV) of A\$1.9 billion, with substantial upside. For example, using price forecasts from BCC Research, including Dysprosium at US\$2,170/kg (currently US\$950/kg), would more than triple the NPV of the Project
- The Scoping Study has successfully reduced the risks and identified options to further optimise the project.

Additional potential was identified. Examples include:

- Drilling of the Southern Extension would increase the mine life and improve the economics.
- The opportunity to increase production to 1.5mtpa, which was one of the scenarios reviewed by Jacobs Engineering
- Process optimisation work currently being undertaken by ANSTO may increase the recoveries or optimise the flow sheet. The pilot plant may also identify process improvements or cost reduction opportunities
- There may be the opportunity to contract-out additional components of the operation rather than incur the capital expenditure.

Reconnaissance mapping and rock chip sampling has improved the definition of the target to the southwest of the current resource at Hastings (Figures 2 and 3). Four surface samples were collected from areas with high scintillometer readings. A further six samples were taken from adjacent areas to provide background values. The four selected samples returned encouraging grades in line with near surface mineralisation in the resource zone, as follows:-

|       | ppm TREO | ppm HREO | ppm Dy <sub>2</sub> O <sub>3</sub> | ppm Y <sub>2</sub> O <sub>3</sub> | ppm ZrO <sub>2</sub> | ppm Nb <sub>2</sub> O <sub>5</sub> |
|-------|----------|----------|------------------------------------|-----------------------------------|----------------------|------------------------------------|
| STH 2 | 1947     | 1696     | 187                                | 993                               | 9168                 | 3243                               |
| STH 3 | 1872     | 1688     | 159                                | 1088                              | 8885                 | 3094                               |
| STH 4 | 1751     | 1607     | 165                                | 989                               | 8111                 | 3223                               |
| STH 8 | 2309     | 2051     | 206                                | 1272                              | 10201                | 3432                               |

HREO is the sum of the oxides of the heavy rare earth elements europium (Eu), gadolinium (Gd), terbium (Tb), dysprosium (Dy), holmium (Ho), erbium (Er), thulium (Tm), ytterbium (Yb), lutetium (Lu), and yttrium (Y). TREO is the sum of the oxides of the heavy rare earth elements (HREO) and the light rare earth elements (LREO) where LREO is the sum of the oxides of the light rare earth elements lanthanum (La), cerium (Ce), praseodymium (Pr), neodymium (Nd), and samarium (Sm). ZrO<sub>2</sub> is zirconium oxide and Nb<sub>2</sub>O<sub>5</sub> is niobium oxide.

As a comparison, a recent analysis of a composite sample developed from shallow RC holes drilled by Hastings in 2011 returned a grade of 1806ppm TREO, 1518ppm HREO including 161ppm Dy<sub>2</sub>O<sub>3</sub> and 991ppm Y<sub>2</sub>O<sub>3</sub>, 8505ppm ZrO<sub>2</sub> and 3432ppm Nb<sub>2</sub>O<sub>5</sub>.

HREO to TREO ratios for the four recent samples range from 87% to 92%, higher than the figure of 84% returned from the composite sample from the defined resource area.

## Review of Operations (continued)

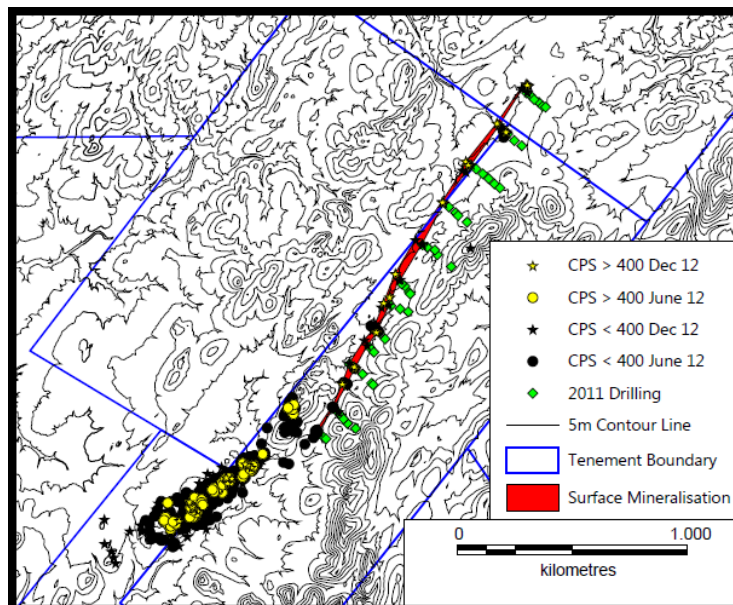


Figure 2 – Location of Southern Extension with respect to defined resources

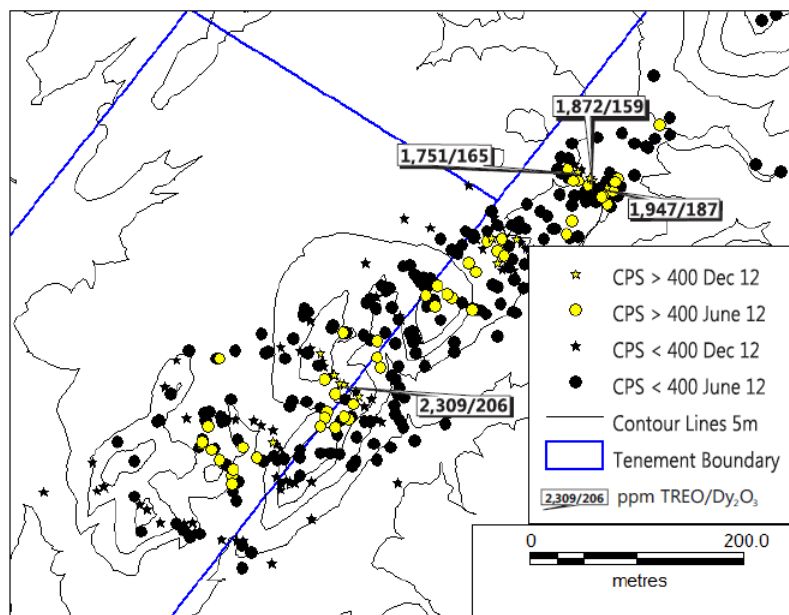


Figure 3 – Southern Extension sampling detail

In addition, one sample (SE 1), collected from some 4km to the south of the defined resource and within Hastings' Prospecting Licences, returned elevated  $\text{ZrO}_2$  (4081ppm) and TREO (1723ppm) with a relatively low HREO to TREO ratio of 38%.

These results are sufficiently encouraging to justify further mapping and sampling with the aim of defining optimum drill sites to increase the current project resource base.

## Review of Operations (continued)

### Yangibana Project

During the period the Company made application for 100% of a new Exploration Licence (E09/1989) to the south of the main tenement block at Yangibana (Figure 4) in which it holds a 60% interest.

The application covers a number of carbonatite sills that are considered to have potential to host rare earth mineralisation. Analysis of the hyperspectral survey data reported previously indicates the potential for a cluster of these sills to occur within the application area and this requires field assessment and sampling once the tenement is granted.

A limited programme of sampling of the known ironstone deposits at Yangibana, the Hook and Kane's Gossan within Hastings tenements (Figure 5) was undertaken.

One sample of fenitised host rock was taken from the west end of Yangibana prospect, within E09/1043, returning 6246ppm TREO including 2788ppm  $\text{Nd}_2\text{O}_3$ .

At the Hook prospect, within E09/1706, seven samples were collected with best results being 6266ppm TREO including 1080ppm  $\text{Nd}_2\text{O}_3$ , 35,038ppm (3.50%) TREO including 6434ppm  $\text{Nd}_2\text{O}_3$ , and 21,201ppm (2.12%) TREO including 3789ppm  $\text{Nd}_2\text{O}_3$ .

At Kane's Gossan, also within E09/1706, a total of five samples were taken with best results being 2971ppm TREO, 6792ppm TREO including 1194ppm  $\text{Nd}_2\text{O}_3$ , 19,166ppm (1.92%) TREO including 3758ppm  $\text{Nd}_2\text{O}_3$ , and 15,315ppm (1.53%) TREO including 3093ppm  $\text{Nd}_2\text{O}_3$ .

These results are in line with expectations for this project, where drilling by earlier explorers has indicated an average grade for the ironstone lenses of around 1.6% TREO including 4000ppm  $\text{Nd}_2\text{O}_3$ . Based on the historical drilling previous explorers estimated the non JORC resources as indicated in Figure 5.

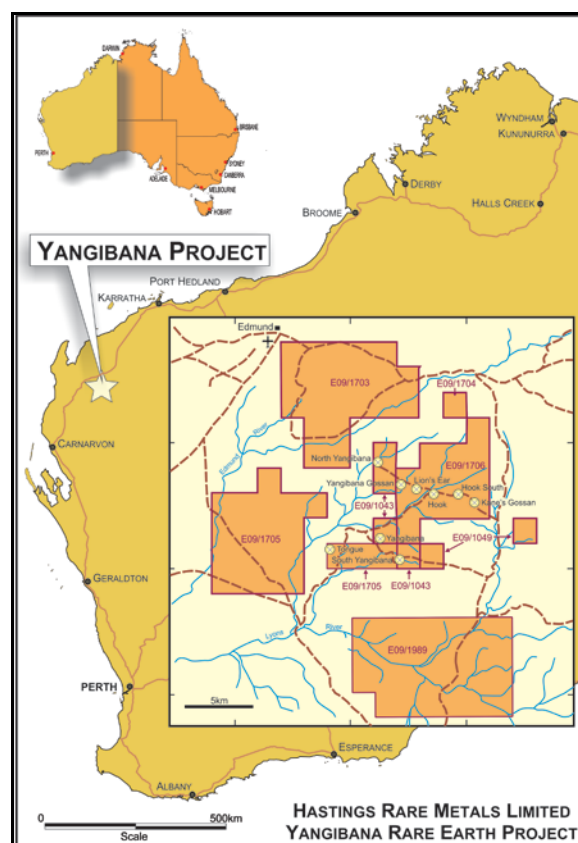


Figure 4 – Yangibana Project Location showing new application (E09/1989)

## Review of Operations (continued)

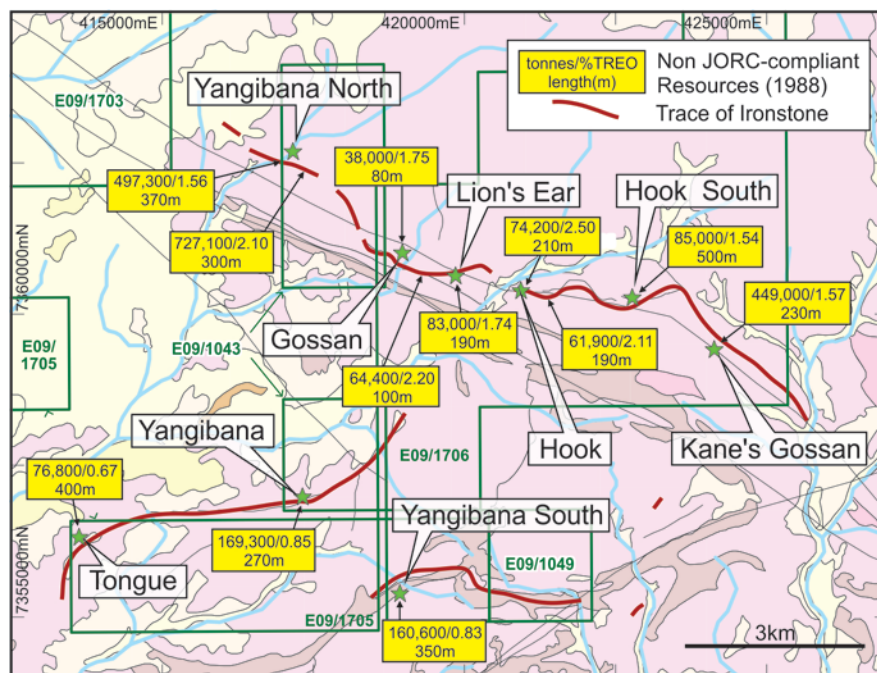


Figure 5 – Locations of the various prospects showing historical, non JORC resources

In addition, a reconnaissance visit was made to the northwest corner of the tenement package adjacent to the Edmund River, east of Edmund homestead. Widespread calcrete was located but scintillometer readings were consistently very low and no samples were collected.

## Corporate

During the period the Company raised \$3 million (before costs), placing 27,272,727 shares at 11 cents each with both Australian and International investors. The shares were issued with an attaching option (exercise price 15 cents before 31 March 2014) on a one for two basis – amounting to 13,636,390 options (ASX:HASO).

Subsequent to period end the company has cancelled 52,500,000 unlisted options in return for the issue of 7,233,333 shares.

### Competent Person's Statement

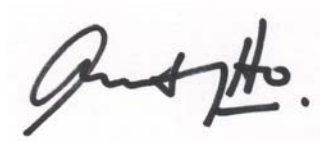
*The information in this presentation that relates to Resources is based on information compiled by Simon Coxhell. Simon Coxhell is a consultant to the Company and a member of the Australian Institute of Mining and Metallurgy. Simon Coxhell has sufficient experience relevant to the styles of mineralisation and types of deposits which are covered in this presentation and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' ("JORC Code"). Simon Coxhell consents to the inclusion in this presentation of the matters based on his information in the form and context in which it appears.*

*The information in this presentation that relates to Exploration Results is based on information compiled by Andy Border. Andy Border is a consultant to the Company and a member of the Australian Institute of Mining and Metallurgy. Andy Border has sufficient experience relevant to the styles of mineralisation and types of deposits which are covered in this presentation and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' ("JORC Code"). Andy Border consents to the inclusion in this presentation of the matters based on his information in the form and context in which it appears.*

**Auditor's Independence Declaration**

As per section 307C of the Corporations Act 2001 the auditors, HLB Mann Judd, provide on page 10, the Independence Declaration in relation to the review of the interim financial report. The Independence Declaration forms part of this directors' report for the half-year ended 31 December 2012.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to section 306(3) of the Corporations Act 2001.

A handwritten signature in black ink, appearing to read 'Andrew Ho', is written over a light pink rectangular background.

---

**Non-Executive Chairman**

**7 March 2013**

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the review of the financial report of Hastings Rare Metals Limited for the half-year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia  
7 March 2013



**M R W OHM**  
Partner, HLB Mann Judd

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

|                                                   |       | Consolidated       |                    |
|---------------------------------------------------|-------|--------------------|--------------------|
|                                                   | Notes | 31 Dec 2012<br>\$  | 31 Dec 2011<br>\$  |
| <b>Continuing operations</b>                      |       |                    |                    |
| Interest income                                   |       | 67,558             | 40,329             |
|                                                   |       | 67,558             | 40,329             |
| Finance costs                                     |       | -                  | (30,224)           |
| Office facilities                                 |       | (118,852)          | (52,496)           |
| Marketing                                         |       | (15,429)           | (51,168)           |
| Legal fees                                        |       | (149,384)          | (333,984)          |
| Employee benefits expense                         |       | (234,422)          | (120,000)          |
| Directors' fees                                   |       | (119,688)          | (88,308)           |
| Consulting and professional fees                  |       | (340,826)          | (257,417)          |
| Travel expenses                                   |       | (204,393)          | (52,796)           |
| Other expenses                                    |       | (155,376)          | (82,384)           |
| <b>Loss before income tax benefit</b>             | 2     | <b>(1,270,812)</b> | <b>(1,028,448)</b> |
| Income tax benefit                                |       | 181,795            | -                  |
| <b>Net loss for the period</b>                    |       | <b>(1,089,017)</b> | <b>(1,028,448)</b> |
| <b>Other comprehensive income</b>                 |       | <b>-</b>           | <b>-</b>           |
| <b>Total comprehensive loss for the period</b>    |       | <b>(1,089,017)</b> | <b>(1,028,448)</b> |
| Basic earnings/(loss) per share (cents per share) |       | (0.79)             | (1.56)             |

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2012**

|                                                 |      | Consolidated      |                   |
|-------------------------------------------------|------|-------------------|-------------------|
|                                                 |      | 31 Dec 2012       | 30 Jun 2012       |
|                                                 | Note | \$                | \$                |
| <b>Assets</b>                                   |      |                   |                   |
| <b>Current Assets</b>                           |      |                   |                   |
| Cash and cash equivalents                       |      | 3,753,662         | 3,218,520         |
| Trade and other receivables                     |      | 139,649           | 169,164           |
| <b>Total Current Assets</b>                     |      | <b>3,893,311</b>  | <b>3,387,684</b>  |
| <b>Non-Current Assets</b>                       |      |                   |                   |
| Deferred exploration and evaluation expenditure | 3    | 15,896,975        | 15,011,167        |
| <b>Total Non-Current Assets</b>                 |      | <b>15,896,975</b> | <b>15,011,167</b> |
| <b>Total Assets</b>                             |      | <b>19,790,286</b> | <b>18,398,851</b> |
| <b>Liabilities</b>                              |      |                   |                   |
| <b>Current Liabilities</b>                      |      |                   |                   |
| Trade and other payables                        |      | 469,715           | 1,126,942         |
| <b>Total Liabilities</b>                        |      | <b>469,715</b>    | <b>1,126,942</b>  |
| <b>Net Assets</b>                               |      | <b>19,320,571</b> | <b>17,271,909</b> |
| <b>Equity</b>                                   |      |                   |                   |
| Issued capital                                  | 4    | 23,921,390        | 20,963,940        |
| Share option reserve                            | 5    | 3,849,426         | 3,669,197         |
| Accumulated losses                              |      | (8,450,245)       | (7,361,228)       |
| <b>Total Equity</b>                             |      | <b>19,320,571</b> | <b>17,271,909</b> |

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

**Consolidated**

|                                         | <b>Issued Capital</b> | <b>Accumulated Losses</b> | <b>Share Option Reserve</b> | <b>Total</b>      |
|-----------------------------------------|-----------------------|---------------------------|-----------------------------|-------------------|
|                                         | <b>\$</b>             | <b>\$</b>                 | <b>\$</b>                   | <b>\$</b>         |
| <b>Balance at 1 July 2012</b>           | 20,963,940            | (7,361,228)               | 3,669,197                   | 17,271,909        |
| Loss for the period                     | -                     | (1,089,017)               | -                           | (1,089,017)       |
| Total comprehensive loss for the period | -                     | (1,089,017)               | -                           | (1,089,017)       |
| Shares issued during the half year      | 3,280,000             | -                         | -                           | 3,280,000         |
| Share based payments                    | -                     | -                         | 42,179                      | 42,179            |
| Transaction costs on share issue        | (322,550)             | -                         | 138,050                     | (184,500)         |
| <b>Balance at 31 December 2012</b>      | <b>23,921,390</b>     | <b>(8,450,245)</b>        | <b>3,849,426</b>            | <b>19,320,571</b> |

**Consolidated**

|                                         | <b>Issued Capital</b> | <b>Accumulated Losses</b> | <b>Share Option Reserve</b> | <b>Total</b>     |
|-----------------------------------------|-----------------------|---------------------------|-----------------------------|------------------|
|                                         | <b>\$</b>             | <b>\$</b>                 | <b>\$</b>                   | <b>\$</b>        |
| <b>Balance at 1 July 2011</b>           | 12,574,990            | (5,303,656)               | 1,647,381                   | 8,918,715        |
| Loss for the period                     | -                     | (1,028,448)               | -                           | (1,028,448)      |
| Total comprehensive loss for the period | -                     | (1,028,448)               | -                           | (1,028,448)      |
| Shares issued during the half year      | 53,750                | -                         | -                           | 53,750           |
| <b>Balance at 31 December 2011</b>      | <b>12,628,740</b>     | <b>(6,332,104)</b>        | <b>1,647,381</b>            | <b>7,944,017</b> |

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

|                                                          | Consolidated       |                    |
|----------------------------------------------------------|--------------------|--------------------|
|                                                          | 31 Dec 2012        | 31 Dec 2011        |
|                                                          | \$                 | \$                 |
|                                                          | Inflows/(Outflows) |                    |
| <b>Cash flows from operating activities</b>              |                    |                    |
| Payments to suppliers and employees                      | (1,195,690)        | (772,645)          |
| Research and development tax rebate                      | 181,795            | -                  |
| Interest received                                        | 80,884             | 40,329             |
| <b>Net cash (used in) operating activities</b>           | <b>(933,011)</b>   | <b>(732,316)</b>   |
| <b>Cash flows from investing activities</b>              |                    |                    |
| Payments for exploration and evaluation expenditure      | (1,097,347)        | (2,277,755)        |
| <b>Net cash (used in) investing activities</b>           | <b>(1,097,347)</b> | <b>(2,277,755)</b> |
| <b>Cash flows from financing activities</b>              |                    |                    |
| Repayment of borrowings                                  | (250,000)          | -                  |
| Issue of shares                                          | 3,000,000          | -                  |
| Placement costs                                          | (184,500)          | -                  |
| <b>Net cash used in financing activities</b>             | <b>2,565,500</b>   | <b>-</b>           |
| Net increase/(decrease) in cash held                     | 535,142            | (3,010,071)        |
| Cash and cash equivalents at the beginning of the period | 3,218,520          | 3,446,823          |
| Cash and cash equivalents at the end of the period       | <b>3,753,662</b>   | <b>436,752</b>     |

The accompanying notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****Statement of compliance**

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

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2012 and any public announcements made by Hastings Rare Metals Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

**Basis of preparation**

The interim report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

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

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

**Adoption of new and revised accounting standards**

In the half-year ended 31 December 2012, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2012.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the company and, therefore, no change is necessary to Group accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the company and, therefore, no change is necessary to Group accounting policies.

**Significant accounting judgments and key estimates**

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

In preparing this interim report, the significant judgements made by management in applying the Company's accounting policies and the key estimates of uncertainty were the same as those applied for the year ended 30 June 2012.

**Impairment**

The Directors assess impairment at each reporting date by evaluating conditions specific to the consolidated entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

The Directors have considered capitalised exploration expenditure as at 31 December 2012 and are satisfied that no impairment indicators exist. The ultimate recoupment of value is dependent on the successful development and commercial exploitation or sale of the respective areas.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

## NOTE 2: LOSS BEFORE INCOME TAX BENEFIT

| Consolidated        |                     |
|---------------------|---------------------|
| 31 December<br>2012 | 31 December<br>2011 |
| \$                  | \$                  |

The following expenses are included in other expenses and are relevant in explaining the financial performance for the half-year:

|                           |        |        |
|---------------------------|--------|--------|
| Insurance                 | 14,054 | 29,853 |
| Rent                      | -      | 24,000 |
| Accounting and audit fees | 57,074 | 22,730 |

## NOTE 3: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

| Consolidated        |                               |
|---------------------|-------------------------------|
| 31 December<br>2012 | Year Ended<br>30 June<br>2012 |
| \$                  | \$                            |

Costs carried forward in respect of areas of interest in the following phases:

### Exploration and evaluation phase – at cost

|                                                              |                   |                   |
|--------------------------------------------------------------|-------------------|-------------------|
| Balance at beginning of period                               | 15,011,167        | 7,732,281         |
| Acquisition costs                                            | -                 | 1,980,587         |
| Exploration expenditure                                      | 885,808           | 5,399,613         |
| Write off of exploration expenditure                         | -                 | (101,314)         |
| <b>Total deferred exploration and evaluation expenditure</b> | <b>15,896,975</b> | <b>15,011,167</b> |

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phase is dependent upon the successful development and commercial exploitation or sale of the respective areas.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

## NOTE 4: ISSUED CAPITAL

|                                                   | Consolidated |             |
|---------------------------------------------------|--------------|-------------|
|                                                   | 31 December  | Year ended  |
|                                                   | 2012         | 30 June     |
|                                                   | \$           | \$          |
| <i>Ordinary shares - Issued and fully paid</i>    |              |             |
| Opening balance                                   | 20,963,940   | 12,574,990  |
| Shares issued during the period                   | 3,280,000    | 5,858,750   |
| Shares issued on conversion of performance shares | -            | 3,200,000   |
| Less share issue costs                            | (322,550)    | (669,800)   |
| Closing balance                                   | 23,921,390   | 20,963,940  |
| <i>Movements in ordinary shares on issue</i>      |              |             |
|                                                   | No.          | No.         |
| Opening balance                                   | 129,463,462  | 58,500,000  |
| Shares issued on conversion of performance shares | -            | 12,500,000  |
| Share issued during the period                    | 30,072,735   | 58,463,462  |
| Closing balance                                   | 159,536,197  | 129,463,462 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

### NOTE 5: OPTIONS

|                                                           | Consolidated |             |
|-----------------------------------------------------------|--------------|-------------|
|                                                           | 31 December  | Year ended  |
|                                                           | 2012         | 30 June     |
|                                                           | \$           | \$          |
| <i>Movements in share option reserve were as follows:</i> |              |             |
| Opening balance                                           | 3,669,197    | 1,647,381   |
| Options issued on conversion of performance options       | -            | 1,726,801   |
| Share based payments                                      | 42,179       | -           |
| Value of options issued during the period                 | 138,050      | 295,015     |
| Closing balance                                           | 3,849,426    | 3,669,197   |
|                                                           | No.          | No.         |
| <i>Movements in options over ordinary shares on issue</i> |              |             |
| Opening balance                                           | 118,350,000  | 37,500,000  |
| Options issued during the period - unlisted               | -            | 5,000,000   |
| Options issued during the period - listed                 | 20,086,355   | 60,850,000  |
| Converted from performance options                        | -            | 15,000,000  |
| Closing balance                                           | 138,436,355  | 118,350,000 |

Options carry no voting rights and carry no rights to dividends.

On 17 February 2013 the Company issued 7,233,333 ordinary shares and cancelled 52,500,000 unlisted share options. The shares are subject to escrow for six months.

### NOTE 6: SEGMENT REPORTING

#### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board in assessing performance and in determining the allocation of resources.

The operating segments are identified by the Board based on the nature of its interests and projects. Discrete financial information about each of these projects is reported to the executive management team on at least a monthly basis.

#### Location of interests and nature of projects

##### Hastings Rare Metals and Heavy Rare Earths Project

The Hastings Rare Metals and Heavy Rare Earths Project comprises of ten (10) wholly owned prospecting licenses in the East Kimberley region of Western Australia. The project hosts significant JORC compliant resources of the heavy rare earths zircon, niobium, tantalum, yttrium and dysprosium.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

### NOTE 6: SEGMENT REPORTING (Continued)

#### Yangibana Project

The Group owns a 60% interest in the Yangibana Rare Earths Project in the Gascoyne region of Western Australia. The project comprises six (6) granted exploration licenses covering 68 sub-blocks and approximately 203 square kilometres.

The following table presents information regarding the Group's segments provided to the Board for the half-year periods ended 31 December 2012 and 31 December 2011.

#### Project Segments

|                         | Hastings Project | Yangibana Project | Unallocated | Total       |
|-------------------------|------------------|-------------------|-------------|-------------|
| <b>31 December 2012</b> | \$               | \$                | \$          | \$          |
| Segment revenue         | -                | -                 | 67,558      | 67,558      |
| Segment expenses        | -                | -                 | 1,338,370   | 1,338,370   |
| Segment result          | -                | -                 | (1,270,812) | (1,270,812) |
| Segment assets          | 13,447,293       | 2,449,682         | 3,893,311   | 19,790,286  |
| Segment liabilities     | -                | 48,247            | 421,468     | 469,715     |

#### Project Segments

|                         | Hastings Project | Yangibana Project | Unallocated | Total       |
|-------------------------|------------------|-------------------|-------------|-------------|
| <b>31 December 2011</b> | \$               | \$                | \$          | \$          |
| Segment revenue         | -                | -                 | 40,329      | 40,329      |
| Segment expenses        | -                | -                 | 1,068,777   | 1,068,777   |
| Segment result          | -                | -                 | (1,028,448) | (1,028,448) |
| Segment assets          | 7,016,417        | 2,297,369         | 516,110     | 9,829,896   |
| Segment liabilities     | -                | 1,030,000         | 855,879     | 1,885,879   |

### NOTE 7: DIVIDENDS

The Directors of the Company have not declared an interim dividend.

### NOTE 8: CONTINGENT LIABILITIES

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

**NOTE 9: EVENTS SUBSEQUENT TO REPORTING DATE**

On 25 January 2013, the Company, issued 3,500,000 listed options with an exercise price of 15 cents per share and exercisable before 31 March 2014 to corporate advisors.

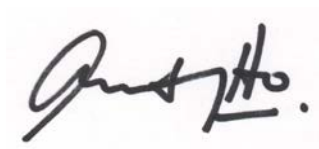
On 17 February 2013 the Company issued 7,233,333 ordinary shares and cancelled 52,500,000 unlisted share options. The shares are subject to escrow for six months.

## **DIRECTORS' DECLARATION**

In the opinion of the Directors of Hastings Rare Metals Limited ('the Group'):

1. The financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
  - a. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b. giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the half-year then ended; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303 (5) of the Corporations Act 2001.

A handwritten signature in black ink, appearing to read 'Anthony Ho', is written over a light pink rectangular background.

**Anthony Ho**

**Director**

**7 March 2013**

**INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of Hastings Rare Metals Limited

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

We have reviewed the accompanying half-year financial report of Hastings Rare Metals Limited ("the company") which comprises the condensed statement of financial position as at 31 December 2012, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

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

*Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

*Independence*

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

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

This review report relates to the half-year financial report of the consolidated entity for the half-year ended 31 December 2012 included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The review report refers only to the half-year financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the half-year financial report. If users of the half-year financial report are concerned with the inherent risks arising from publication on a website they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information contained in this website version of the half-year financial report.

*Conclusion*

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*HLB Mann Judd***HLB MANN JUDD**  
**Chartered Accountants****M R W OHM**  
**Partner****Perth, Western Australia**  
**7 March 2013**