

2012 ANNUAL REPORT



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WHAT ARE RARE EARTHS?

Rare Earths are a unique group of 15 chemical elements in the periodic table known as the Lanthanide series.

Rare Earths are essential for many hundreds of applications. Their versatile yet specific metallurgical, chemical, catalytic, electrical, magnetic and optical properties have given them a level of technological, environmental and economic importance considerably greater than might be expected from their relative obscurity.

| | | | | |
|------------------------|-------------------------|---------------------------|-------------------------|-----------------------|
| La Lanthanum | Ce Cerium | Pr Praseodymium | Nd Neodymium | Sm Samarium |
| Eu Europium | Gd Gadolinium | Tb Terbium | Dy Dysprosium | Ho Holmium |
| Er Erbium | Tm Thulium | Yb Ytterbium | Lu Lutetium | Y Yttrium |

The LYNAS WAY: INTEGRATED VISION, VALUES AND BEHAVIOURS


Our vision is to become
the leader in Rare Earths
for a sustainable future.

Our values of Care, Respect,
Relationships, Integrity
and Courage are integral
to achieving this vision.

Shared values and a culture
that unlocks the potential
of our people are fundamental
to our success.

This is the *Lynas Way*.





The Lynas Way includes striving to create shared value through co-operative economic development.

Working with host communities to address their concerns and share the benefits of our operations is integral to our business.

Lynas is a founding sponsor of the Balok Ivory Tower Academic programme in Kuantan, Malaysia.

In Western Australia, Lynas has established the Mount Weld Community Consultative Committee.

67

STUDENTS

ALL STUDENTS FROM THE FIRST PHASE OF THE BALOK IVORY TOWER PROGRAMME GRADUATED SUCCESSFULLY

**COMMUNITY:
CREATING
SHARED VALUE**

ZERO HARM: COMMITMENT TO EXCELLENCE IN SAFETY AND HEALTH

Lynas is committed to providing and maintaining a safe work environment and preventing injury, illness and impairment to the health of its employees, business partners and the community.

Our goal is Zero Harm, delivered through caring leadership, safe behaviour and continuous improvement of our management systems.

Our operating sites incorporate state-of-the-art technology based on extensive hazard and operability (HAZOP) studies completed during the design phase.

**ZERO
HARM**

8.7

**MILLION
HOURS LOST
TIME INJURY
FREE AT
THE LAMP**

SUSTAINABLE DEVELOPMENT: CONTRIBUTING TO A GREENER TOMORROW

The Lynas strategy is to create a reliable, fully integrated source of Rare Earths supply from mine through to customers.

Lynas' goal is to become the global benchmark for security of supply and environmental standards in the Rare Earths industry.

Through our commitment, expertise and capacity for innovation we will continually explore and improve our contribution to Sustainable Development outcomes.





WIND TURBINE

Wind turbines use natural wind energy to generate zero emission electricity with magnets moving past stationary coils of wire.

Dy Pr Nd

HYBRID VEHICLE

Hybrid vehicles cut fuel use by combining a gasoline engine, battery powered electric motors and brakes that capture energy from stopping.

La Nd Tb Dy



COMPACT FLUORESCENT LIGHT BULBS

Compact fluorescent light bulbs use only a quarter of the power needed to produce the same amount of light as the standard incandescent light bulb.

Y Eu Tb



FLAT PANEL DISPLAYS

Liquid Crystal Displays (LCD), plasma televisions, and computer monitors are coated with the Rare Earth phosphors that generate the primary colours red, blue and green.

Tb Y Eu



AUTOMOTIVE CATALYTIC CONVERTER

Automotive catalytic converters transform the primary pollutants in engine exhaust gases into non-toxic compounds preventing harmful emissions from entering the atmosphere.

La Ce Nd Y

MEETING TODAY'S CHALLENGES WITH TOMORROW IN MIND

FLUID CRACKING CATALYSTS

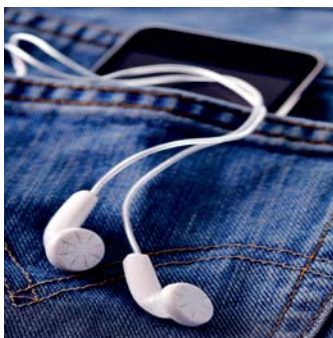
Fluid Cracking Catalysts are used in the refining of crude oil, enabling the transformation of heavy molecules into lighter compounds that make up gasoline and other fuels.

La Ce Nd Pr

NANO TECHNOLOGY

Rare Earth magnets are more powerful than alternatives and hence are key enablers of digital technology and its miniaturisation.

Nd Pr Tb Dy



Rare Earths are the backbone to the devices we use on a daily basis, as well as the technologies that will contribute to the health of our planet.





10 years in the making

Our journey has been more than 10 years in the making. In that time we have built up considerable expertise, processes, knowledge and assets leaving us in an enviable position as we prepare to cross the threshold from development to production of Rare Earths.



JUNE 2002

MOUNT WELD MINING:
Generation of JORC
Code compliant resource
estimate through validation
of geological, drilling and
assay information.



JUNE 2004

MOUNT WELD MINING:
Initial Feasibility
Study for mining and
concentration plant
completed. Environmental
approvals received.



FEBRUARY 2006

RARE EARTHS DIRECT:
Heads of Agreement for
supply of Rare Earths to
Rhodia Electronics and
Catalysis signed.

EARLY 2007

LAMP: Decision to locate
the Lynas Advanced
Materials Plant in Malaysia.

MAY 2007

RARE EARTHS DIRECT:
The first Rare Earths
supply contract signed.

JUNE 2007

MOUNT WELD MINING:
With all approvals in
place, mining operations
commenced with the first
drill and blast at Mount Weld.

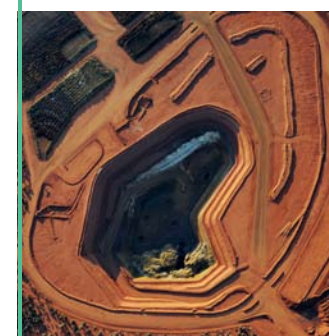


FEBRUARY 2008

LAMP: Lynas receives
all approvals required to
commence construction
of the LAMP.

MAY 2008

MOUNT WELD MINING:
First mining campaign
completed on schedule, on
budget and lost-time-injury
free. Mined 773,300 tonnes
with an average grade of
15.4% REO.



FEBRUARY 2009

LAMP: Detailed engineering
design completed and major
equipment procured.

2002

2003

2004

2005

2006

2007

2008

2009



JUNE 2003

MOUNT WELD MINING:
Successful pilot plant
demonstration of the
flotation process completed.



MARCH 2005

MOUNT WELD MINING:
Full Mount Weld Rare Earths
Feasibility Study completed.



AUGUST 2007

LAMP: Site selected in the
Gebeng Industrial Estate,
on the East Coast Economic
Corridor of Malaysia.

JULY 2008

MOUNT WELD MINING:
Reconciliation of mined
ore against resource
estimates confirm the
accuracy and confidence
in geological modeling.



SEPTEMBER 2009

LAMP: Lynas announces
capital raising to fund
completion of Phase 1.

NOVEMBER 2009

LAMP: Lynas secures
A\$450 million from
capital raising.

JANUARY 2010

RARE EARTHS DIRECT:

Lynas extends Rare Earths supply contract and signs a Technical Co-operation Agreement with Rhodia to support operational planning, commissioning and ramp-up of the LAMP.



FEBRUARY 2010

LAMP: Letter of Award issued for engineering, procurement, construction, and management services to LAMP.

MAY 2011

MOUNT WELD MINING:

Lynas is issued the licences to operate the Mount Weld Concentration Plant by regulatory authorities. First feed of ore occurs on 14 May.

JUNE 2011

LAMP: International Atomic Energy Agency (IAEA) review confirms LAMP is safe and fully compliant with international standards.



JANUARY 2012

MOUNT WELD MINING:

Lynas announces significant increase in the Mount Weld Mineral Resource estimate at both the Central Lanthanide Deposit and the Duncan Deposit.

FEBRUARY 2012

LAMP: Malaysia's Atomic Energy Licensing Board (AELB) announces the approval of the Temporary Operating Licence (TOL) for the LAMP.

AUGUST 2012

LAMP: Phase 1 construction of the LAMP complete.

SEPTEMBER 2012

LAMP: Lynas receives Temporary Operating Licence for the LAMP.

2010

2011

2012

MARCH 2010

MOUNT WELD MINING:

Letter of Award issued for engineering, design and construction of the Mount Weld Concentration Plant.

NOVEMBER 2010

RARE EARTHS DIRECT:

Lynas signed a strategic alliance agreement with Sojitz Corporation, leading to a significant investment by Sojitz and Japan Oil, Gas and Metals National Corporation.

JULY 2011

RARE EARTHS DIRECT:

Lynas and Siemens Drive Technology Division sign Letter of Intent with a view to forming a joint venture for the production of Nd-based magnets.



AUGUST 2011

MOUNT WELD MINING:

Mount Weld Concentration Plant officially opened by The Hon. Colin Barnett MLA, Premier of Western Australia.

MARCH 2012

LAMP: Malaysian Government sets up a Parliamentary Select Committee (PSC) to help raise public awareness about the LAMP.



JUNE 2012

LAMP: The PSC tables its report to the Malaysian Parliament, recommending that the Temporary Operating Licence (TOL) be issued for the LAMP, noting that Lynas has complied with the standards and laws in Malaysia, which are in line with international standards.



BEYOND

RARE EARTHS DIRECT:

Producing Rare Earths that meet the world's environmental standards and marketing an international brand of quality.

EXECUTIVE CHAIRMAN'S REPORT

The past year was one of significant transformation for the Company as we transitioned from development phase to operational readiness.

We are now ramping up our operations to become a new integrated supply source of Rare Earths outside China. Our Concentration Plant in Western Australia performed ahead of expectations during the year with Rare Earth Oxide (REO) grades in line with, and REO recoveries ahead of, internal targets. This part of our production process is now significantly de-risked. In Malaysia, construction of Phase 1 of the Lynas Advanced Materials Plant (LAMP) is now complete and is being ramped up to full capacity. Our Phase 2 expansion of the LAMP, which will double our capacity to 22,000 tonnes per annum REO, is on time and on budget for start up in early 2013. I am pleased to report that our operations in Malaysia remained Lost-Time-Injury (LTI) free during the year, highlighting our commitment to Zero Harm in everything we do.

We are building a green Rare Earths supply chain for a sustainable future and this is being recognised by some of the world's largest companies. Early in the year we were very pleased to announce the signing of a Letter of Intent with Siemens AG with a view to forming a joint venture for the sustainable production of Neodymium-based Rare Earths magnets to serve Siemens' production requirements for energy-efficient drive applications and wind-turbine generators. Lynas will provide raw materials for the joint venture, predominantly a combined Neodymium-Praseodymium metal, through a long-term supply contract. The joint venture for magnet production will be led by Siemens with the planned shareholding to be 55% Siemens and 45% Lynas. It is clear Rare Earths magnets have tremendous growth potential in this field, and Lynas is pleased to be able to provide the necessary ingredients of a stable and environmentally sound supply chain which is required to enable this market to grow to its full potential.

In September 2011, the Company signed a new long-term supply agreement with BASF Corporation for the supply of Rare Earths. BASF's Fluid Catalytic Cracking business consumes Lanthanum and the contract shall secure a substantial portion of BASF's long-term Lanthanum requirements, with a pricing mechanism tied to market price. The contract is another example of how Lynas is able to stabilise the important Rare Earths supply chains for major industrial users. Strengthening these supply chains is critical to promote the development of a number of environmental protection and energy efficiency applications. For example, Rare Earths inside automotive catalytic converters help to reduce greenhouse gas emissions while Rare Earths permanent magnets inside wind turbines help countries achieve their renewable energy targets. Rare Earths also play a critical role in improving the efficiency of oil refineries and the development of energy-efficient lighting applications. The unique catalytic, magnetic and optical properties of Rare Earths cannot be replicated or substituted in many of these applications.

The quality of our asset base was reinforced this year with a significant upgrade to our mineral resources at Mount Weld and the successful results of a scoping study into the Duncan deposit. The mineral resource estimate for Mount Weld is now 23.9 million tonnes, at an average grade of 7.9% REO, for a total of 1.9 million tonnes REO. This represents a 37% increase versus the previous resource estimate announced in September 2010. With such a large resource base we look forward to supplying our Rare Earths products to our customers for many years to come.

The Duncan deposit, adjacent to our current operations at the Central Lanthanide Deposit, is currently being analysed as a way of providing a broader suite of Rare Earth products to our customers. Duncan has a REO distribution biased more towards high value heavy Rare Earths. We are now proceeding with a definitive feasibility study to evaluate potential process plant locations and optimising the metallurgical process flow sheet.



Subsequent to the end of the financial year, the Company announced that the Ore Reserves estimate for the Central Lanthanide Deposit is 362% higher compared with the 2005 estimate and the contained REO in the Ore Reserves is 260% higher than the 2005 estimate.

A key priority for the Company in the past year was the completion of the regulatory review process for the LAMP in Malaysia. Lynas entered the process with a strong belief about the safety, technical and scientific facts about the LAMP. I recognise that there has been a very open and vigorous debate within the Malaysian community about the Lynas project. We engaged in a large public consultation programme during the year, communicating directly with more than 12,000 local residents, community leaders, villagers and their families. In addition, the Balok Ivory Tower programme, an academic programme supported by Lynas for local Malaysian school children, continued to yield positive results for the local community. We are now engaging in a conversation with the Malaysian community that will continue for the life of the plant and we will continue to strengthen our community engagement and education and awareness programmes in Malaysia.

I am happy to report that subsequent to the end of the year the Atomic Energy Licensing Board (AELB) issued the Temporary Operating Licence for the LAMP on 5 September 2012 following a detailed and rigorous regulatory approval process. The AELB's decision to issue the Temporary Operating Licence verifies Lynas' continued commitment to strong safety, health, environmental and community values and highlights the Company's absolute determination to achieve its Zero Harm goal. Our commitment to safety extends from the design and construction of the LAMP through to commissioning, operations and expansion.

During the year we welcomed into the Company a number of highly experienced individuals who will help lead and guide the Company in its journey to becoming a new source of Rare Earths supply for a sustainable future. Following the appointment of Dr Ziggy Switkowski in February 2011, the Board of Directors was further strengthened by the appointment of Ms Kathleen Conlon

as Non-Executive Director in November 2011. Ms Conlon is one of the pre-eminent thought leaders in the area of operations and change management both in Australia and globally. She is also currently a Non-Executive Director of CSR Limited and REA Group Limited.

Within the executive management, I was very pleased to have Luisa Catanzaro join the Company in December 2011 as Chief Financial Officer. Prior to joining Lynas, Luisa was CFO of Dairy Farmers Group and before that, CFO of Australian Agricultural Company Limited. She has extensive experience in manufacturing, supply chain and branded product environments, and her extensive experience makes her well suited to a leadership role at Lynas.

I would like to thank the whole team at Lynas for their strong contributions this year. We have made significant progress in our journey to becoming a new sustainable source of Rare Earths supply. While we faced a number of challenges in our journey to operations, we responded to these with strong resolve and a commitment to our core set of values.

In closing, I am very excited about our future. For more than a decade we have been building up a wealth of knowledge and expertise in our organisation to maximise the value of our portfolio of unique assets. Now that the Company has moved into its operational phase we will continue to strive to ensure our business delivers benefits for the communities in which we operate and long-term value for our shareholders.

Nicholas Curtis AM
Executive Chairman

THE YEAR IN REVIEW

Over the past year the Company made significant progress towards becoming a new, sustainable supply source of Rare Earths.

1.



3.

KEY HIGHLIGHTS:

HIGH QUALITY, LONG LIFE ASSET

Central Lanthanide Deposit confirmed as the highest grade Rare Earths ore body in the world

NEW APPOINTMENTS

Ms Kathleen Conlon appointed as Non-Executive Director, and Ms Luisa Catanzaro as Chief Financial Officer, to complement an experienced management team

SECURE OFFTAKE AGREEMENTS

With strong customer relationships

INCREASE IN MOUNT WELD RESOURCE ESTIMATE

Following the results of the extension drilling programme, Lynas reported a significant upgrade to the Mount Weld Mineral Resource estimate for the Central Lanthanide Deposit (CLD) and the Duncan Deposit, confirming its status as the richest known deposit of Rare Earths in the world. The Resource estimate now stands at 23.9 million tonnes, at an average grade of 7.9% REO, for a total of 1.9 million tonnes REO.

Specifically, the Resource estimate for the CLD has increased by 51% to 14.9 million tonnes, at an average grade of 9.8% REO, for a total of 1.5 million tonnes REO. This represents a 37% increase in contained REO. The Resource estimate for the Duncan Deposit, located immediately to the east and south of the CLD, has increased by 18% to 9.0 million tonnes, at an average grade of 4.8% REO, for a total of 431,600 tonnes REO. This also represents an increase of 18% in contained REO.

In June 2012, Lynas reported the completion of a scoping study in respect of the Duncan Deposit. Next steps include a more detailed evaluation of potential locations for processing, and other work that will allow a detailed feasibility study to be prepared.

SIGNIFICANT INCREASE IN MOUNT WELD ORE RESERVES

In September 2012 Lynas announced an upgrade to the Mount Weld Ore Reserves based on a mining study that re-optimised the pit design using the updated Mineral Resources estimate that was announced to the ASX on 18 January 2012. The revised Ore Reserves at the Central Lanthanide Deposit (CLD), applying cut-off grades ranging from 4 to 7% depending on the type of ore, are estimated at 9.7 million tonnes at an average grade of 11.7% REO for a total of 1.14 million tonnes of contained REO. The Ore Reserves estimate for the CLD is 362% higher compared with the 2005 Feasibility Study and the contained REO in the Ore Reserves is 260% higher than the 2005 estimate.

Classification of Ore Reserves for the Central Lanthanide Deposit

| TOTAL ORE RESERVES | MILLION TONNES | REO (%)* | CONTAINED REO ('000 TONNES) |
|--------------------|----------------|-------------|-----------------------------|
| Proved | 5.6 | 13 | 728 |
| Probable | 4.1 | 10 | 410 |
| Total | 9.7 | 11.7 | 1,138 |

* REO (%) includes all the lanthanide elements plus Yttrium.

As at September 2012.



1. Phase 2 construction – dewatering plant civils in the foreground
2. Aerial view of the Mount Weld Concentration Plant
3. Phase 2 construction – flotation plant civils in the foreground
4. Bagged concentrate awaiting transport

4.

COMMERCIAL DEVELOPMENTS

During the year, Lynas continued to develop its strong relationships with the Japanese Rare Earths industry, including with Sojitz Corporation, our distributor and agent in Japan.

In July 2011, Lynas signed a Letter of Intent with the Siemens AG's Drive Technologies Division, the world's leading supplier of entire drive trains with electrical and mechanical components, with a view to establishing a joint venture company for the sustainable production of Neodymium-based Rare Earth magnets.

The joint venture aims to secure a long-term, sustainable end-to-end supply chain for the production of Neodymium-based Rare Earth magnets for energy efficient drive applications and wind turbine generators.

Subsequently in September 2011, Lynas signed a significant new long-term supply agreement with BASF Corporation for the supply of Rare Earths to be produced at the LAMP in Malaysia. BASF's Fluid Catalytic Cracking business consumes Lanthanum and the contract seeks to secure a substantial portion of BASF's long-term Lanthanum requirements, with a pricing mechanism that is tied to market price.

TEMPORARY OPERATING LICENCE IN MALAYSIA

On 1 February 2012, Malaysia's Atomic Energy Licensing Board (AELB) announced its approval of the Temporary Operating Licence (TOL) for the Lynas Advanced Materials Plant (LAMP). The AELB's decision followed a thorough and extensive review of the project by the Malaysian Government and regulatory authorities.

The issuance of the TOL was subject to two legal challenges. The first involved a group of individuals who applied to the High Court of Malaya for a judicial review of the decision by the AELB. The second related to an appeal which was lodged under Section 32 of the Atomic Energy Licensing Act. The initial application to the High Court of Malaya was denied by the Court on the basis that an appeal was in progress to the Minister of Science, Technology and Innovation (MOSTI) and it would not be appropriate for the Court to intervene in the matter. Subsequently, the second appeal to MOSTI was dismissed in June 2012, affirming the AELB's decision to approve the issuance of the TOL. Lynas understands that the applicants intend to pursue further appeals of those decisions.

In March 2012, the Malaysian Government set up a Parliamentary Select Committee (PSC), to help raise public awareness concerning the LAMP. The PSC, headed by the Higher Education Minister, tabled its report in June 2012, making it clear that it had taken into consideration a broad range of issues raised by concerned citizens, special interest groups and NGOs relating to public health and environmental safety, and subjected the LAMP to intense independent, expert scrutiny.

The report recommended that the TOL be issued for the LAMP. In addition, the report noted that Lynas has complied with the standards and laws in Malaysia, which are in line with international standards.

The AELB subsequently issued the TOL on September 5, 2012.

KEY HIGHLIGHTS: WESTERN AUSTRALIA OPERATIONS

BAGGED CONCENTRATE READY FOR EXPORT

Containing more than 4,800 tonnes of REO

PHASE 2 EXPANSION IN PROGRESS

With the award of a fixed price contract to Abesque Engineering

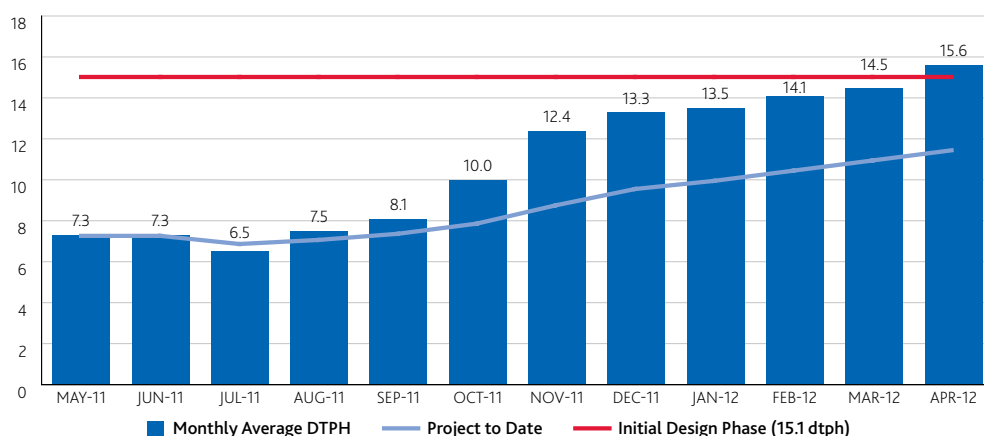
ISO AND OHSAS CERTIFICATION

Lynas Western Australia achieved external certification by Bureau Veritas

WESTERN AUSTRALIA OPERATIONS

Following the commissioning of the Concentration Plant at Mount Weld in May 2011, the ramp up in production continued this financial year. The plant has been processing ore that had been mined and stockpiled from the first mining campaign. The Concentration Plant operated on an '8-days on, 6-days off' basis during the financial year. The design throughput rate of 15 tonnes per hour was achieved.

Plant Feed Rate – Dry Tonnes Per Hour (DTPH)



At the end of the financial year, more than 13,000 dry tonnes of concentrate containing more than 4,800 tonnes of REO were bagged ready for export. Ahead of the start-up of the LAMP in Malaysia, the Company elected to bring forward a period of routine maintenance on the Concentration Plant. The downtime was used to identify areas of continuous improvement as well as preparing the Phase 2 mobilisation on site. Lynas Management expects to realise significant operating cost savings from the temporary shutdown of the plant. The re-start of the plant will be synchronised in accordance with the requirements of the LAMP.

The Phase 2 expansion of the Concentration Plant has progressed with the awarding of a fixed price contract to Abesque Engineering Ltd. All necessary regulatory approvals for construction were obtained and site works commenced in June 2012. The Phase 2 project will double the Concentration Plant capacity and also incorporate many of the learnings from the commissioning and operations of Phase 1. Key components include new flotation plant, control room, concentrate thickener and concentrate filter plus a power station and reverse osmosis plant upgrades. Commissioning of the Phase 2 expansion is planned for second quarter of 2013.

As noted previously, the Company announced a significant increase in the Mount Weld Mineral Resource estimate at both the Central Lanthanide Deposit (CLD) and Duncan Deposit in January 2012. The existing Rare Earths operation is based on a mine plan covering a high grade REO zone in the centre of the Mount Weld Carbonatite within the CLD.

In May 2012, Mr Kam Leung joined Lynas as General Manager for the Western Australia Operations. Mr Leung's experience extends across broad operational areas in a number of leading resource companies.

Lynas Western Australia Operations is implementing the Lynas Integrated Operational Management System Standards (LIOMSS), which incorporates compliance to ISO9001:2008, ISO14001:2004 and OHSAS18001:2007.

During August 2012, Lynas Western Australia's Integrated Management System was externally audited by Bureau Veritas, and subsequently certified to Safety and Quality Management Standards – ISO and OHSAS.



1. LAMP Phase 2 expansion – aerial view
2. Executive Chairman Nicholas Curtis briefing customers during a site visit
3. Site staff at work at the LAMP

MALAYSIA OPERATIONS

The Malaysia Operations team grew significantly over the past year and the total number of staff at the end of the financial year stood at 256.

As part of the International Atomic Energy Agency recommendation and the AELB's subsequent requirements for the application for the TOL, Lynas made revised submissions for the Radiological Impact Assessment (RIA), Emergency Response Plan, Radiation Protection Plan, Waste Management Plan and Safety Case, and Conceptual Decommissioning Plan to the AELB.

The AELB formed an expert review panel to examine Lynas' submissions, and after several iterations, Lynas submitted documents to the AELB on December 31, 2011 taking into account all comments from the expert review panel.

The AELB approved the TOL on February 1, 2012, at which time the licence fee was paid. As of the end of the financial year, the licence was yet to be issued.

Post the approval of the TOL by the AELB, the Malaysian Government appointed a Parliamentary Select Committee (PSC) in March 2012, chaired by the Higher Education Minister YB Dato' Seri Mohamed Khaled Nordin, with the purpose of helping to raise public awareness concerning the LAMP. Following presentations and a detailed Question and Answer session, Lynas welcomed the PSC on a LAMP site visit in early May.

On June 19, 2012, the PSC gave its recommendation for Lynas to be awarded the TOL.

By end of June 2012, the LampsOn team commenced its demobilisation from site, allowing Lynas to continue to progress and finalise the permitting of the site to ensure that the final commissioning process progresses as efficiently as possible.

The Ready for Start-Up programme was 97.1% complete as at the end of the financial year. The balance of the remaining projects are not critical for start-up.



1.

2.

3.

1. Lynas Malaysia Managing Director, Dato' Mashal Ahmad leads a media briefing
2. Lynas Malaysia staff during a Family Picnic Day
3. Lynas accepted as a member of Gebeng Emergency Mutual Aid (GEMA)

KEY HIGHLIGHTS: MALAYSIA OPERATIONS

LAMP PHASE 1

Construction complete and 8.7 million hours lost-time-injury free

TEMPORARY OPERATING LICENCE

Issued for the LAMP

In July 2011, Lynas issued a Letter of Award to Toyo Thai Corporation for the Engineering, Procurement, Construction and Commissioning Assistance of the Phase 2 expansion of the LAMP to 22,000tpa REO. The contract is a lump sum fixed price contract. As at the end of June 2012, the overall project's cumulative progress was 72% complete and the project remains LTI free. The Phase 2 expansion of the LAMP is expected to be construction complete in early 2013.

Various training programmes were conducted over the past year in preparation of commissioning and operation of the Plant. They included Monitoring of Chemical Hazards to Health; Certified Environmental Professional in Scheduled Waste Management; Certified Environmental Professional Effluent Treatment System; First Aid; Fire Fighting; Confined Space Training; Radiation Protection Officer Training; Safety and Health Induction for Construction Workers; Liyang Rhodia Laboratory Training; Production, Planning and Control; and Internal Audit ISO9001 Training.

On September 5, 2012 the Group received confirmation from the AELB in Malaysia that the TOL for the LAMP facility had been finalised and granted. As a result of the receipt of the TOL, the Group has commenced its ramp-up of operations.

MALAWI OPERATIONS

During the year, an Environmental and Social Impact Report was completed and submitted to the Government of Malawi for review. Comments were received and the final document was submitted in July 2012. On site, the refurbishment of existing infrastructure continued and drill roads and pads were constructed in preparation for the next phase of the drilling programme.

As announced on June 13, 2012, Lynas is currently assessing a decision of the Malawi High Court that may affect the proposed Kangankunde resource development. Lynas is reassessing the project's risks in the context of Malawi's present governance and institutional framework, and consequently deferred the planned drilling programme along with further development and test work until clarity in the legal position and processes in Malawi is obtained.

SUSTAINABILITY

At Lynas, our approach is defined by a foundation strategy to create a reliable, fully integrated, sustainable source of Rare-Earths from mine through to market.



ZERO HARM

Lynas is committed to excellence in health and safety. We will continually strive to achieve our goal of Zero Harm.

Today, Lynas sets a new benchmark for environmental standards in the global Rare Earths industry which exceeds all other supply sources.

We strive for quality and consistency in each part of our operation, as well as excellence in safety, health and protecting people and the environment.

Our vision is to build a leadership position in Rare Earths for a sustainable future.

ZERO HARM

Lynas is dedicated to Zero Harm. It is especially important to us that our employees, business partners and the communities in which we live and work understand that we care about them and their environment.

Lynas prides itself on upholding the highest standards in relation to all its operations, particularly in terms of health, safety and the environment.

During the course of the year we continued to achieve excellent health and safety performance.



SUSTAINABLE DEVELOPMENT

Lynas is committed to Sustainable Development. Through our commitment, expertise and capacity for innovation we will continually explore and improve our contribution to Sustainable Development outcomes.

| SAFETY PERFORMANCE FOR FY2012 | | NO. OF INJURIES PER ONE MILLION HOURS WORKED |
|--|--|---|
| LTI Frequency Rate | | 0.6 |
| Alternative Injury Frequency Rate | | 1.1 |
| Total Recordable Injury Frequency Rate | | 5.7 |

The LAMP reached more than 8.7 million hours LTI free. This is a significant achievement and reflects our strong commitment to health and safety in practice.

The engineering and construction of the LAMP have been implemented in accordance with all international standards, suitable for the plant's specific location, and required to facilitate a safe and sustainable operation.

The LAMP has been subject to review by the International Atomic Energy Agency (IAEA), a Parliamentary Select Committee and several independent experts from the USA, China, Canada and Germany at the invitation of the Malaysian Government.

Each has judged Lynas to be safe and fully compliant with international standards, affirming the LAMP is a state-of-the-art chemical plant setting new benchmarks in safety and environmental standards for Rare Earths processing.

In Western Australia, the Lynas Mount Weld HSE (Health, Safety and Environment) Improvement team was established in March 2012, consisting of safety and health representatives and senior managers on site. The improvement team plays a pivotal role in ensuring the workplace is compliant and the site's Safety Management System is effective. The role of the HSE improvement team is to facilitate cooperation between Mount Weld and its employees in instigating, developing and carrying out actions designed to ensure health and safety in the workplace. The team also formulate, review and disseminate the standards, policies and procedures relating to health and safety carried out at Mount Weld.

REDUCE, RECYCLE, REUSE

Lynas is committed to using all its resources efficiently and cleanly. Our operations aspire to the principle of "reduce, reuse, recycle" and energy efficiency.

Alongside Rare Earths, Lynas will recycle and reuse its LAMP residues to create a series of synthetic gypsum products. We have always believed in providing a viable source of synthetic mineral products to meet growing demand from the commercial building and agricultural sectors.

Added to this is the environmental benefit of synthetic gypsum – as it reduces the need to mine natural deposits, thereby conserving natural resources and reducing greenhouse gas emissions.

Recycling residues into commercial by-products is a current world-wide best practice. Residues of the same scale and composition containing low levels of Naturally Occurring Radioactive Material (NORM) are regularly transformed into commodities by the mineral and oil industries, and used in building products, plasterboard and road base.

Lynas is absolutely confident that by-products of the LAMP will be recycled and reused in commercial applications, and will not require long-term storage. The IAEA has recognised this approach as a good example of Fundamental Safety Principle 7 – *Protection of Present and Future Generations* – IAEA Safety Series No. SF-1

This is the principle prescribed by the World Health Organisation (WHO), United Nations Environmental Program, Pan American Health Organisation, and other reputable international organisations.

WATER QUALITY AND ENERGY EFFICIENCY

Any water discharged from our processing operations is cleaned and treated and will not exceed the standard specified of 1 Bq/litre.

In Malaysia this limit is set by the Atomic Energy Licensing Board (AELB) and is within the range allowed in the drinking water as set by the WHO international standards. This is an example of Lynas' absolute commitment to protect the local environment.

Likewise, the design of our LAMP facility has included extensive geotechnical analysis and modelling of storm water management, and takes into consideration the unlikely occurrence of extreme rainfall and flood events.

Lynas continues to express its willingness to go further than Malaysian, Australian and international regulatory requirements, particularly in relation to emissions and the environment.

In May 2012, Lynas installed solar-powered security cameras at the LAMP site. A total of 26 solar panels were installed on site. Each panel takes one day to charge, and is sufficient to power a camera for up to four days. This allows each camera to run for a total of eight days without sunlight.

At Lynas we are committed to contributing to a sustainable future.

COMMUNITY

The Lynas Way includes striving to create shared value through co-operative economic development, and working with our host communities to address concerns and share the benefits of our operations.

Lynas' intent is to establish and maintain relationships with our host communities, based on involvement, so as to contribute to community development and resilience.

This includes:

- Engaging with local communities regarding actual and potential emissions and waste; related health risks; and actual and proposed mitigation measures.
- Consulting representative community groups in determining priorities for social investment and community development activities.
- Participating in local associations with the objective of contributing to the development goals of host communities.
- Maintaining transparent relationships with government officials and political representatives.
- Promoting and supporting education at all levels, and engaging in actions to improve the quality of and access to education.
- Helping conserve and protect cultural heritage.
- Giving priority to buying and hiring locally.

In Malaysia, we have mounted a large scale public consultation effort specifically focused on factors of safety, health, emissions and safe handling and storage of plant residues. This includes face-to-face briefings for more than 12,000 local residents, community leaders, villagers and their families; and regular participation in public consultation committees.

This was complemented by public forums, national advertising, information boards and a strong presence on social media, drawing attention to, and engaging a broad audience on, the benefits and safety standards of the LAMP.

Lynas remains a foundation sponsor of the Balok Ivory Tower Academic programme in Kuantan, Malaysia. The programme promotes learning opportunities for vulnerable students from underprivileged backgrounds to continue their education and secure placement at local universities. Lynas representatives regularly volunteer their time to meet with students throughout the year to discuss the importance of safe workplace practices and environmental protection.

In December 2012, the first phase of the Balok Ivory Tower Academic programme was completed, with all 67 students successfully achieving the minimum requirement to gain placement at a local university or college.

In Western Australia, Lynas has implemented a thorough stakeholder engagement programme which culminated in the establishment of a Mount Weld Community Consultative Committee (CCC) in February 2012.

Based in the town of Laverton, the purpose of the CCC is to provide a forum for open discussion between the Company and appointed Mount Weld Community representatives; more specifically, its goal is to determine community initiatives in accordance with the principle of creating shared value and building community resilience.

While still in its early stages, the Mount Weld CCC meets bi-monthly and has been enthusiastically embraced by the local indigenous community. This effort reflects a strong corporate values-basis aligned with host community values.

Lynas regularly conducts cultural awareness programmes at its Mount Weld facility. The objective of these programmes is to increase employee appreciation of local indigenous culture, build relationships and identify indigenous employment opportunities for the future.

REGULATORY SUBMISSIONS

In Malaysia, Lynas submitted a Waste Management Plan, Safety Case and Decommissioning Plan to the AELB in support of the LAMP licensing approvals.

In Western Australia, Lynas submitted and received environmental approval for Phase 2 expansion of its operations at Mount Weld. The Department of Indigenous Affairs also approved the relocation of two Aboriginal heritage sites, and a Mount Weld "mine closure" plan was developed.

In Malawi, Lynas submitted Environmental Impact Reports and an Environmental Management Plan for the Kangankunde Project to regulatory authorities, and appointed a Safety, Health, Environment and Community Manager to support project requirements and sustainability initiatives.

BUSINESS EXCELLENCE

The Lynas Industrial Management Framework (MInd) seeks to operationalise the Lynas vision and strategic goals by focusing on the key performance areas of:

- Responsible care;
- Customer satisfaction;
- Asset optimisation; and
- Growth management.

Each Lynas operating entity is responsible for developing an operational action plan detailing how they will deliver on the key result areas detailed in the MInd Framework. Key performance indicators are allocated to each focus area so we may track our progress to achieving our goals.



Lynas staff engage with the community as part of the Lynas Cultural Awareness Programme in Laverton

A key component of the MInd framework is the Lynas Integrated Operational Management System Standards (LIOMSS) which covers:

- Safety
- People and Culture
- Environment
- Community
- Quality and Customer Satisfaction
- Supply Chain

Our Western Australia and Malaysian operations teams are implementing these system standards to promote continuous improvement and meet the requirements of international standards for safety, environment and quality.

GOVERNANCE AND RISK MANAGEMENT

The Risk Management and Safety, Health, Environment and Community (SHEC) Committee of the Lynas Board met on three occasions during the past financial year.

In October 2011, the Lynas Board endorsed the Occupational Health and Safety (OHS) *Due Diligence Wheel* – a framework detailing specific OHS items to be addressed at Board and Leadership team meetings throughout the 2012 calendar year. Specific topics include:

- OHS risk mitigation;
- Compliance with OHS legislation; and
- Compliance with Lynas OHS Standards.

Each of our operational sites report on specific OHS initiatives, progress and performance.

Lynas has engaged internationally accredited Bureau Veritas (BV) to provide third party, independent auditing and certification services in the areas of occupational health and safety, environment and quality management.

Lynas continues to meet, and in some cases, exceed safety standards for protecting people and the environment. We look forward to playing our part in delivering sustainable outcomes and making an important contribution to our host communities.



GLOBAL MARKET ACTIVITY

Rare Earths prices stabilised during the year after a period of significant price volatility in 2011. China continues to restructure its Rare Earths industry enforcing stricter compliance with environmental protection standards and closing down illegal mining and processing activities. Non-Chinese Rare Earths consumers are focused on securing new sources of supply to meet growing end product demand. Lynas will play a key role in meeting the supply needs of major Rare Earths consumers.

GLOBAL DEMAND

The chemical properties of Rare Earths differ from the main group of elements in the periodic table due to their unique electron configuration. These properties are critical to the many applications that utilise Rare Earths and are the reason why there are no substitutes for these elements in most applications.

CATALYTIC PROPERTIES

Rare Earths are very effective catalysts. They easily absorb, store and release oxygen and also stabilise environments in which they operate. The two main markets which utilise these properties are environmental catalysts for the automotive market and petroleum catalysts for the oil refinery market.

Environmental catalysts are primarily used to control pollutant emissions from automotive engines, and the automotive market is the key driver of the environmental catalyst industry. Tougher emissions legislation around the world has driven demand growth at 10% per annum in recent years. This is expected to continue as the impending legislation continues to grow the auto-catalyst market beyond normal vehicle growth. In addition the legislative umbrella is covering an increasingly wide selection of vehicles such as trucks and buses as well as non-road machinery, all of which will add to future growth. Cerium is the main Rare Earth element used in auto-catalysts. Cerium balances the oxygen environment within the catalyst for optimal performance and also provides high temperature stability which allows the auto-catalyst to operate more efficiently.

The main petroleum catalyst for the production of fuels and other petroleum derivatives is used in a process known as Fluid Catalytic Cracking (FCC). Due to strong demand from the gasoline and petrochemical market, petroleum catalysts are forecast to remain a growth application for Rare Earths. Lanthanum stabilises the molecular sieve used in the FCC process which increases the life of the catalyst and increases oil refinery yields by approximately 7% per annum. To put a 7% yield benefit into perspective, US\$500 million of Lanthanum sales into the FCC application creates approximately US\$150 billion in yield benefit for the refineries globally. This example also shows that the demand for Lanthanum is not sensitive to price.

MAGNETIC PROPERTIES

Certain Rare Earths exhibit very large magnetic moments. Neodymium Rare Earth magnets utilise this property to create the strongest type of permanent magnets made, substantially stronger than ferrite or alnico magnets. This market is forecast to continue to be a growth application for Rare Earths. Rare Earth magnets are used in most computer hard disk drives, audio speakers, air conditioning compressors and electric motors. Electric motors which use Rare Earth magnets are smaller, lighter and more powerful than comparable electric motors with other magnets.

The automotive market is an important demand driver for Rare Earth magnets. A car has numerous electric motors, and Rare Earth magnets are penetrating these applications to reduce the car's weight. However, the main growth application for magnets in the automotive market is the hybrid electric motor which drives a hybrid vehicle at low speed using battery power. This hybrid motor also doubles as a generator to recharge the battery during deceleration and braking. Approximately 2kg to 3kg of Rare Earths are used in high strength Rare Earth magnets in the hybrid car. Analysts predict approximately an additional 1.8 million hybrid vehicles per annum shall be produced between 2010 and 2014, which would account for approximately 25% of the total magnet market growth.

OPTICAL PROPERTIES

Rare Earths have very useful optical properties. Rare Earths are incorporated into phosphors which provide light in fluorescent lamps. Similar phosphors play a critical role in plasma and liquid crystal display television and computer screens.

Legislation is already taking effect around the world to ban the energy inefficient incandescent light bulb and replacing it with more energy efficient light bulbs such as the compact fluorescent lamp. This market is forecast to continue to be a growth application for Rare Earths. The phosphors which create the light in these lamps, and in plasma and liquid crystal displays, are dependent upon a number of Rare Earths, especially Europium, Terbium and Yttrium.

Another important optical property of Rare Earths allowed the development of high refractive index, low dispersion glass. The most familiar example of dispersion is probably a rainbow, in which dispersion causes the separation of white light into components of different colours. Low dispersion glass is used in camera lens and has allowed the miniaturisation of today's digital cameras. These lenses typically contain 30% Lanthanum, and whilst this market is relatively small it is experiencing strong growth.

Cerium is also added to automotive glass, particularly in Japan, as it reduces the transmission of ultraviolet light, and therefore reducing heat entering the car and as a result cutting down the air conditioning loads. The final glass additive application is the addition of Cerium to Cathode Ray Tube (CRT) glass; however this market is shrinking as flat screens replace CRT in the television and computer market.

METALLURGICAL PROPERTIES

A metal alloy of Rare Earths and nickel is very efficient for storing hydrogen, and this property is applied in the rechargeable battery market. Nickel Metal Hydride technology, or NiMH, is used extensively in consumer electronics, the power tool market and in hybrid vehicles. A state-of-the-art NiMH battery for a hybrid vehicle with the size and performance of the Toyota Prius, for example, uses between 12 and 20kg of Rare Earths, primarily Lanthanum and Cerium with some Neodymium and Praseodymium, in its overall construction.

Most of the hybrid cars built in the last decade, primarily by Toyota, Honda, and Ford, are still on the road and provide daily testimony to the reliability of the NiMH battery. This reliability factor is a large hurdle for potential alternative battery technologies such as the lithium-ion (Li-ion) battery. NiMH battery sales in hybrid vehicles are forecast by battery market analysts to continue to grow until 2018, after which the Li-ion battery is forecast to dominate the growth in the market.

GLOBAL MARKET SIZE

The overall Rare Earths market was steady in 2011 after a recovery in demand following the global financial crisis. The recent sharp rise in prices caused by this increase in demand as well as China's tighter export restrictions have triggered the implementation of some manufacturing productivity improvements, mainly in the polishing and magnet industries. These changes reduced demand for "fresh" Rare Earths contributing to this flat growth. With these productivity improvements now fully deployed, global demand is expected to grow over the coming years.

Lynas market forecasts are derived by assembling the customer demand estimates within each application for the market outside China, combined with the data published by the China Rare Earths Information Centre for the market inside China. The market outside China currently represents around 40-45% of the total end demand, but is being impacted by the current restriction on Chinese exports. Lynas estimates that non-China demand could recover strongly if quickly supported by a non-China Rare Earths supply chain.

GLOBAL SUPPLY

China continues to dominate global supply with over 90% of Rare Earths production. The main mine in China is the Bayan Obo mine near Baotou in Inner Mongolia. This is controlled by a large State Owned Enterprise, Baotou Iron & Steel, and produces approximately 55 kilotonnes (kt) REO per annum. A second region is located in Sichuan province and is less consolidated. The Sichuan region has lower value resources and mining is now underground, as opposed to open pit mining. Sichuan has an estimated annual production of up to 20kt REO per annum. The third Rare Earths producing region in China mines "ionic clay" deposits. This region is known as the southern region as it comprises Jiangxi, Guangdong, Hu'nan and Fujian provinces, and is where most of the "heavy" Rare Earths are produced. Europium, Terbium, Dysprosium and Yttrium are the key heavy Rare Earths in demand today. Accurate production figures are unavailable due to the artisanal mining in this region, however it is estimated at approximately 35kt REO per annum. China continues to impose domestic production controls on the Rare Earths industry. In 2011, the domestic production quota was 93.8kt REO. Chinese authorities have issued production quotas for the first half of 2012 which are broadly in line with the prior year. The second batch of quotas is expected to be released later in 2012.

CHINESE EXPORT QUOTAS

In 2012, China set a maximum Rare Earths export quota of 31.13kt REO, up 3% on the prior year. However, the availability of the full quota is subject to a number of companies passing environmental inspections. For the first time, Chinese authorities divided the quota between light and heavy Rare Earths, with a maximum quota of 27.125kt REO for light Rare Earths and 4,005 tonnes for heavy Rare Earths.

PRICING

Rare Earths prices retraced from very high levels at the start of the year as manufacturing process changes in selected industries, customer inventory de-stocking and a general easing of global macroeconomic conditions combined to reduce upward pressure on prices. The period of very high Rare Earths prices seriously impacted the non-Chinese Rare Earths processing industry. Importantly, prices have returned to a range that is supportive of demand growth in key applications while still providing an adequate return for sustainable re-investment in Rare Earths supply.

Lynas maintains a position of strategic importance as one of the few non-Chinese producers in the market.

RARE EARTHS PRICES: DOMESTIC CHINA AND FOB CHINA (USD/KG REO)

| QUARTER | RARE EARTH OXIDES (PURITY 99% MIN) CHINA DOMESTIC (DLVD) | | | | | RARE EARTH OXIDES (PURITY 99% MIN) CHINA EXPORTS (FOB) | | | | |
|---------|---|----------|--------|--------|---------|---|----------|--------|--------|---------|
| | La Ce Dom | NdPr Dom | Dy Dom | Eu Dom | MT WELD | LaCe FOB | NdPr FOB | Dy FOB | Eu FOB | MT WELD |
| Q1 2011 | 6.6 | 44.7 | 307 | 502 | 20 | 76.8 | 117 | 407 | 690 | 91 |
| Q2 2011 | 23.6 | 121.1 | 885 | 1999 | 62 | 137.3 | 218 | 967 | 1820 | 172 |
| Q3 2011 | 23.9 | 154.5 | 1666 | 3382 | 82 | 126.9 | 265 | 2436 | 5143 | 196 |
| Q4 2011 | 19.6 | 93.2 | 1120 | 2218 | 57 | 57.6 | 200 | 1885 | 3780 | 120 |
| Q1 2012 | 14.9 | 60.3 | 728 | 1405 | 39 | 34.2 | 144 | 1335 | 3562 | 85 |
| Q2 2012 | 12.4 | 65.9 | 685 | 1198 | 36 | 40.7 | 100 | 1062 | 2354 | 58 |

Source: Metal Pages

DIRECTORS' REPORT

The Board of Directors (the "Board" or the "Directors") of Lynas Corporation Limited (the "Company") and its subsidiaries (together referred to as the "Group") submit their report for the year ended June 30, 2012. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:



DIRECTORS

The names and details of the Company's Directors who were in office during or since the end of the financial year are as set out below. All Directors were in office for this entire period unless otherwise stated.

INFORMATION ABOUT THE DIRECTORS

NICHOLAS CURTIS AM

BA (HONS)
EXECUTIVE CHAIRMAN

Mr Curtis is the Executive Chairman of the Company. He is Chairman of Forge Resources Limited and of the private corporate advisory firm, Riverstone Advisory. Mr Curtis also serves as a Director of the Asia Society AustralAsia Centre and as Chairman of Faces in the Street Urban Mental Health Research Institute at St Vincent's Hospital Sydney. He was a Non-Executive Director of Conquest Mining Limited from May 12, 2010 to October 18, 2011 prior to the company's restructure to become Evolution Mining. From June 2004 to August 2011 he served as a Director of the Garvan Institute of Medical Research and from August 2004 to October 2009 he was Chairman of the Board of St Vincent's & Mater Health Sydney Limited. In addition he served as a Director of St Vincent's Health Australia Ltd and St Vincent's Healthcare Ltd from June 1, 2004 to October 1, 2010. His career spans more than 30 years in the resources and finance industries.

On June 13, 2011, Mr Curtis was awarded an AM (Member of the Order) for his services to the community through executive roles supporting medical research and healthcare organisations and also for his work fostering Australia-China relations.

WILLIAM (LIAM) FORDE

BSC (ECON), AICD
LEAD INDEPENDENT DIRECTOR

Mr Forde joined the Company as a Non-Executive Director in December 2007 and is the Lead Independent Director of the Company. Mr Forde has many years experience in senior finance and managerial positions in both Ireland and Australia. He is currently a Director of Hastings Funds Management Limited and Chairman of Hastings Management Pty Ltd. Mr Forde is also a Director of Hastings Diversified Utilities Fund, Australian Infrastructure Fund Ltd and Hastings High Yield Fund.

In addition Mr Forde is a member of several advisory boards and is a member of the Australian Institute of Company Directors. Mr Forde was Chief Executive Officer of the Baulderstone Hornibrook Group from 2002 to 2005, following 15 years as Chief Financial Officer for the group.

KATHLEEN CONLON

BA (ECON) (DIST), MBA, FAICD
NON-EXECUTIVE DIRECTOR

Ms Conlon was appointed as a Non-Executive Director from November 1, 2011. Ms Conlon is currently a Non-Executive Director of CSR Limited and REA Group Limited. She also serves on the NSW Council of the Australian Institute of Company Directors and is a member of Chief Executive Women. Prior to her Non-Executive Director career, Ms Conlon spent 20 years in professional consulting where she successfully assisted companies achieve increased shareholder returns through strategic and operational improvements in a diverse range of industries.

Ms Conlon is one of the pre-eminent thought leaders in the area of operations and change management, both in Australia and globally. In 2003, Ms Conlon was awarded the Commonwealth Centenary medal for services to business leadership.



Left to right: William (Liam) Forde, Kathleen Conlon, Nicholas Curtis AM, David Davidson, Jacob Klein, Ziggy Switkowski.

DAVID DAVIDSON

NON-EXECUTIVE DIRECTOR

Mr Davidson is a Non-Executive Director of the Company and originally joined the Board on March 28, 2002. He resigned from the Board on August 18, 2005 and was re-appointed as a Director on December 8, 2005. Mr Davidson has had a distinguished career with ICI and DuPont. An Australian, he has lived and worked in Europe and North America and held a number of senior executive roles with global responsibilities. He is a former Director of ICI America Inc.

Since returning to Australia, Mr Davidson has been providing executive and corporate advice on organisation development and strategy. Mr Davidson currently does not hold any other listed company Directorships.

JAKE KLEIN

BCOM (HONS), ACA NON-EXECUTIVE DIRECTOR

Mr Klein is a Non-Executive Director of the Company and joined the Board on August 25, 2004. Mr Klein has also been Executive Chairman of Evolution Mining since October 2011, a company formed following the merger of Conquest Mining Limited (of which he was Executive Chairman from May 2010 until the merger) and Catalpa Resources Limited. Prior to that, Mr Klein was President and Chief Executive Officer of Sino Gold Mining Limited, where he managed (with Mr Curtis who was Chairman until November 2005) the development of that company into the largest foreign participant in the Chinese Gold Industry. Sino Gold Mining Limited was listed on the ASX in 2002 with a market capitalisation of \$100 million and was purchased by Eldorado Gold Corporation in late 2009 for over \$2 billion. Sino Gold Mining Limited was an ASX 100 company, operating two award-winning gold mines and engaging over 2,000 employees and contractors in China. Mr Klein resigned as a Director of Sino Gold Mining Limited in December 2009.

Prior to joining Sino Gold Mining Limited in 1995, Mr Klein was employed at Macquarie Bank and PricewaterhouseCoopers. Mr Klein is also currently a Non-Executive Director of OceanaGold Corporation (appointed in December 2009). Mr Klein is a past president of the NSW Branch of the Australia China Business Council and previously served on the NSW Asia Business Council.

ZYGMUNT (ZIGGY) SWITKOWSKI

PHD, FAICD, FTSE NON-EXECUTIVE DIRECTOR

Dr Switkowski joined the Company as a Non-Executive Director in February 2011. With an Australian and international executive career spanning more than 25 years, Dr Switkowski has established a reputation as one of Australia's most distinguished business leaders. Dr Switkowski's career highlights include serving as Chief Executive Officer and Managing Director of Telstra, Chief Executive Officer of Optus and Chairman and Managing Director of Kodak (Australasia).

Dr Switkowski currently serves as a Director of Tabcorp Limited and Oil Search Limited and is Chairman of Suncorp Group and Opera Australia. He is also Chancellor of the Royal Melbourne Institute of Technology (RMIT University). Dr Switkowski is the former Chairman of the Australian Nuclear Science and Technology Organisation. He holds an honours degree in science and a PhD in nuclear physics from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors.

DIRECTORS' SHAREHOLDINGS

As at the date of this report, the interests of the Directors in the shares and options of the Group were:

| | ORDINARY SHARES | OPTIONS OVER ORDINARY SHARES |
|--------------------------|--------------------|---------------------------------------|
| N. Curtis | 16,045,758 | 30,000,000 |
| W. Forde | 1,001,656 | 4,000,000 |
| K. Conlon ⁽¹⁾ | 18,154 | – |
| D. Davidson | 700,828 | 3,100,000 |
| J. Klein | 2,082,236 | 3,100,000 |
| Z. Switkowski | 700,828 | – |
| Total | 20,549,460 | 40,200,000 |

(1) Shares held by spouse.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Information about the remuneration of key management personnel is set out in the Remuneration Report of this Directors' Report. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director of the Company.

SHARE OPTIONS GRANTED TO KEY MANAGEMENT PERSONNEL

The following table outlines the options and performance rights issued for the benefit of Directors and other key management personnel during the 2012 financial year.

| | GRANTED | GRANT DATE |
|-----------------------------|--------------------------|--------------------|
| A. Arnold | 935,000 | September 23, 2011 |
| G. Barr | 1,210,000 | September 23, 2011 |
| L. Catanzaro ⁽¹⁾ | 2,000,000 | December 12, 2011 |
| N. Curtis | 4,000,000 ⁽³⁾ | November 30, 2011 |
| E. Noyrez | 2,000,000 | September 23, 2011 |
| J.G. Taylor ⁽²⁾ | 1,020,000 | September 23, 2011 |
| Total | 11,165,000 | |

(1) Appointed December 12, 2011.

(2) Ceased as a member of the KMP on December 12, 2011.

(3) The options issued to N.Curtis were initially approved by the Board on September 23, 2011 and then subsequently approved by the shareholders of the Company at the AGM on November 30, 2011.

COMPANY SECRETARIES

ANDREW ARNOLD

Mr Arnold was appointed as General Counsel and Company Secretary to the Group on July 23, 2008, following 15 years as a lawyer at Deacons, including six years as a Partner. During that time Mr Arnold also spent two years on secondment at Riddell Williams, Seattle. In his role at Deacons he had been overseeing the legal work of the Group since 2001. Mr Arnold is the responsible person for communication with the Australian Securities Exchange ("ASX") in relation to listing rule matters.

SALLY MCDONALD

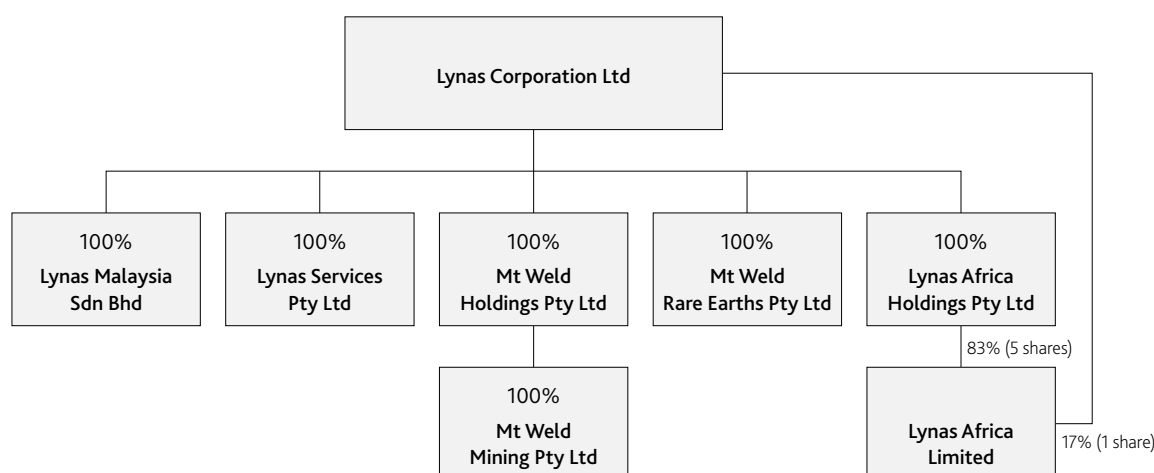
Ms McDonald was appointed as In-house Counsel and an additional Company Secretary on January 30, 2012. She is a practising lawyer with over six years post admission experience in corporate and commercial law at Norton Rose and Addleshaw Goddard.

IVO POLOVINEO

Mr Polovineo resigned as Company Secretary on January 30, 2012.

CORPORATE INFORMATION

The Company is limited by shares and is incorporated and domiciled in Australia. The Group's corporate structure is as follows:



NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the Group are:

- integrated extraction and processing of rare earth minerals, primarily in Australia and Malaysia;
- exploration and development of Rare Earth deposits; and
- exploration for other mineral resources.

PERFORMANCE REVIEW

The Directors together with management monitor the Group's overall performance, from implementation of the mission statement and strategic plan through to the performance of the Group against operating and financial plans.

REVIEW AND RESULTS OF OPERATIONS

Financial performance

| IN A\$'000 | JUNE 30, | |
|--|-----------------|-----------------|
| | 2012 | 2011 |
| General and administration expenses | (74,124) | (56,584) |
| Other expenses | (15,928) | (1,322) |
| Profit (loss) from operating activities | (90,052) | (57,906) |
| Financial income | 2,840 | 10,006 |
| Financial expenses | (10,667) | (9,388) |
| Net financial income (expenses) | (7,827) | 618 |
| Profit (loss) before income tax | (97,879) | (57,288) |

DIRECTORS' REPORT

For the year ended June 30, 2012, the Group realised a loss before tax of \$97,879 thousand (2011: \$57,288 thousand). This loss has been compounded during the year by the continued incurrence of pre-production start-up costs combined with one off impairment charges totalling \$15,928 thousand.

During the year the Group recognised an impairment loss of \$1,211 thousand in relation to its property, plant and equipment and \$2,613 thousand in relation to its deferred exploration and evaluation expenditure in Malawi (resulting from the previously reported court proceeding that arose during the period) and a \$3,559 thousand impairment loss in relation to property, plant and equipment at its Malaysian operation (which resulted from the identification of certain assets being surplus or redundant to the current operational plan). A write-down of inventories to net realisable value relating to externally acquired raw materials for the Malaysian operation totalled \$8,545 thousand.

Financial position

| IN A\$'000 | JUNE 30, | |
|--|------------------|------------------|
| | 2012 | 2011 |
| Assets | | |
| Cash and cash equivalents | 205,438 | 433,956 |
| Inventories | 65,691 | 30,243 |
| Property, plant and equipment | 706,603 | 361,070 |
| Deferred exploration, evaluation and development expenditure | 26,342 | 29,287 |
| Available for sale financial assets | 3,754 | 9,652 |
| Other assets | 15,829 | 9,825 |
| Total assets | 1,023,657 | 874,033 |
| Liabilities | | |
| Borrowings | (403,062) | (212,364) |
| Other liabilities | (57,101) | (34,902) |
| Total liabilities | (460,163) | (247,266) |
| Net assets | 563,494 | 626,767 |
| Equity | | |
| Share capital | 823,161 | 821,994 |
| Retained earnings (accumulated deficit) | (287,136) | (199,366) |
| Reserves | 27,469 | 4,139 |
| Total equity | 563,494 | 626,767 |

The overall net assets of the Group decreased by \$63,273 thousand.

Cash and cash equivalents at June 30, 2012 comprise \$124,377 thousand of unrestricted cash and \$81,061 thousand of restricted cash. Restricted cash represents funds provided under the Sojitz loan facility which are only available to fund capital expenditure required for Phase 2 of the Rare Earths Project.

On January 24, 2012, the Company executed binding documentation for a US\$225,000 thousand unsecured convertible bonds issue with Mt Kellett Capital Management, a US-based investment firm. The convertible bonds issue is being used to fund construction and commissioning of Phase 1 of the Rare Earths Project in Malaysia and for operational expenses.

During the year, the Group has capitalised assets under construction for Phases 1 and 2 of \$355,404 thousand. Assets under construction of \$86,679 thousand have come into operation during the year at Mount Weld and as such have been transferred out of assets under construction.

The movement in reserves of \$23,330 thousand during the current year reflects movements in the equity settled employee benefits, foreign currency translation and investment revaluation reserves, plus the tax effected equity component of the Mt Kellett convertible bonds.

Capital structure

At the start of the year the Group had 1,713,646,913 ordinary shares on issue. During the year an additional 1,382,218 shares were issued as follows:

| | NUMBER |
|---|---------------|
| Shares on issue June 30, 2011 | 1,713,646,913 |
| Issue of shares pursuant to option conversion | 1,382,218 |
| Shares on issue June 30, 2012 | 1,715,029,131 |

In addition to the ordinary shares on issue there were 83,029,418 unlisted options and performance rights and 171,594,000 unlisted convertible bonds on issue.

REVIEW OF OPERATIONS

Significant operational progress has been made since the May 2011 commissioning of the WA component of Phase 1 of the Rare Earths Project. In Malaysia each of the pre-commissioning steps to allow for the production ramp-up to commence are underway. Work is also well underway at both locations for the Phase 2 component of the Rare Earths Project, which will allow the Group to increase its production to 22,000 tonnes per annum of Rare Earth Oxide ("REO").

Western Australia operations

Following the commissioning of the Concentration Plant at Mount Weld in May 2011, the ramp up in production continued this financial year. The plant has been processing ore that had been mined and stockpiled from the first mining campaign. The Concentration Plant continued to operate on an '8-days on/6-days off' basis. The design throughput rate of 15 tonnes per hour has been achieved.

At the end of the financial year, more than 13,000 dry tonnes of concentrate containing more than 4,800 tonnes of REO were bagged ready for export. Ahead of the start-up of the Lynas Advanced Materials Plant (LAMP) in Malaysia, the Company elected to bring forward a period of routine maintenance on the Concentration Plant. The downtime has also been used for identifying areas of continuous improvement as well as preparing the Phase 2 mobilisation on site. Lynas Management expects to realise operating cost savings from the temporary shutdown of the Plant. The re-start of the Plant will be synchronised in accordance with the requirements of the LAMP.

Following the results of the extension drilling programme at Mount Weld, Lynas reported a significant upgrade to the Resources at Mount Weld at both the Central Lanthanide Deposit ("CLD") and the Duncan Deposit, confirming its status as the richest known deposit of Rare Earths in the world. The Mineral Resource estimate for Mount Weld increased by 37% from that announced in September 2010 and a 34% increase in contained REO.

Specifically, the Resource estimate for the CLD has increased by 51% to 14.9 million tonnes, at an average grade of 9.8% REO, for a total of 1.5 million tonnes REO (cut-off 2.5%). This represents a 38% increase in contained REO. The Resource estimate for the Duncan Deposit, located immediately to the east and south of the CLD, has increased by 18% to 9.0 million tonnes, at an average grade of 4.8% REO, for a total of 431,600 tonnes REO (cut-off 2.5%). This also represents an increase of 18% in contained REO.

The Phase 2 expansion of the Concentration Plant has progressed with the awarding of a fixed price contract to Abesque Engineering Ltd. All necessary regulatory approvals for construction were obtained and site works commenced in June 2012. The Phase 2 project will double the Concentration Plant capacity and also incorporate many of the learnings from the commissioning and operation of the Phase 1 operation. Key components include a new flotation plant, control room, concentrate thickener and concentrate filter plus a power station and reverse osmosis plant upgrades. Commissioning of the Phase 2 expansion is planned for second quarter of 2013.

In June 2012, Lynas reported on the completion of a scoping study on the Duncan Deposit. The scoping study results recommend progressing the project and the next steps would include a more detailed evaluation of potential locations for processing, and other work that will allow a detailed feasibility study to be prepared.

Lynas Western Australia Operations is implementing the Lynas Integrated Operational Management System Standards ("LIOMSS"), which incorporates compliance to ISO9001:2008, ISO14001:2004 and OHSAS18001:2007.

During August 2012, Lynas Western Australia's Integrated Management System was externally audited by Bureau Veritas, and subsequently certified to Safety and Quality Management Standards – ISO and OHSAS.

DIRECTORS' REPORT

Malaysia operations

The Malaysia Operations team grew significantly over the past year and the total number of staff at the end of the financial year stood at 256.

As part of the International Atomic Energy Agency recommendation and the AELB's subsequent requirements for the application for the Temporary Operating Licence (TOL), Lynas made revised submissions for Radiological Impact Assessment (RIA), Emergency Response Plan, Radiation Protection Plan, Waste Management Plan and Safety Case and Conceptual Decommissioning Plan to the AELB.

The AELB formed an expert review panel to examine Lynas' submissions, and after several iterations, Lynas submitted documents to the AELB on December 31, 2011 taking into account all comments from the expert review panel.

The AELB approved the TOL on February 1, 2012, at which time the licence fee was paid. As of the end of the financial year, the licence was yet to be issued.

Post the approval of the TOL by the AELB, the Malaysian Government appointed a Parliamentary Select Committee (PSC) in March 2012, chaired by the Higher Education Minister YB Dato' Seri Mohamed Khaled Nordin, with the purpose of helping to raise public awareness concerning the LAMP. Following presentations and a detailed Question and Answer session, Lynas welcomed the PSC on a LAMP site visit in early May.

On June 19, 2012, the PSC gave its recommendation for Lynas to be awarded the TOL.

By end of June 2012, the LampsOn team commenced its demobilisation from site, allowing Lynas to continue to progress and finalise the permitting of the site to ensure that final commissioning progresses as efficiently as possible on receipt of the TOL.

The Ready for Start-Up programme was 97.1% complete as at the end of the financial year. The balance of the remaining projects are not critical for start-up.

In July 2011, Lynas issued a Letter of Award to Toyo Thai Corporation for the Engineering, Procurement, Construction and Commissioning Assistance of the Phase 2 expansion of the LAMP to 22,000tpa REO. The contract is a lump sum fixed price contract. As at the end of June 2012, the overall project's cumulative progress was 72.0% complete and the project remains LTI free. The Phase 2 expansion of the LAMP is expected to be construction complete in early 2013.

Various training programmes were conducted over the past year in preparation of commissioning and operation of the Plant. They included Monitoring of Chemical Hazards to Health; Certified Environmental Professional in Scheduled Waste Management; Certified Environmental Professional Effluent Treatment System; First Aid; Fire Fighting; Confined Space Training; Radiation Protection Officer Training; Safety and Health Induction for Construction Workers; Liyang Rhodia Laboratory Training; Production, Planning and Control; and Internal Audit ISO9001 Training.

On September 5, 2012 the Group received confirmation from the AELB in Malaysia that the TOL for the LAMP facility had been finalised and granted. As a result of the receipt of the TOL, the Group has commenced its ramp-up of operations.

Malawi operations

During the year, an Environmental and Social Impact Report was completed and submitted to the Government of Malawi for review. Comments were received and the final document was submitted in July 2012. On site, the refurbishment of existing infrastructure continued and drill roads and pads were constructed in preparation for the next phase of the drilling programme.

As announced on June 13, 2012, Lynas is currently assessing a decision of the Malawi High Court that may affect the proposed Kangankunde resource development. Lynas is reassessing the project's risks in the context of Malawi's present governance and institutional framework, and consequently deferred the planned drilling programme along with further development and test work until clarity in the legal position and processes in Malawi is obtained. As a result of this action the Group during the year recognised an impairment charge relating to the assets in Malawi totalling \$3.824 thousand.

EARNINGS PER SHARE

| EARNINGS (LOSS) PER SHARE | JUNE 30, | |
|--|----------|--------|
| | 2012 | 2011 |
| Basic loss per share (cents per share) | (5.12) | (3.54) |
| Diluted loss per share (cents per share) | (5.12) | (3.54) |

DIVIDENDS

No dividend has been recommended since the end of the financial year.

RISK MANAGEMENT

The Group takes a proactive approach to risk management. The Directors are responsible for ensuring that risks and opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with these risks and opportunities.

The Group believes that it is crucial for Directors to be a part of this process, and as such has established a Risk Management, Safety, Health, Environment and Community Committee.

STATEMENT OF COMPLIANCE

The financial report is based on the guidelines in 'The Group 100 Incorporated Publication Guide to the Review of Operations and Financial Condition'.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Except as disclosed in the review of operations and subsequent events, there have been no significant changes in the state of affairs of the Group during the current financial year.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is bound by the requirements and guidelines of the relevant environmental protection authorities for the management and rehabilitation of mining tenements owned or previously owned by the Group. Mining tenements are being maintained and rehabilitated following these guidelines. There have been no known breaches of any of these conditions.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of the Company is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of the Group on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the ASX Corporate Governance Council's (the "Council's") recommendations, the Corporate Governance Statement must contain certain specific information and also report on the Group's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Group, together with the reasons why they have not been adopted. The Group's corporate governance principles and policies are therefore structured with reference to the Council's best practice recommendations.

The Group's corporate governance practices were in place throughout the financial year ended June 30, 2012, and complied with all of the Council's Principles and Recommendations except as noted below in relation to Recommendations 2.2 and 2.3.

Details of the Group's corporate governance practices are as follows.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1 – Functions reserved to the Board and delegated to Senior Executives

The Group has established the functions reserved to the Board and the functions delegated to senior executives. The functions reserved to the Board include:

- (1) oversight of the Group, including its control and accountability systems;
- (2) appointing and removing the Chief Executive Officer ("CEO") (or equivalent), including approving remuneration of the CEO and the remuneration policy and succession plans for the CEO;
- (3) ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer ("CFO") (or equivalent) and the Company Secretary;
- (4) input into the final approval of management's development of corporate strategy and performance objectives;
- (5) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- (6) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- (7) approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- (8) approving and monitoring financial and other reporting;
- (9) appointment and composition of committees of the Board;
- (10) on recommendation of the Audit Committee, appointment of external auditors; and
- (11) on recommendation of the Nomination and Remuneration Committee, initiating Board and Director evaluations.

The functions delegated to senior executives include:

- (1) implementing the Group's vision, values and business plan;
- (2) managing the business to agreed capital and operating expenditure budgets;
- (3) identifying and exploring opportunities to build and sustain the business;
- (4) allocating resources to achieve the desired business outcomes;
- (5) sharing knowledge and experience to enhance success;
- (6) facilitating and monitoring the potential and career development of the Group's people resources;
- (7) identifying and mitigating areas of risk within the business;
- (8) managing effectively the internal and external stakeholder relationships and engagement strategies;
- (9) sharing information and making decisions across functional areas;
- (10) determining the senior executives' position on strategic and operational issues; and
- (11) determining the senior executives' position on matters that will be referred to the Board.

Recommendation 1.2 – Performance evaluation of Senior Executives

The Group has established detailed written Key Responsibility Areas and Key Performance Indicators ("KPIs") for each senior executive. The performance of senior executives is periodically reviewed against their KPIs, at least once every 12 months, as part of the Group's formal performance review procedures. The Group has adopted a formal procedure whereby each senior executive meets with his/her direct supervisor to review performance against KPI's during the review period. The results of that review are recorded in writing for follow up during subsequent meetings, and for internal reporting purposes.

Induction procedures are in place to allow new senior executives to participate fully and actively in management decision making at the earliest opportunity.

Recommendation 1.3 – Performance evaluation of Senior Executives during the financial year

An evaluation of senior executives took place during the financial year. The evaluation was in accordance with the procedure disclosed in relation to Recommendation 1.2.

The matters reserved for the Board are disclosed in relation to Recommendation 1.1. In addition, these matters are summarised in the Group's Board Charter, a copy of which is available on the Group's website, www.lynascorp.com. The matters delegated to senior executives are disclosed in relation to Recommendation 1.1.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1 – A majority of the Board should be independent Directors

Recommendation 2.1 requires a majority of the Board to be independent Directors. The Council defines independence as being free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of unfettered and independent judgement.

The Board has a majority of independent Directors. In accordance with the definition of independence above, and the materiality thresholds set, D. Davidson, J. Klein, W. Forde, Z. Switkowski and K. Conlon are viewed as independent Directors. During the financial year Mr Forde acted as Chairman of the LampsOn Board, which oversees the construction of Phase 1 of the Rare Earths Project and received consultancy fees for those services, the Board does not view this as interfering with the exercise of unfettered and independent judgement. As Phase 1 of the Rare Earths Project has been completed, Mr Forde has not provided any consultancy service to the Group since June 30, 2012.

N. Curtis is the Executive Chairman and Chief Executive Officer of the Group. As the Chief Executive Officer of the Group, Mr Curtis is not an independent Director of the Group in accordance with the definition above.

Recommendation 2.2 – The Chair should be an independent Director

N. Curtis is the Executive Chairman and Chief Executive Officer of the Group. Mr Curtis has a 0.58% shareholding in the Group and the Board does not view this as interfering with the exercise of unfettered and independent judgement.

The Group is in development phase and the Board believes that Mr Curtis is the best person to perform both the roles of Chairman and Chief Executive Officer at this stage of the Group's growth.

The dual role of Mr Curtis is balanced by the presence of a clear majority of independent Directors on the Board. In addition Mr Forde acts as the lead independent Director of the Group. The role of the lead independent Director includes chairing meetings of the Board on matters where the Chairman is unable to act in that capacity, for example due to a lack of independence.

The Group announced at its 2011 AGM that Mr Curtis would stand for re-election as a Director in accordance with the Group's normal cycle of each Director standing for re-election every three years.

Recommendation 2.3 – The roles of Chair and Chief Executive officer should be separated

As disclosed in relation to Recommendation 2.2, N. Curtis acts as both Executive Chairman and Chief Executive Officer of the Group. The reasons why Mr Curtis performs that dual role are disclosed in relation to Recommendation 2.2.

Recommendation 2.4 – Nomination Committee

The Board has established a Nomination and Remuneration Committee. A copy of the Charter of the Nomination and Remuneration Committee is available from the Group's website, www.lynascorp.com.

The Nomination and Remuneration Committee consists only of independent Non-Executive Directors. During the year, the members of the Nomination and Remuneration Committee were Messrs. Davidson, Forde and Switkowski and Ms Conlon. Further details are provided in the Directors Meetings section of the Director's Report.

Recommendation 2.5 – Process for evaluating the performance of the Board

In accordance with the Charter of the Nomination and Remuneration Committee, the Committee is responsible for the:

- (1) evaluation and review of the performance of the Board against both measurable and qualitative indicators established by the Committee;
- (2) evaluation and review of the performance of individual Directors against both measurable and qualitative indicators established by the Committee;
- (3) review of and making of recommendations on the size and structure of the Board; and
- (4) review of the effectiveness and programme of Board meetings.

CORPORATE GOVERNANCE STATEMENT

Recommendation 2.6 – Additional information concerning the Board and Directors

In accordance with Recommendation 2.6, the Group provides the following additional information:

- (1) The skills and experience of each Director is set out in the Directors section of the Directors' Report.
- (2) The period of office of each Director is as follows:

| NAME | TERM IN OFFICE |
|---------------|------------------|
| N. Curtis | 10 years |
| J. Klein | 7 years |
| D. Davidson | 6 years 7 months |
| W. Forde | 4 years 5 months |
| Z. Switkowski | 1 year 5 months |
| K. Conlon | 8 months |

- (3) The reasons why Messrs Klein, Davidson, Forde and Switkowski and Ms Conlon are considered to be independent Directors are disclosed in relation to Recommendation 2.1.
- (4) There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Group's expense.
- (5) Details of the names of members of the Nomination and Remuneration Committee are disclosed in relation to Recommendation 2.4 and attendances at meetings are set out in the Directors Meetings section of the Directors' Report.
- (6) An evaluation of the performance of the Board, its committees and individual Directors took place during the financial year. That evaluation was in accordance with the process disclosed.
- (7) The Nomination and Remuneration Committee is responsible for providing the Board with advice and recommendations regarding the ongoing development of:
 - (a) a plan for identifying, assessing and enhancing Director competencies; and
 - (b) a succession plan that is designed to ensure that an appropriate balance of skills, experience and expertise is maintained on the Board.

The Charter of the Nomination and Remuneration Committee requires that prior to identifying an individual for nomination for Directorship, the Committee must evaluate the range of skills, experience and expertise currently existing on the Board to ensure that the Committee identifies the particular skills, experience and expertise that will most effectively complement the Board's current composition. If a new candidate is approved by the Nomination and Remuneration Committee, the appointment of that new candidate is ultimately subject to shareholder approval in accordance with the *Corporations Act 2001* and the Group's Constitution.

- (8) The Group is committed to promoting a culture that embraces diversity and recognises that employees at all levels of the Group may have domestic responsibilities. Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. There is a particular focus on gender diversity throughout the various levels of employment and management in the Group.
- (9) The Group is committed to identifying programmes that assist in the development of a broader pool of skilled and experienced Board candidates including:
 - (a) initiatives focused on skills development, such as executive mentoring programmes; and
 - (b) career advancement programmes to develop skills and experience that prepare employees for senior management and Board positions.
- (10) Pursuant to Article 13.2 of the Company's Constitution, one-third of the Directors of the Company (other than the Chief Executive Officer), or if their number is not a multiple of three, then such number as is appropriate to ensure that no Director other than alternate Directors and the Managing Director holds office for more than three years, must retire at each Annual General Meeting and being eligible may offer themselves for re-election. If a candidate is approved by the Nomination and Remuneration Committee for re-election, the re-election of that candidate is subject to shareholder approval at the Annual General Meeting.
- (11) The Board's policy for the nomination and appointment of Directors is summarised above. Further details are set out in the Charter of the Nomination and Remuneration Committee. A copy of the Charter of the Nomination and Remuneration Committee is available from the Group's website, www.lynascorp.com.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Recommendation 3.1 – Code of Conduct

The Group has established a code of conduct as to the:

- (1) practices necessary to maintain confidence in the Group's integrity;
- (2) practices necessary to take into account the Group's legal obligations and the expectations of stakeholders; and
- (3) responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A copy of the code of conduct is available from the Group's website, www.lynascorp.com.

Conflict Of Interest Policy

The Group has established a "conflict of interest" policy to:

- (1) protect the integrity of the decision-making processes within the Group by avoiding ethical, legal, financial or other conflicts of interest;
- (2) establish internal procedures so that all employees understand their obligation to avoid actual, potential or perceived conflicts of interest;
- (3) provide guidance to employees for dealing with any conflicts of interest in an open and transparent manner;
- (4) provide guidance to employees for recognising and reporting on related party transactions; and
- (5) establish internal procedures to ensure that related party transactions are referred to the Group's shareholders where required.

A copy of the conflict of interest policy is available from the Group's website, www.lynascorp.com.

Recommendation 3.2 – Diversity Policy

The Group has established a policy concerning diversity. The Group recognises the need to set diversity measures in each of its operating locations taking into account the differing diversity issues within each geographic location in which it operates. A copy of the "Diversity Policy" is available from the Group's website, www.lynascorp.com. The policy includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

Recommendation 3.3 – Measurable Objectives for Achieving Gender Diversity

Below are the measurable objectives set by the Board for achieving gender diversity together with the progress made in achieving those objectives:

- (1) Ensuring that recruitment of employees and Directors is made from a diverse pool of qualified candidates. Where appropriate, a professional recruitment firm shall be engaged to select a diverse range of suitably qualified candidates.
The Group continues to ensure that professional recruitment firms provide a broad selection of suitably qualified candidates together with prioritising local employment in the areas in which it operates.

- (2) Ensuring that there are appropriate proportions of women or other groups of individuals within areas of the Group.
The Group recognises that further work can be done across all businesses to ensure that there are appropriate proportions of women and other groups of individuals. The Group believes that its current diversity levels are good compared to other companies in its industry. The Group's policies of favouring local employment and promoting education in its local communities will continue to contribute to the diversity of its workforce.

- (3) Identifying programmes that assist in the development of a broader pool of skilled and experienced Board candidates including:
 - (a) initiatives focused on skills development, such as executive mentoring programmes; and
 - (b) career advancement programmes to develop skills and experience that prepare employees for senior management and Board positions.

The Group has in place a formal talent management process including mentoring and succession planning.

- (4) Taking action against inappropriate workplace behaviour and behaviour that is inconsistent with the diversity objectives of the Group.
The Group has in place a Code of Conduct which defines inappropriate behaviour and the potential resultant disciplinary actions. A formal employee grievance process has been established to assist in identifying issues such as inappropriate workplace behaviour and behaviour that is inconsistent with the values and diversity objectives of the Group.

CORPORATE GOVERNANCE STATEMENT

Recommendation 3.4 – Proportion of Women Employees

The Group provides the following statistics on gender diversity as at July 23, 2012 (prior year: July 31, 2011):

- (1) Proportion of women employees in the whole organisation: 19.7% (2011 – 18.9%)
- (2) Proportion of women in senior management positions: 20.5% (2011 – 21.9%)
- (3) Proportion of women on the Board: 17.0% (2011 – 0%)

Recommendation 3.5 – Documents on Company Website

Copies of the Code of Conduct and the Diversity Policy are available from the Group's website, www.lynascorp.com

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1 – Audit Committee

The Group has established an Audit Committee.

Recommendation 4.2 – Structure of the Audit Committee

The Group's Audit Committee complies with each of the requirements of Recommendation 4.2 as follows:

- (1) The Audit Committee consists only of Non-Executive Directors. During the financial year, the members of the Audit Committee were Messrs. Forde, Klein and Switkowski and Ms Conlon. Further details are provided in the Directors Meetings section of the Directors' Report.
- (2) All of the members of the Audit Committee are independent Directors.
- (3) The Audit Committee is chaired by Mr Forde, who is an independent Director and who is not Chair of the Board.
- (4) The Audit Committee has four members.

Recommendation 4.3 – Audit Committee Charter

The Group has adopted an Audit Committee Charter. A copy of the Audit Committee Charter is available from the Group's website, www.lynascorp.com.

Recommendation 4.4 – Additional information concerning the Audit Committee

In accordance with Recommendation 4.4, the Group provides the following additional information concerning the Audit Committee:

- (1) Details of the members of the Audit Committee and their qualifications are as set out above under Recommendation 4.2 – Structure of the Audit Committee and in the Directors section of the Directors' Report.
- (2) Three meetings of the Audit Committee were held during the financial year.
- (3) The Audit Committee is responsible for reviewing and recommending to the Board the appointment, remuneration and terms of engagement of the external auditors.
- (4) In accordance with the *Corporations Act 2001*, if an external audit engagement partner plays a significant role in the audit of the Group for five successive financial years, that partner is not eligible to play a significant role in the audit of the Group for a later financial year unless the partner has not played a significant role in the audit of the Group for at least two successive financial years.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1 – ASX Listing Rule Disclosure Requirements

The Group has established a written policy designed to ensure:

- (1) compliance with ASX Listing Rules Disclosure; and
- (2) accountability at a senior executive level for that disclosure.

Recommendation 5.2 – Continuous Disclosure Policy

A copy of the Group's Continuous Disclosure Policy is available from the Group's website, www.lynascorp.com.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1 – Shareholder Communications Policy

The Group has adopted a Shareholder Communications Policy for:

- (a) promoting effective communication with shareholders; and
- (b) encouraging shareholder participation at AGMs.

A copy of the Group's Shareholder Communications Policy is available from the Group's website, www.lynascorp.com.

Recommendation 6.2 – Availability of Shareholder Communications Policy

As noted above, a copy of the Group's Shareholder Communications Policy is available from the Group's website, www.lynascorp.com.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Recommendation 7.1 – Risk Management Policies

The Group has established policies for the oversight and management of its material business risks as follows:

- (1) The Group has adopted a Risk Management Policy and a Risk Management Framework for oversight and management of its material business risks. Those documents clearly describe the roles and accountabilities of the Board, the Risk Management, Safety, Health, Environment and Community Committee, the Audit Committee and management.
- (2) The Risk Management, Safety, Health, Environment and Community Committee oversees the Group's material business risks.
- (3) The risk management, safety, health, environment and community departments of the Group manage the Group's material business risks.
- (4) The Audit Committee oversees financial risks pursuant to the Audit Committee Charter. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.
- (5) The finance department of the Group manages financial risks.
- (6) The Group has adopted the following policies for the oversight and management of material business risks: Risk Management Policy, Environmental Policy, Community Policy and Occupational Health and Safety Policy.

Copies of the following documents referred to in this section are available from the Group's website, www.lynascorp.com.

- (1) Risk Management, Safety, Health, Environment and Community Committee Charter;
- (2) Risk Management Policy;
- (3) Audit Committee Charter;
- (4) Environmental Policy;
- (5) Community Policy; and
- (6) Occupational Health and Safety Policy.

The categories of risk managed by the Group include operational, environmental, sustainability, compliance, strategic, ethical, reputational, technological, quality, human capital, financial reporting and market-related risks.

Recommendation 7.2 – Risk Management and Internal Control System

The Board has required management to design and implement a Risk Management and Internal Control System to manage the Group's business risks.

The Board has required management to report to it on whether those risks are being managed effectively.

Management has reported to the Board as to the effectiveness of the Group's management of its material business risks.

Recommendation 7.3 – Statement from the Chief Executive Officer and the Chief Financial Officer

The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.

Recommendation 7.4 – Additional information concerning Risk Management

In accordance with Recommendation 7.4, the Group provides the following additional information concerning Risk Management:

- (1) The Board has received the report from management under Recommendation 7.2.
- (2) The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer under Recommendation 7.3.
- (3) As noted above in relation to Recommendation 7.1, copies of the Group's policies on risk oversight and management of material business risks are available from the Group's website, www.lynascorp.com.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1 – Remuneration Committee

The Group has established a Nomination and Remuneration Committee.

Recommendation 8.2 – Structure of the Remuneration Committee

The Nomination and Remuneration Committee consists only of independent Non-Executive Directors. The members of the Nomination and Remuneration Committee are Messrs. Davidson, Forde and Switkowski and Ms Conlon. Further details are provided in the Directors Meetings section of the Directors' Report.

The Nomination and Remuneration Committee is chaired by David Davidson, who is an independent Director and who is not Chair of the Board.

Recommendation 8.3 – Remuneration of Executive Directors, Executives and Non-Executive Directors

The remuneration of Executive Directors and senior executives during the financial year comprised the following:

- (1) Fixed remuneration, superannuation payments and termination payments.
- (2) Share options issued for the benefit of the relevant individuals pursuant to the Group's employee share option plan.
- (3) Non-monetary benefits.

Details of the remuneration of Executive Directors and senior executives during the financial year are set out in the Remuneration Report section of the Directors' Report.

The remuneration of Non-Executive Directors during the financial year comprised only of cash fees and superannuation payments.

Details of the remuneration of Non-Executive Directors during the financial year are set out in the Remuneration Report section of the Directors' Report.

The fixed remuneration paid to the Executive Director and senior executives is clearly distinguished from the cash fees paid to Non-Executive Directors.

The Group complies with Recommendation 8.3 by clearly distinguishing the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives. During the financial year ended June 30, 2012 no options were issued to Non-Executive Directors.

Recommendation 8.4 – Additional information concerning Remuneration

In accordance with Recommendation 8.4, the Group provides the following additional information concerning Remuneration:

- (1) The Nomination and Remuneration Committee consists only of independent Non-Executive Directors. The members of the Nomination and Remuneration Committee were Messrs. Davidson, Forde and Switkowski and Ms Conlon. Further details are provided in the Directors Meetings section of the Directors' Report. There were three formal meetings of the Committee during the year. In addition, there were several informal meetings.
- (2) The Group has no schemes for retirement benefits for Non-Executive Directors, other than superannuation.
- (3) A copy of the Charter of the Nomination and Remuneration Committee is available from the Group's website, www.lynascorp.com.

In accordance with the Group's share trading policy, Directors and employees must not at any time enter into transactions in associated products which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes. A copy of the share trading policy is available from the Group's website, www.lynascorp.com.

SHARE OPTIONS AND PERFORMANCE RIGHTS

As at year end the Group had on issue the following options and performance rights to acquire ordinary fully paid shares:

| GRANT DATE | NUMBER | DATE VESTED AND EXERCISABLE | EXPIRY DATE | EXERCISE PRICE | VALUE PER OPTION AT GRANT DATE |
|---------------------|-------------------|-----------------------------------|--------------------|----------------|--------------------------------|
| August 20, 2007 | 50,000 | August 24, 2010 | August 24, 2012 | \$0.81 | \$0.49 |
| March 19, 2008 | 500,000 | December 31, 2010 | December 31, 2012 | \$1.06 | \$0.53 |
| July 21, 2008 | 1,000,000 | July 21, 2011 | July 21, 2013 | \$0.98 | \$0.52 |
| September 24, 2008 | 14,200,000 | September 24, 2011 | September 24, 2013 | \$0.66 | \$0.33 |
| September 24, 2008 | 2,700,000 | September 24, 2011 | September 24, 2013 | \$0.81 | \$0.34 |
| January 5, 2009 | 1,100,000 | January 5, 2012 | January 5, 2014 | \$0.16 | \$0.16 |
| July 10, 2009 | 200,000 | September 24, 2011 | September 24, 2013 | \$0.66 | \$0.08 |
| October 8, 2009 | 24,500,000 | October 8, 2012 | October 8, 2014 | \$0.66 | \$0.23 |
| July 1, 2010 | 1,000,000 | July 1, 2013 | July 1, 2015 | \$0.66 | \$0.24 |
| August 19, 2010 | 10,500,000 | August 19, 2013 | August 19, 2015 | \$1.15 | \$0.34 |
| August 19, 2010* | 1,608,618 | August 19, 2013 | August 19, 2015 | \$0.00 | \$0.96 |
| October 1, 2010 | 1,000,000 | October 1, 2013 | October 1, 2015 | \$1.60 | \$0.48 |
| August 19, 2010 | 12,900,000 | August 19, 2013 | August 19, 2015 | \$1.15 | \$0.66 |
| May 18, 2011 | 200,000 | October 1, 2011 | December 31, 2015 | \$2.36 | \$1.12 |
| June 6, 2011* | 420,000 | June 6, 2014 | June 6, 2016 | \$0.00 | \$2.30 |
| November 30, 2011 | 4,000,000 | September 22, 2014 ⁽¹⁾ | September 22, 2016 | \$1.69 | \$0.40 |
| September 23, 2011 | 4,145,000 | September 22, 2014 | September 22, 2016 | \$1.69 | \$0.55 |
| September 22, 2011* | 30,232 | September 22, 2012 | September 22, 2014 | \$0.00 | \$1.41 |
| September 22, 2011* | 20,245 | September 22, 2013 | September 22, 2015 | \$0.00 | \$1.41 |
| September 22, 2011* | 10,323 | September 22, 2014 | September 22, 2016 | \$0.00 | \$1.41 |
| September 22, 2011* | 945,000 | September 22, 2014 | September 22, 2016 | \$0.00 | \$1.34 |
| December 12, 2011 | 2,000,000 | December 12, 2014 | December 12, 2016 | \$1.57 | \$0.51 |
| Total | 83,029,418 | | | | |

(1) The options issued to N.Curtis were initially approved by the Board on September 23, 2011 and then subsequently approved by the shareholders of the Company at the AGM on November 30, 2011.

* Denotes Performance Rights which are issued on the same terms as Options, except there is no consideration payable on exercise.

SHARES ISSUED AS A RESULT OF EXERCISE OF OPTIONS

During the financial year 1,382,218 options were exercised as set out in note 26 of the 'notes to the financial statements'.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the end of the financial year, the Group has paid a premium in respect of a contract insuring all Directors and Officers of the Group against liabilities incurred as a Director or Officer of the Group, to the extent permitted by the *Corporations Act 2001*, that arise as a result of the following:

- (a) a wilful breach of duty; or
- (b) a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid was \$84,292. This amount is not included as part of the Directors remuneration in note 28 of the 'notes to the financial statements'.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 7 of the 'notes to the financial statements'. The Directors are satisfied that the provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

DIRECTORS' REPORT

DIRECTORS MEETINGS

Committee membership

As at the date of this report, the Group has an Audit Committee, a Nomination and Remuneration Committee, and a Risk Management, Safety, Health, Environment and Community Committee of the Board of Directors.

Directors acting on the committees of the Board during the year were:

| AUDIT | NOMINATION AND REMUNERATION | RISK MANAGEMENT, SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY |
|-------------------------|-----------------------------|--|
| W. Forde ^(c) | D. Davidson ^(c) | Z. Switkowski ^(c) |
| K. Conlon* | K. Conlon* | N. Curtis |
| J. Klein | W. Forde | D. Davidson |
| Z. Switkowski | Z. Switkowski | J. Klein |

(c) Designates the Chair of the Committee.

* Appointed as a Director on November 1, 2011.

As summarised in the Corporate Governance Statement, the Audit Committee is comprised of independent Directors.

The number of Directors' meetings held during the year and the number of meetings attended by each Director was as follows:

| MEETINGS OF THE BOARD AND COMMITTEES | | | | |
|--------------------------------------|--------------------|------------------|-----------------------------|--|
| | BOARD OF DIRECTORS | AUDIT | NOMINATION AND REMUNERATION | RISK MANAGEMENT, SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY |
| Number of meetings held: | 11 | 3 | 3 | 2 |
| Number of meetings attended: | | | | |
| N. Curtis | 11 | – | – | 2 |
| W. Forde | 11 | 3 | 3 | – |
| K. Conlon | 8 ⁽¹⁾ | 2 ⁽¹⁾ | 2 ⁽¹⁾ | – |
| D. Davidson | 11 | – | 3 | 2 |
| J. Klein | 11 | 2 | – | 2 |
| Z. Switkowski | 10 | 3 | 2 | 1 |

(1) K. Conlon was appointed as a Director, and a member of the Audit and Nomination and Remuneration Committees on November 1, 2011.

COMPETENT PERSON'S STATEMENT

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Brendan Shand, who is a member of The Australasian Institute of Mining and Metallurgy. Brendan Shand is an employee of the Group and has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is 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'. Brendan Shand consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, Ernst & Young, which follows the Directors' Declaration.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, in relation to the "rounding off" of amounts. Amounts in the Directors' Report and Financial Report have been rounded off in accordance with the Class Order relief to the nearest thousand dollars, or in certain cases, the nearest dollar.

REMUNERATION REPORT – AUDITED

Dear Shareholder,

I am pleased to present our Remuneration Report for 2012. I believe it reflects the Group's ongoing commitment to ensuring that our remuneration strategy aligns with our business objectives, performance and delivery of shareholder value.

The Nomination and Remuneration Committee (the "Committee") believes that shareholder value is best created by attracting and retaining the best and brightest talent who are focused on the achievement of our strategic business objectives. The Group is focused on aligning remuneration and Group performance, in the context of a business that is transitioning from development to operations. To facilitate this, the Group's remuneration philosophy is underpinned by market-competitive remuneration with rewards differentiated based on performance.

Our remuneration framework continues to evolve as the business matures. For example, in 2011, we introduced a performance hurdle (net positive operating cash flow) into our Long-Term Incentive ("LTI") plan and these hurdles were further enhanced in 2012 to include project milestones and relative Total Shareholder Return ("TSR").

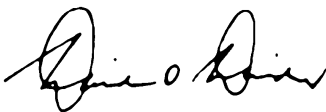
In the coming year, we are introducing a formal Short-Term Incentive ("STI") plan to further link pay with performance. The introduction of the STI plan, in the year ending June 30, 2013, reflects the transition of the Group from development phase to operational phase, and it recognises that we have important short-term goals including successful commissioning and ramp up, production volumes, costs and safety, community programmes and meeting appropriate cash flow targets. The STI component will be in substitution for (and not in addition to) portions of remuneration that were previously paid as fixed pay or LTIs. Therefore, it is intended that total remuneration not be increased due to the introduction of a STI.

Other key elements of this year's remuneration report include:

- fixed pay is targeted at the median level (50th percentile) or better of relevant peer groups, and total remuneration (that is, fixed plus variable pay) is targeted at the 75th percentile.
- the LTI grant for the Executive Chairman and Executives includes relative TSR and project milestone performance hurdles. This will strengthen the link between Group performance and the rewards achieved by our Executives.
- in 2012, the only remuneration paid to Non-Executive Directors was fees (i.e. no options or similar benefits were issued).

We hope that the report will assist your understanding of our remuneration objectives and policies. We welcome your feedback on how we can further improve the remuneration report in the future.

Yours sincerely,



David O Davidson
Chairman
Nomination and Remuneration Committee

REMUNERATION REPORT – AUDITED

This report sets out the remuneration arrangements of Directors and KMP of the Group in accordance with the *Corporations Act 2001* and its regulations.

A. EXPLANATION OF KEY TERMS

The following table explains some key terms used in this report:

| | |
|---|---|
| Employee Share Trust ("EST") | Options and Performance Rights that are issued for the benefit of selected Executives are issued for value to the EST. At the same time, the EST makes an advance to the Executive equivalent to the value of the options and/or performance rights to enable the Executive to subscribe for an equivalent number of units in the EST. There is no cash impact for the Group arising from those arrangements. |
| Executive | The Executive Chairman, the President and Chief Operating Officer ("COO"), the Chief Financial Officer ("CFO"), the Group's General Counsel and Company Secretary, the Executive Vice President People and Culture and the Executive Vice President Strategy and Corporate Communication (until August 31, 2011). |
| Key Management Personnel ("KMP") | Those people who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group and the Executive. |
| Long-Term Incentive ("LTI") | LTI is the long-term incentive component of Total Remuneration. LTI usually comprises Options or Performance Rights with a three year vesting period that are subject to specified vesting conditions. Further details of the vesting conditions are in Section D. Options and Performance Rights cannot be exercised unless the vesting conditions are satisfied. |
| Option | An Option is a right to purchase a share in the future, subject to the relevant Executive paying an exercise price. Options are issued for the benefit of selected Executives as part of their LTI remuneration. The exercise price is usually set at a premium to the volume weighted average price of the Company's shares on the ASX over the five days prior to the date of offer of the Options. |
| Performance Right | A Performance Right is similar to an Option, except that no "exercise price" is payable when a Performance Right is exercised. |
| Short-Term Incentive ("STI") | STI is the short-term incentive component of Total Remuneration. STI usually comprises a cash payment that is only received by the Executive if specified annual goals are achieved. |
| Total Remuneration | Total Remuneration comprises fixed pay (including superannuation) plus STI plus LTI. |
| Total Shareholder Return ("TSR") | TSR is the total return from a share to an investor (i.e. capital gain plus dividends). |

The KMP, at the date of this report, are as follows:

NON-EXECUTIVE DIRECTORS:

| | |
|---------------|---|
| W. Forde | Lead Independent Director, Non-Executive Director |
| K. Conlon | Non-Executive Director (appointed November 1, 2011) |
| D. Davidson | Non-Executive Director |
| J. Klein | Non-Executive Director |
| Z. Switkowski | Non-Executive Director |

EXECUTIVES:

| | |
|--------------|--|
| N. Curtis | Executive Chairman |
| A. Arnold | General Counsel and Company Secretary |
| G. Barr | Executive Vice President People and Culture |
| L. Catanzaro | Chief Financial Officer (appointed December 12, 2011) |
| E. Noyrez | President and Chief Operating Officer |
| M. James | Executive Vice President – Strategy and Corporate Communication (resigned August 31, 2011) |
| J.G. Taylor | Chief Financial Officer (ceased role on December 12, 2011) |

B. OUR REMUNERATION PHILOSOPHY

The Group's objective is to provide maximum stakeholder benefit through the attraction, retention and motivation of a high quality Board and Executive management team, by remunerating Directors and Executives fairly and appropriately, consistent with relevant employment market conditions. We align rewards to sustainable value through creating links between the achievement of organisational goals and the non-fixed elements of individual remuneration.

To help the Group achieve this objective, the Committee links the nature and amount of the remuneration paid to the Executives to the Group's financial and operational performance.

The Group also uses external benchmarks to set the total remuneration opportunity for the KMP. Generally speaking, fixed pay will be targeted at the median level (50th percentile) or better of relevant peer groups, and total remuneration will be targeted at the 75th percentile. When comparing total remuneration to market benchmarks and reference group data as a basis on which to determine total remuneration, the Group considers three remuneration elements: annual fixed pay ("FP"), target short-term incentive and long-term incentive.

The peer group used to benchmark remuneration consisted of 12 companies with similar operating models and size (based on the Group's projected size following completion of Phase 2 of the Rare Earths Project). They were selected based on the criteria of comparable market capitalisation and projected revenue. Some companies fell above or below the Group's Phase 2 revenue estimates, however it is reasonably expected that as the Group grows to its Phase 2 levels, the peer group will grow as well. The peer group should therefore provide a consistent view of the market for Executive talent over the next few years.

The Committee received advice from Mercer in setting the appropriate levels of total remuneration for Executives. Fees paid during the year totalled \$53,191 (2011: \$162,607). This work was completed by June 30, 2012.

C. ROLE OF THE NOMINATION AND REMUNERATION COMMITTEE

The Board is responsible for determining and reviewing remuneration arrangements for Directors and Executives. The Committee assesses, on a regular basis, the appropriateness of the nature and amount of KMP remuneration. In fulfilling these duties and to support effective governance processes, the Committee:

- consists only of independent Non-Executive Directors;
- has unrestricted access to management and any relevant documents; and
- engages external advisers for assistance to the extent appropriate and necessary (e.g. detailing market levels of remuneration).

From June 2011, PricewaterhouseCoopers was appointed by the Committee as its lead external adviser.

Remuneration structure

In line with best practice corporate governance, the remuneration structure for Non-Executive Directors is separate and distinct from that of Executives.

D. OUR EXECUTIVE REMUNERATION FRAMEWORK

Objective

The Group aims to remunerate its Executives at a level commensurate with their position and responsibilities within the Group so as to:

- reward them for the Group, business unit and individual performance against agreed targets set by reference to appropriate benchmarks;
- align their interests with those of our shareholders;
- link their reward with the Group's strategic goals and performance; and
- provide total remuneration that is competitive by market standards.

Structure

Executive remuneration of the Group consists of the following key elements:

- fixed remuneration (base salary and superannuation);
- variable remuneration:
 - short-term incentives; and
 - long-term incentives.

The Group provides no retirement benefits, other than statutory superannuation or defined benefit pension payments.

Further, we explain how the different elements are calculated.

REMUNERATION REPORT – AUDITED

Fixed remuneration

Fixed remuneration consists of base salary and superannuation. It is determined on an individual basis, taking into account external market benchmarks and individual factors such as capability, experience, responsibility and accountability. Fixed remuneration is targeted at the median level (50th percentile) or better of relevant peer group.

Variable remuneration

The Board exercises discretion in relation to the payment of bonuses, Options and other incentive payments, based on the overall performance of the Group and of the individual during the year.

In summary:

| | |
|---|---|
| Fixed remuneration = base + super | Variable remuneration = STIs + LTIs |
|---|---|

Short-term incentives

Prior to June 30, 2012 the Board had only a discretionary STI policy used to reward exceptional performance.

From July 1, 2012 we will adjust the mix of fixed and variable remuneration by introducing a formal STI plan. Under the STI plan, a higher portion of Executive remuneration will be dependent on performance. The introduction of the STI plan reflects the transition of the Group from development phase to operational phase. It recognises that we have important short-term goals over the next 12 months based on successful commissioning and ramp up of the LAMP, meeting specified production volumes and customer specifications, managing our operating costs while continuing to meet our standards of safety, community development and care and meeting appropriate cash flow targets.

Long-term incentives

Options and Performance Rights are provided to KMP and other selected employees to provide greater alignment to our strategic business objectives. They have three year vesting periods, and are exercisable between three and five years after they were granted provided the Executive is still employed with the Group (unless this requirement, in limited circumstances is waived by the Board), and any relevant performance conditions are achieved.

The following table summarises the performance conditions attached to Options and Performance Rights issued during the financial years ended June 30, 2012 and June 30, 2013 (in addition to the requirement that the Executive is still employed by the Group at the end of a three year vesting period):

| | VESTING SCHEDULE | FOR GRANTS MADE IN FY2012 | FOR GRANTS TO BE MADE IN FY2013 |
|---|--|---|--|
| TSR hurdle (performance against ASX 100 companies) (50%) | 50% of the TSR portion will vest for: | 50th percentile performance | 51st percentile performance |
| | 100% of the TSR portion will vest for: | 75th percentile performance | 76th percentile performance |
| | Pro-rata vesting will occur between each of the above points | | |
| REO capacity hurdle (50%) | n/a | Lynas Kuantan plant must have demonstrated capacity to produce 22,000 tonnes per annum of REO over at least a four week period during last calendar quarter of 2013 | Lynas Kuantan plant must have demonstrated capacity to produce at a rate equivalent to 22,000 tonnes per annum of REO before the end of calendar year 2013 |

The Board considered that having the Lynas Kuantan plant demonstrate the capacity to produce 22,000 tonnes per annum of REO is currently the most important measure of long-term success for the Group. The reference to “before the end of calendar year 2013” was considered by the Board to be appropriate in light of the regulatory delays in Malaysia which have delayed the commissioning of Phase 1 of the Lynas Kuantan plant.

During the year, the Board approved a change to the Group’s employee option plan and employee performance rights plan. From April 2012 onwards, any Options or Performance Rights will not automatically vest during a takeover bid period. Options and Performance Rights will automatically vest if a change of control actually occurs in respect of the Company, unless the Board in its discretion resolves otherwise.

In accordance with the Group’s policy that governs trading of the Company’s shares by Directors and employees, Directors and Executives are not permitted to hedge their Options or Performance Rights before the Options vest.

E. NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

Remuneration of Non-Executive Directors (“NEDs”) is set at a level that enables the Group to attract and retain people of the highest calibre at a cost which is acceptable to shareholders. In setting remuneration, the Group takes into account, among other factors:

- fees paid to NEDs of companies of a similar size/industry;
- the time commitment required for NEDs to properly fulfil their duties;
- the risks and responsibilities associated with the roles; and
- the relevant commercial and industry experience required.

When undertaking the annual review process, the Board considers advice from external consultants where required, as well as fees paid to NEDs of comparable companies.

Structure

The Company’s Constitution and the ASX Listing Rules specify that the maximum aggregate remuneration of NEDs must be determined from time to time by a general meeting. The last determination was at the AGM held on November 24, 2010, and an aggregate pool of \$750,000 was approved. The aggregate fees for NEDs for the period did not exceed this amount.

Components of Non-Executive Director Remuneration

Each NED receives a fee for being a Director of the Company, and fees for committees on which they sit. The NED fees, including committee fees, include statutory superannuation contributions where appropriate.

Base Fees

NED fees are determined by the Committee and fall within the aggregate amount approved by shareholders. In 2011 the Committee engaged Egon Zender to provide advice on the appropriate levels for Non-Executive Directors’ fees and Committee fees. Fees paid to Egon Zender during the year totalled \$125,988 (2011: \$219,991). As a result of this review the level of NED fees and Committee fees were increased effective February 1, 2011 (but did not exceed the NED aggregate pool).

Base fees for NEDs for the financial year ended June 30, 2012 were:

- Lead Independent Director \$125,000 per annum; and
- Non-Executive Director \$100,000 per annum.

Committee Fees

| BOARD COMMITTEE | CHAIR \$ | MEMBER \$ |
|--|-------------|--------------|
| Audit Committee | 30,000 | 15,000 |
| Risk Management, Safety, Health, Environment and Community Committee | 25,000 | 12,500 |
| Nomination and Remuneration Committee | 25,000 | 12,500 |

It is considered good governance for NEDs to have a stake in the Company, and the Board has long encouraged NEDs to hold shares in the Group. The Group announced at the 2010 AGM that it will not offer Options to NEDs in the future.

The remuneration for NEDs for the years ended June 30, 2012 and June 30, 2011 is set out in Section H of this report.

F. SERVICE AGREEMENTS

The Committee's policy is that only the Executive Chairman may enter into a fixed-term employment agreement with the Group. The Executive Chairman has signed a fixed-term agreement of reasonable commercial conditions. Its key provisions are:

- the agreement expires on July 31, 2013;
- Mr Curtis must give three months written notice of an intention to resign. On resignation any unvested Options may be forfeited subject to the discretion of the Board;
- the Group may terminate the agreement by giving six months written notice;
- upon the Group terminating the agreement, the Group will pay a benefit for past services equal to the lower of:
 - (a) the amount permitted under Part 2D.2 of the *Corporations Act 2001*;
 - (b) the balance of Mr Curtis' salary over the greater of (a) one year, or (b) the remaining term of the agreement at the time of termination;
- In accordance with the *Corporations Act 2001* and the formula specified above, the maximum termination payment payable to Mr Curtis is equal to his base salary for one year; and
- the Group may terminate the agreement at any time without notice if serious misconduct has occurred.

Employment conditions for all other KMPs are on the following terms:

- each may give three month's written notice of their intention to resign;
- the Group may terminate the employment by providing six month's written notice;
- on resignation or termination all unvested Options will be forfeited subject to the discretion of the Board; and
- the Group may terminate employment at any time without notice if serious misconduct has occurred.

G. LINKING REMUNERATION AND GROUP PERFORMANCE

Prior to the financial year ended June 30, 2011, KMP remuneration (including any component that consisted of securities in the Group) was not formally linked to Group performance. The reason behind this approach was that as the Group was in development phase it was not appropriate to link remuneration to factors such as profitability or share price. This approach has changed now that the Group is transitioning into its operational phase. In the financial year ended June 30, 2011, 50% of the LTI grant was subject to the achievement of a net positive operating cash flow hurdle for the six months ending December 31, 2012. In the financial year ended June 30, 2012, LTI grants are subject to TSR and project milestone hurdles related to REO capacity, as detailed in Section D above.

Fixed pay will be targeted at the median level (50th percentile) or better of relevant peer group, and total remuneration will be targeted at the 75th percentile. Individual performance reviews link total remuneration to individual and business unit performance. In addition, from July 1, 2012 the mix of fixed and variable remuneration has been adjusted by the introduction of a formal STI plan. Under the STI plan, a higher portion of Executive remuneration is dependent on performance. The introduction of the STI plan reflects the transition of the Group from development phase to operational phase, and it recognises that we have important short-term goals over the next 12 months based on successful commissioning and ramp up, production volumes, cash flow, costs and safety and community programmes. The STI component is intended to be in substitution for (and not in addition to) portions of remuneration that were previously paid predominantly as fixed pay or LTI.

For further context we provide a comparison of KMP remuneration over the last five years against the Company's average and closing share price over the same period. The increase in remuneration from one year to the next reflects the fact that additional Directors and Executives joined the Group to facilitate the transition from a development entity to an operating entity.

REMUNERATION REPORT – AUDITED

| FINANCIAL YEAR ENDED | JUNE 30, 2008 | JUNE 30, 2009 | JUNE 30, 2010 | JUNE 30, 2011 | JUNE 30, 2012 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Number of KMPs | | | | | |
| Executive Director | 1 | 1 | 1 | 1 | 1 |
| Non-Executive Directors | 3 | 3 | 3 | 4 | 5 |
| Other KMP | 3 | 3 | 4 | 6 | 4 |
| Cash Remuneration Paid (\$) | | | | | |
| Executive Director | 432,640 | 626,053 | 890,000 | 585,920 | 657,932 |
| Non-Executive Directors | 217,961 | 254,587 | 225,509 | 461,832 | 680,223 |
| Other KMP ⁽¹⁾ | 1,297,765 | 1,501,753 | 2,146,212 | 2,331,786 | 2,279,343 |
| Total Cash Remuneration Paid⁽²⁾ | 1,948,366 | 2,382,393 | 3,261,721 | 3,379,538 | 3,617,498 |
| Share-based remuneration (\$)⁽³⁾ | | | | | |
| Executive Director | 1,366,667 | 1,789,338 | 2,472,449 | 3,218,720 | 3,354,243 |
| Non-Executive Directors | – | 306,001 | 510,933 | 1,337,722 | 1,209,861 |
| Other KMP | 1,177,183 | 2,076,313 | 2,146,587 | 3,093,634 | 2,839,426 |
| Total share-based remuneration | 2,543,850 | 4,171,652 | 5,129,969 | 7,650,076 | 7,403,530 |
| Total other remuneration (\$)⁽⁴⁾ | 147,698 | 156,941 | 308,632 | 767,923 | 743,142 |
| Total (\$) | 4,639,914 | 6,710,986 | 8,700,322 | 11,797,537 | 11,764,170 |
| Annual average share price | \$1.23 | \$0.52 | \$0.55 | \$1.66 | \$1.30 |
| Closing share price at financial year end | \$1.30 | \$0.47 | \$0.55 | \$1.98 | \$0.85 |
| Earnings Per Share (EPS) | (\$3.65) | (\$4.50) | (\$3.23) | (\$3.54) | (\$5.12) |
| Diluted EPS | (\$3.65) | (\$4.50) | (\$3.23) | (\$3.54) | (\$5.12) |
| Loss before tax ('000) | (\$21,481) | (\$29,282) | (\$43,041) | (\$57,288) | (\$97,879) |
| Loss after tax ('000) | (\$21,481) | (\$29,282) | (\$43,041) | (\$59,086) | (\$87,770) |

(1) Other KMP encompass the Executives of the Group (excluding the Executive Chairman). During the period J.G. Taylor ceased as the Group CFO and a member of the KMP on December 12, 2011 as a result of the appointment of L. Catanzaro who was appointed as the Group CFO on this date. In addition M. James resigned from the Group on August 31, 2011.

(2) Total cash remuneration encompasses cash salary and fees and other short-term employee benefits.

(3) Represents the cumulative impact of amortising the accounting value of Options and Performance Rights over their three-year vesting period.

(4) Other remuneration encompasses non-monetary benefits, superannuation and other pension payments.

REMUNERATION REPORT – AUDITED

H. DETAILS OF REMUNERATION

YEAR ENDED JUNE 30, 2012

| NAME | SHORT-TERM BENEFITS | | | POST EMPLOYMENT BENEFITS | | LONG-TERM BENEFITS | | TOTAL |
|-----------------------------|------------------------|------------------------------------|-----------------------|--------------------------|--|----------------------|--------------------------------|------------|
| | CASH SALARY AND FEES | OTHER SHORT-TERM EMPLOYEE BENEFITS | NON-MONETARY BENEFITS | TERM-INATION PAYMENTS | SUPER-ANNUATION AND OTHER PENSION PAYMENTS | SHARE-BASED PAYMENTS | PERFORMANCE RELATED % OF TOTAL | |
| Executive Director | | | | | | | | |
| N. Curtis | 657,932 | – | 17,622 | – | 4,366 | 3,354,243 | 83% | 4,034,163 |
| Non-Executive Directors | | | | | | | | |
| K. Conlon ⁽¹⁾ | 85,000 | – | – | – | – | – | 0% | 85,000 |
| D. Davidson | 35,610 | – | 51,890 | – | 50,000 | 370,858 | 73% | 508,358 |
| W. Forde | 303,670 ⁽²⁾ | – | – | – | 13,830 | 468,145 | 60% | 785,645 |
| J. Klein | 127,500 | – | – | – | – | 370,858 | 74% | 498,358 |
| Z. Switkowski | 128,443 | – | – | – | 11,560 | – | 0% | 140,003 |
| Executives | | | | | | | | |
| A. Arnold | 385,548 | – | 15,703 | – | 27,670 | 526,916 | 55% | 955,837 |
| G. Barr | 266,644 | – | 15,104 | – | 25,000 | 247,159 | 45% | 553,907 |
| L. Catanzaro ⁽³⁾ | 318,509 | – | 7,932 | – | 24,387 | 187,187 | 35% | 538,015 |
| E. Noyrez | 564,463 | 450,000 ⁽⁴⁾ | 348,125 | – | 80,705 ⁽⁵⁾ | 1,018,401 | 41% | 2,461,694 |
| J.G. Taylor ⁽⁶⁾ | 125,394 | – | 18,557 | – | 20,738 | 177,323 | 52% | 342,012 |
| M. James ⁽⁷⁾ | 55,932 | – | 4,516 | 112,853 | 5,437 | 682,440 | 79% | 861,178 |
| Total | 3,054,645 | 450,000 | 479,449 | 112,853 | 263,693 | 7,403,530 | | 11,764,170 |

(1) Appointed November 1, 2011.

(2) Amount includes Non-Director related fees paid for consulting services provided by W. Forde (as Chair of the LampsOn Board) totalling \$150,000. As Phase 1 of the Rare Earths Project has been completed, Mr Forde has not provided any consultancy services to the Group since June 30, 2012.

(3) Appointed December 12, 2011.

(4) \$150,000 of the other short-term benefits payment relates to the year ended June 30, 2011 but was paid during the year ended June 30, 2012. \$300,000 of the other short-term benefits payment relates to the year ended June 30, 2012.

(5) French Citizen Pension Payment.

(6) Ceased as a member of the KMP on December 12, 2011.

(7) Resigned August 31, 2011.

REMUNERATION REPORT – AUDITED

YEAR ENDED JUNE 30, 2011

| NAME | SHORT-TERM BENEFITS | | | POST EMPLOYMENT BENEFITS | | LONG-TERM BENEFITS | | TOTAL |
|-------------------------|------------------------|------------------------------------|-----------------------|--------------------------|--|----------------------|---------------------------------|------------|
| | CASH SALARY AND FEES | OTHER SHORT-TERM EMPLOYEE BENEFITS | NON-MONETARY BENEFITS | TERM-INATION PAYMENTS | SUPER-ANNUATION AND OTHER PENSION PAYMENTS | SHARE-BASED PAYMENTS | PERFOR-MANCE RELATED % OF TOTAL | |
| Executive Director | | | | | | | | |
| N. Curtis | 585,920 | – | 17,841 | – | 4,371 | 3,218,720 | 84% | 3,826,852 |
| Non-Executive Directors | | | | | | | | |
| D. Davidson | 29,792 | – | 30,000 | – | 50,000 | 407,520 | 79% | 517,312 |
| W. Forde | 272,897 ⁽¹⁾ | – | – | – | 9,908 | 522,682 | 65% | 805,487 |
| J. Klein | 105,625 | – | – | – | – | 407,520 | 79% | 513,145 |
| Z. Switkowski | 53,518 | – | – | – | 4,817 | – | 0% | 58,335 |
| Executives | | | | | | | | |
| A. Arnold | 294,698 | – | 4,122 | – | 25,689 | 621,401 | 66% | 945,910 |
| G. Barr | 202,251 | – | 29,314 | – | 21,933 | 123,307 | 33% | 376,805 |
| J. Brien ⁽²⁾ | 187,864 | – | | 271,899 | 39,445 | 942,149 | 65% | 1,441,357 |
| E. Noyrez | 521,147 | 300,000 ⁽³⁾ | 321,459 | – | 76,653 ⁽⁴⁾ | 691,727 | 36% | 1,910,986 |
| J.G. Taylor | 246,750 | – | 37,454 | – | 56,784 | 204,314 | 37% | 545,302 |
| M. James | 307,177 | – | 10,487 | – | 27,646 | 510,736 | 60% | 856,046 |
| Total | 2,807,639 | 300,000 | 450,677 | 271,899 | 317,246 | 7,650,076 | | 11,797,537 |

(1) Amount includes Non-Director related fees paid for consulting services provided by W. Forde (as Chair of the LampsOn Board) totalling \$150,000. As Phase 1 of the Rare Earths Project has been completed, Mr Forde has not provided any consultancy services to the Group since June 30, 2012.

(2) Resigned April 4, 2011. On cessation of employment, Mr Brien was paid a settlement equal to 12 months annual base salary in settlement of all outstanding matters between Mr Brien and the Group.

(3) \$150,000 of the other short-term benefits payment relates to the year ended June 30, 2010 but was paid during the year ended June 30, 2011. \$150,000 of the other short-term benefits payment relates to the year ended June 30, 2011.

(4) French Citizen Pension Payment.

Certain amendments and reclassifications have been made to the June 30, 2011 "Details of Remuneration" to align to the presentation for June 30, 2012. These amendments include the addition of the Non-Director related fees paid for consulting services totalling \$150,000 to W. Forde and payments to E. Noyrez totalling \$352,680 for other short-term benefits, non-monetary benefits and pension payments.

REMUNERATION REPORT – AUDITED

I. SHARE-BASED REMUNERATION

The following table lists any Options and Performance Rights which are still to vest, or have yet to expire.

| GRANT DATE | NUMBER | DATE VESTED AND EXERCISABLE | EXPIRY DATE | EXERCISE PRICE | VALUE PER OPTION AT GRANT DATE |
|---------------------|-------------------|-----------------------------------|--------------------|----------------|--------------------------------|
| August 20, 2007 | 50,000 | August 24, 2010 | August 24, 2012 | \$ 0.81 | \$ 0.49 |
| March 19, 2008 | 500,000 | December 31, 2010 | December 31, 2012 | \$ 1.06 | \$ 0.53 |
| July 21, 2008 | 1,000,000 | July 21, 2011 | July 21, 2013 | \$ 0.98 | \$ 0.52 |
| September 24, 2008 | 14,200,000 | September 24, 2011 | September 24, 2013 | \$ 0.66 | \$ 0.33 |
| September 24, 2008 | 2,700,000 | September 24, 2011 | September 24, 2013 | \$ 0.81 | \$ 0.34 |
| January 5, 2009 | 1,100,000 | January 5, 2012 | January 5, 2014 | \$ 0.16 | \$ 0.16 |
| July 10, 2009 | 200,000 | September 24, 2011 | September 24, 2013 | \$ 0.66 | \$ 0.08 |
| October 8, 2009 | 24,500,000 | October 8, 2012 | October 8, 2014 | \$ 0.66 | \$ 0.23 |
| July 1, 2010 | 1,000,000 | July 1, 2013 | July 1, 2015 | \$ 0.66 | \$ 0.24 |
| August 19, 2010 | 10,500,000 | August 19, 2013 | August 19, 2015 | \$ 1.15 | \$ 0.34 |
| August 19, 2010* | 1,608,618 | August 19, 2013 | August 19, 2015 | \$ 0.00 | \$ 0.96 |
| October 1, 2010 | 1,000,000 | October 1, 2013 | October 1, 2015 | \$ 1.60 | \$ 0.48 |
| August 19, 2010 | 12,900,000 | August 19, 2013 | August 19, 2015 | \$ 1.15 | \$ 0.66 |
| May 18, 2011 | 200,000 | October 1, 2011 | December 31, 2015 | \$ 2.36 | \$ 1.12 |
| June 6, 2011* | 420,000 | June 6, 2014 | June 6, 2016 | \$ 0.00 | \$ 2.30 |
| November 30, 2011 | 4,000,000 | September 22, 2014 ⁽¹⁾ | September 22, 2016 | \$ 1.69 | \$ 0.40 |
| September 23, 2011 | 4,145,000 | September 22, 2014 | September 22, 2016 | \$ 1.69 | \$ 0.55 |
| September 22, 2011* | 30,232 | September 22, 2012 | September 22, 2014 | \$ 0.00 | \$ 1.41 |
| September 22, 2011* | 20,245 | September 22, 2013 | September 22, 2015 | \$ 0.00 | \$ 1.41 |
| September 22, 2011* | 10,323 | September 22, 2014 | September 22, 2016 | \$ 0.00 | \$ 1.41 |
| September 22, 2011* | 945,000 | September 22, 2014 | September 22, 2016 | \$ 0.00 | \$ 1.34 |
| December 12, 2011 | 2,000,000 | December 12, 2014 | December 12, 2016 | \$ 1.57 | \$ 0.51 |
| Total | 83,029,418 | | | | |

* Denotes Performance Rights which are issued on the same terms as Options, except there is no consideration payable on exercise.

(1) The Options issued to N. Curtis were approved by the Board on September 23, 2011 subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 30, 2011.

Fair value of Options

The fair value of each Option and Performance Right is estimated on the date the Options are granted using a Black Scholes valuation model. The following assumptions were considered in the valuation of Options issued throughout the year:

| | |
|-------------------------|---------|
| Dividend yield | Nil |
| Expected volatility | 50% |
| Risk-free interest rate | 4.75% |
| Life of Option | 5 years |

No dividends have been paid in the past and so it is not appropriate to estimate future possible dividends in arriving at the fair values. The life of the Options is based on a five-year expiry from date of issue and is therefore not necessarily indicative of exercise patterns that may occur.

REMUNERATION REPORT – AUDITED

The resulting weighted average fair values for those Options issued during the year are:

| NAME | NUMBER OF OPTIONS | GRANT DATE | FAIR VALUE PER OPTION AT GRANT DATE | EXERCISE PRICE PER OPTION | EXPIRY DATE | FIRST EXERCISE DATE | LAST EXERCISE DATE |
|--------------|----------------------|----------------------------------|--|------------------------------------|--------------------|------------------------|-----------------------|
| A. Arnold | 935,000 | September 23, 2011 | \$0.55 | \$1.69 | September 22, 2016 | September 22, 2014 | September 22, 2016 |
| G. Barr | 1,210,000 | September 23, 2011 | \$0.55 | \$1.69 | September 22, 2016 | September 22, 2014 | September 22, 2016 |
| L. Catanzaro | 2,000,000 | December 12, 2011 | \$0.51 | \$1.57 | December 12, 2016 | December 12, 2014 | December 12, 2016 |
| N. Curtis | 4,000,000 | November 30, 2011 ⁽¹⁾ | \$0.40 | \$1.69 | September 22, 2016 | September 22, 2014 | September 22, 2016 |
| E. Noyrez | 2,000,000 | September 23, 2011 | \$0.55 | \$1.69 | September 22, 2016 | September 22, 2014 | September 22, 2016 |
| Total | 10,145,000 | | | | | | |

(1) The Options issued to N. Curtis were approved by the Board on September 23, 2011 subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 30, 2011.

All Options or Performance Rights granted for the benefit of Directors and the Executives have three-year vesting periods. The Options and Performance Rights are exercisable between three and five years after the Options have been granted, subject to achievement of the relevant performance hurdles.

REMUNERATION REPORT – AUDITED

The following tables outline the Options and Performance Rights issued for the benefit of Directors and the KMP during the 2012 and 2011 financial years and those Options which have vested at each respective year-end.

JUNE 30, 2012

| | BALANCE AT BEGINNING OF PERIOD | GRANTED | GRANT DATE | OPTIONS EXERCISED/ CANCELLED/ OTHER ⁽¹⁾ | OPTIONS EXPIRED WITHOUT EXERCISE | NET CHANGE | BALANCE AT END OF PERIOD | AMOUNT VESTED AT JUNE 30, 2012 |
|-----------------------------|--------------------------------------|-------------------|----------------------------------|---|---|--------------------|--------------------------------|---|
| A. Arnold | 5,900,000 | 935,000 | September 23, 2011 | – | – | 935,000 | 6,835,000 | 2,000,000 |
| G. Barr | 850,000 | 1,210,000 | September 23, 2011 | – | – | 1,210,000 | 2,060,000 | 450,000 |
| L. Catanzaro ⁽²⁾ | – | 2,000,000 | December 12, 2011 | – | – | 2,000,000 | 2,000,000 | – |
| K. Conlon ⁽³⁾ | – | – | – | – | – | – | – | – |
| N. Curtis | 31,000,000 | 4,000,000 | November 30, 2011 ⁽⁶⁾ | – | (5,000,000) | (1,000,000) | 30,000,000 | 5,000,000 |
| D. Davidson | 3,100,000 | – | – | – | – | – | 3,100,000 | 800,000 |
| W. Forde | 4,000,000 | – | – | – | – | – | 4,000,000 | 1,100,000 |
| J. Klein | 3,100,000 | – | – | – | – | – | 3,100,000 | 800,000 |
| E. Noyrez | 8,000,000 | 2,000,000 | September 23, 2011 | – | – | 2,000,000 | 10,000,000 | – |
| Z. Switkowski | – | – | – | – | – | – | – | – |
| J.G. Taylor ⁽⁴⁾ | 2,500,000 | 1,020,000 | September 23, 2011 | (3,520,000) | – | (2,500,000) | – | – |
| M. James ⁽⁵⁾ | 7,250,000 | – | – | (5,250,000) | (2,000,000) | (7,250,000) | – | – |
| Total | 65,700,000 | 11,165,000 | | (8,770,000) | (7,000,000) | (4,605,000) | 61,095,000 | 10,150,000 |

(1) Other represents the derecognition of Options and Performance Rights of individuals no longer members of the KMP or who have resigned their employment with the Group.

(2) Appointed December 12, 2011.

(3) Appointed November 1, 2011.

(4) Ceased as a member of the KMP on December 12, 2011, all Options on issue at this time ceased being reported from this date for the purpose of this disclosure.

(5) Resigned August 31, 2011, all Options on issue at this time ceased being reported from this date for the purpose of this disclosure.

(6) The Options issued to N. Curtis were approved by the Board on September 23, 2011 subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 30, 2011.

JUNE 30, 2011

| | BALANCE AT BEGINNING OF PERIOD | GRANTED | GRANT DATE | OPTIONS EXERCISED/ CANCELLED/ OTHER ⁽¹⁾ | OPTIONS EXPIRED WITHOUT EXERCISE | NET CHANGE | BALANCE AT END OF PERIOD | AMOUNT VESTED AT JUNE 30, 2011 |
|-------------------------|--------------------------------------|-------------------|-------------------|---|---|-------------------|--------------------------------|---|
| A. Arnold | 4,400,000 | 1,500,000 | August 19, 2010 | – | – | 1,500,000 | 5,900,000 | – |
| G. Barr | 650,000 | 200,000 | August 19, 2010 | – | – | 200,000 | 850,000 | 200,000 |
| J. Brien ⁽²⁾ | 700,000 | 2,500,000 | August 19, 2010 | (3,200,000) | – | (700,000) | – | – |
| N. Curtis | 27,000,000 | 9,000,000 | November 24, 2010 | (5,000,000) | – | 4,000,000 | 31,000,000 | 5,000,000 |
| D. Davidson | 1,900,000 | 1,200,000 | November 24, 2010 | – | – | 1,200,000 | 3,100,000 | – |
| W. Forde | 2,500,000 | 1,500,000 | November 24, 2010 | – | – | 1,500,000 | 4,000,000 | – |
| M. James | 6,250,000 | 2,000,000 | August 19, 2010 | (1,000,000) | – | 1,000,000 | 7,250,000 | 2,000,000 |
| J. Klein | 1,900,000 | 1,200,000 | November 24, 2010 | – | – | 1,200,000 | 3,100,000 | – |
| E. Noyrez | 5,000,000 | 3,000,000 | August 19, 2010 | – | – | 3,000,000 | 8,000,000 | – |
| Z. Switkowski | – | – | – | – | – | – | – | – |
| J.G. Taylor | 1,000,000 | 1,500,000 | August 19, 2010 | – | – | 1,500,000 | 2,500,000 | – |
| Total | 51,300,000 | 23,600,000 | | (9,200,000) | – | 14,400,000 | 65,700,000 | 7,200,000 |

(1) Other represents the derecognition of Options and Performance Rights of individuals no longer members of the KMP or who have resigned their employment with the Group.

(2) Resigned April 4, 2011.

Future development

Disclosures of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

Subsequent events

On September 5, 2012 the Group received confirmation from the AELB in Malaysia that the TOL for the Kuantan facility had been finalised and granted. As a result of the receipt of the TOL the Group commenced its ramp-up of operations.

On September 21, 2012 the Group announced an upgrade to the Mount Weld Ore Reserves based on a mining study that re-optimised the pit design using the updated Mineral Resources estimate that was announced to the ASX on 18 January 2012. The revised Ore Reserves at the Central Lanthanide Deposit (CLD), applying cut-off grades ranging from 4 to 7% depending on the type of ore, are estimated at 9.7 million tonnes at an average grade of 11.7% REO for a total of 1.14 million tonnes of contained REO. The Ore Reserves estimate for the CLD is 362% higher compared with the 2005 Feasibility Study and the contained REO in the Ore Reserves is 260% higher than the 2005 estimate.

Given the delay in the receipt of the TOL, as at September 30, 2012, the Group anticipates it would not have met certain requirements in the Sojitz loan facility, which related to the year ended June 30, 2012. Therefore, on September 25, 2012 the Group entered into an Amendment Deed (the "Deed") with respect to the Sojitz loan facility. Under the terms of the Deed and as a result of the delays in first production at the LAMP, the parties have agreed to postpone the measurement of certain financial covenant tests until nine months after Completion of Phase 1 (as defined under the Sojitz loan facility). As a result of entering into the Deed, the Group has agreed that certain restrictions will apply until nine months after Completion of Phase 1. Those temporary restrictions relate to capital and dividend returns to shareholders, limitations on the incurrence of new indebtedness (capped at US\$80,000 thousand) and a temporary higher interest rate of LIBOR as published quarterly plus a margin of 5.25%.

As announced on September 25, 2012 the Kuantan High Court has issued an interim order maintaining the status quo in respect of the TOL that has previously been issued for the LAMP and pending a hearing that is scheduled for October 4, 2012.

With the exception of the above, there have been no other events subsequent to June 30, 2012 that would require accrual or disclosure in this financial report.

The Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors



Nicholas Curtis
Executive Chairman

Sydney
September 25, 2012

DIRECTORS' DECLARATION

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial report is in compliance with International Financial Reporting Standards, as stated in note 2.1 to the financial report;
- (c) in the Directors' opinion, the attached financial report and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
- (d) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 33 to the financial report will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

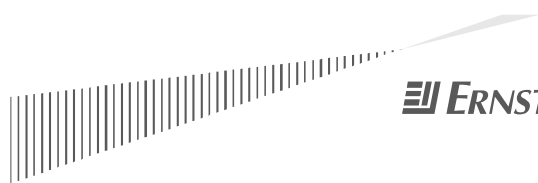
Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Directors



Nicholas Curtis
Executive Chairman

Sydney,
September 25, 2012



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Independent auditor's report to the members of Lynas Corporation Limited

Report on the financial report

We have audited the accompanying financial report of Lynas Corporation Limited which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Liability limited by a scheme approved
under Professional Standards Legislation

INDEPENDENT AUDITOR'S REPORT



Auditor's Opinion

In our opinion:

- a. the financial report of Lynas Corporation Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with International Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Lynas Corporation Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

A stylized signature of 'Ernst & Young' in a cursive script.

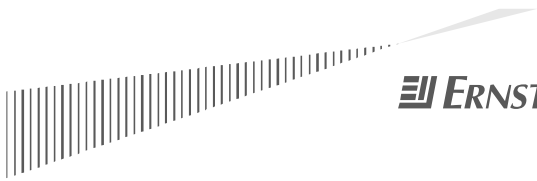
Ernst & Young

A stylized signature of 'M. Elliott' in a cursive script.

Michael Elliott
Partner
Sydney

25 September 2012

AUDITOR'S INDEPENDENCE DECLARATION



ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of Lynas Corporation Limited

In relation to our audit of the financial report of Lynas Corporation Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Michael Elliott
Partner
Sydney

25 September 2012

Liability limited by a scheme approved
under Professional Standards Legislation

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| FOR THE YEAR ENDED IN A\$'000 | NOTE | JUNE 30, | |
|---|------|------------------|------------------|
| | | 2012 | 2011 |
| General and administration expenses* | | (74,124) | (56,584) |
| Other expenses* | 9 | (15,928) | (1,322) |
| Profit (loss) from operating activities | | (90,052) | (57,906) |
| Financial income | 10 | 2,840 | 10,006 |
| Financial expenses | 10 | (10,667) | (9,388) |
| Net financial income (expenses) | | (7,827) | 618 |
| Profit (loss) before income tax | | (97,879) | (57,288) |
| Income tax benefit (expense) | 11 | 10,109 | (1,798) |
| Profit (loss) for the year from continuing operations | | (87,770) | (59,086) |
| Other comprehensive income (loss), net of income tax | | | |
| Exchange differences on translating foreign operations | 13 | (10,191) | (50,560) |
| Gain (loss) on the revaluation of available for sale financial assets | 13 | (4,653) | 5,518 |
| Total other comprehensive income (loss) for the year, net of income tax | | (14,844) | (45,042) |
| Total comprehensive income (loss) for the year attributable to equity holders of the Company | | (102,614) | (104,128) |
| Earnings (loss) per share | | | |
| Basic loss per share (cents per share) | 26 | (5.12) | (3.54) |
| Diluted loss per share (cents per share) | 26 | (5.12) | (3.54) |

* For more information on expenses by nature, reference should be made to notes 7, 8, 9, 19, 20, 21 and 31.

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| AS AT IN A\$'000 | NOTE | JUNE 30, | |
|---|------|------------------|------------------|
| | | 2012 | 2011 |
| Assets | | | |
| Cash and cash equivalents | 14 | 205,438 | 433,956 |
| Trade and other receivables | 15 | 2,470 | 5,748 |
| Inventories | 16 | 52,419 | 11,569 |
| Total current assets | | 260,327 | 451,273 |
| Inventories | 16 | 13,272 | 18,674 |
| Property, plant and equipment | 19 | 706,603 | 361,070 |
| Deferred exploration, evaluation and development expenditure | 20 | 26,342 | 29,287 |
| Intangible assets | 21 | 321 | 346 |
| Available for sale financial assets | 17 | 3,754 | 9,652 |
| Other assets | 18 | 13,038 | 3,731 |
| Total non-current assets | | 763,330 | 422,760 |
| Total assets | | 1,023,657 | 874,033 |
| Liabilities | | | |
| Trade and other payables | 22 | (48,331) | (27,965) |
| Current tax liabilities | 11 | (120) | – |
| Provisions | 25 | (3,061) | (1,931) |
| Employee benefits | 24 | (1,382) | (997) |
| Total current liabilities | | (52,894) | (30,893) |
| Provisions | 25 | (3,777) | (3,674) |
| Employee benefits | 24 | (430) | (335) |
| Borrowings | 23 | (403,062) | (212,364) |
| Total non-current liabilities | | (407,269) | (216,373) |
| Total liabilities | | (460,163) | (247,266) |
| Net assets | | 563,494 | 626,767 |
| Equity | | | |
| Share capital | 26 | 823,161 | 821,994 |
| Retained earnings (accumulated deficit) | | (287,136) | (199,366) |
| Reserves | 26 | 27,469 | 4,139 |
| Total equity attributable to the equity holders of the Company | | 563,494 | 626,767 |

The Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| IN A\$'000 | SHARE CAPITAL | ACCUM- ULATED DEFICIT | FOREIGN CURRENCY TRANS- LATION RESERVE | EQUITY SETTLED EMPLOYEE BENEFITS RESERVE | INVEST- MENT REVAL- UATION RESERVE | OTHER RESERVES | TOTAL |
|---|------------------|-----------------------------|--|--|--|-------------------|----------------|
| Balance at the beginning of the year | 821,994 | (199,366) | (25,941) | 24,562 | 5,518 | – | 626,767 |
| Exercise of options, net of issue costs | 1,167 | – | – | – | – | – | 1,167 |
| Equity component of the Mt Kellett convertible bonds | – | – | – | – | – | 40,936 | 40,936 |
| Deferred tax on the issue of the Mt Kellett convertible bonds | – | – | – | – | – | (12,193) | (12,193) |
| Employee remuneration settled through share-based payments | – | – | – | 9,431 | – | – | 9,431 |
| Total comprehensive income for the year | – | (87,770) | (10,191) | – | (4,653) | – | (102,614) |
| Balance at June 30, 2012 | 823,161 | (287,136) | (36,132) | 33,993 | 865 | 28,743 | 563,494 |
| Balance at the beginning of the year | 719,857 | (140,280) | 24,619 | 14,947 | – | – | 619,143 |
| Issue of shares, net of issue costs and deferred tax | 98,869 | – | – | – | – | – | 98,869 |
| Exercise of options, net of issue costs | 3,268 | – | – | – | – | – | 3,268 |
| Employee remuneration settled through share-based payments | – | – | – | 9,615 | – | – | 9,615 |
| Total comprehensive income for the year | – | (59,086) | (50,560) | – | 5,518 | – | (104,128) |
| Balance at June 30, 2011 | 821,994 | (199,366) | (25,941) | 24,562 | 5,518 | – | 626,767 |

The Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

| FOR THE YEAR ENDED IN A\$'000 | NOTE | JUNE 30, | |
|---|------|------------------|------------------|
| | | 2012 | 2011 |
| Cash flows from operating activities | | | |
| Payments to suppliers and employees | | (86,847) | (43,253) |
| Income taxes (paid) received | | (66) | – |
| Net cash flows from (used in) operating activities | | (86,913) | (43,253) |
| Cash flows from investing activities | | | |
| Payment for property, plant and equipment | | (339,373) | (193,047) |
| Payment for deferred exploration, evaluation and development expenditure | | (111) | (3,099) |
| Payment for intangible assets | | (125) | (156) |
| Security bonds paid | | (9,308) | (401) |
| Payment for available for sale financial assets | | (749) | (1,769) |
| Net cash from (used in) investing activities | | (349,666) | (198,472) |
| Cash flows from financing activities | | | |
| Drawdown of loans and borrowings | | | |
| Sojitz loan facility | | – | 212,364 |
| Mt Kellett convertible bonds | | 211,864 | – |
| Interest received | | 6,027 | 9,176 |
| Interest and other financing costs paid | | (12,244) | – |
| Proceeds from the issue of share capital | | – | 98,355 |
| Proceeds from the issue of share capital resulting from the exercise of options | | 1,167 | 3,268 |
| Payment of transaction costs – Sojitz loan facility | | – | (1,744) |
| Payment of transaction costs – Issue of Mt Kellett convertible bonds | | (625) | – |
| Payment of transaction costs – Issue of shares | | – | (107) |
| Net cash from (used in) financing activities | | 206,189 | 321,312 |
| Net increase (decrease) in cash and cash equivalents | | | |
| Cash and cash equivalents at the beginning of the year | | 433,956 | 405,245 |
| Effect of exchange rate fluctuations (net) on cash held | | 1,872 | (50,876) |
| Closing cash and cash equivalents | 14 | 205,438 | 433,956 |
| Cash and cash equivalents comprise | | | |
| Cash at bank and on hand | | 26,040 | 37,810 |
| Short-term deposits | | 98,337 | 160,601 |
| Restricted cash | | 81,061 | 235,545 |
| Total cash and cash equivalents | 14 | 205,438 | 433,956 |

The Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

Reconciliation of the profit (loss) for the year with the net cash from (used in) operating activities

| FOR THE YEAR ENDED IN A\$'000 | JUNE 30, | |
|---|-----------------|-----------------|
| | 2012 | 2011 |
| Profit (loss) for the year | (87,770) | (59,086) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 965 | 831 |
| Amortisation of deferred exploration, evaluation and development expenditure | 260 | 265 |
| Amortisation of intangible assets | 124 | 125 |
| Employee remuneration settled through share-based payments | 9,431 | 9,615 |
| Impairment loss on property, plant and equipment | 4,770 | – |
| Impairment loss on deferred exploration, evaluation and development expenditure | 2,613 | 1,322 |
| Impairment loss on inventories | 8,545 | – |
| Net financial (income) expenses | 7,827 | (618) |
| Income tax (benefit) expense | (10,109) | 1,798 |
| Income taxes (paid) received | (66) | – |
| Change in trade and other receivables | 2,524 | (3,895) |
| Change in inventories | (37,649) | (6,356) |
| Change in trade and other payables | 9,789 | 12,181 |
| Change in tax payable | 120 | – |
| Change in provisions and employee benefits | 1,713 | 565 |
| Net cash from (used in) operating activities | (86,913) | (43,253) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

1. REPORTING ENTITY

Lynas Corporation Limited (the "Company") is a for profit company domiciled and incorporated in Australia.

The financial report of Lynas Corporation Limited as at and for the year ended June 30, 2012 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The Group is principally engaged in the extraction and processing of rare earth minerals, primarily in Australia and Malaysia.

The address of the registered office of the Company is Level 7, 56 Pitt Street, Sydney NSW 2000, Australia.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

The financial report is a general purpose financial report and has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

The financial report also complies with International Financial Reporting Standards and Interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial report was approved by the Board of Directors (the "Directors") on September 25, 2012.

2.2 Going concern

The financial report has been prepared using the going concern assumption.

2.3 Basis of measurement

The financial report has been prepared under the historical cost convention except certain components of inventory which are measured at net realisable value, derivatives and certain available for sale financial assets (being listed securities) which are measured at fair value and certain non-current assets that are presented on a revalued amount. The methods used to measure fair values are discussed further in note 5.

Information as disclosed in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the current year is for the 12 month period ended June 30, 2012. Information for the comparative year is for the 12 month period ended June 30, 2011.

2.4 Presentation currency

The financial report of the Company and the Group is presented in Australian Dollars ("AUD"), which is both the Company's and the Group's presentation currency.

2.5 Rounding of amounts

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, in relation to the "rounding off" of amounts. Amounts in the financial report have been rounded off in accordance with the Class Order relief to the nearest thousand dollars, or in certain cases, the nearest dollar.

2.6 Use of estimates and judgements

The preparation of the financial report requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses and disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both the current and future years.

Information about the significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most material effect on the amounts recognised in the financial report are described in note 4.

2.7 Revision/reclassification of comparative information

Certain elements of the information presented for comparative purposes have been revised to conform with the current year presentation. The effects of these material changes are disclosed in note 36.

2.8 Revisions to comparative information resulting from change in accounting policies

During the year, the Group elected to change its accounting policy in respect of the presentation of those cash flows associated with its financing activities. As a result of this change interest received and interest and other financing costs paid are now presented as a component of the Group's financing activities, whereas historically such amounts were presented as part of the Group's operating activities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in this financial report and have been applied consistently by all Group entities.

3.1 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Company or the Group. Control exists when the Company or the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the financial report from the date control (or effective control) commences until the date that control ceases.

The Group has adopted AASB 3 *Business Combinations* (2008) and AASB 127 *Consolidated and Separate Financial Statement* (2008) for each acquisition or business combination occurring on or after January 1, 2009. All business combinations occurring on or after July 1, 2009 are accounted for using the acquisition method, while those prior to this date are accounted for using the purchase method.

The acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses by the Group for transactions completed on or after July 1, 2009. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the acquisition, including the fair value of any contingent consideration and share-based payment awards (as measured in accordance with AASB 2 *Share Based Payment*) of the acquiree that are mandatorily replaced as a result of the transaction. Transaction costs that the Group incurs in connection with an acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. Non-controlling interests are initially recognised at their proportionate share of the fair value of the net assets acquired.

During the measurement year an acquirer can report provisional information for a business combination if by the end of the reporting year in which the combination occurs the accounting is incomplete. The measurement year, however, ends at the earlier of when the acquirer has received all of the necessary information to determine the fair values or one year from the date of the acquisition.

The purchase method of accounting is used to account for the acquisition of subsidiaries and businesses by the Group for transactions completed prior to July 1, 2009. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interests. Final values for a business combination are determined within 12 months of the date of the acquisition.

(b) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies (generally accompanying a shareholding of between 20% and 50% of the voting rights). Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Investments in associates include goodwill identified on acquisition, net of accumulated impairment losses (if any).

The Group's share of its associates' post-acquisition profits or losses and movements in other comprehensive income is recognised in the Group's statement of comprehensive income (after adjustments (as required) are made to align the accounting policies of the associate with those of the Group). The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has a financial obligation or has made payments on behalf of the investee.

(c) Joint ventures

Joint ventures are those operations, entities or assets in which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Interests in jointly controlled entities are accounted for using the equity method of accounting (as described in note 3.1(b)).

Interests in jointly controlled assets and operations are reported in the financial report by including the Group's share of assets employed in the joint venture, the share of liabilities incurred in relation to the joint venture and the share of any expenses incurred in relation to the joint venture in their respective classification categories.

(d) Transactions eliminated on consolidation

Intra-group balances and unrealised items of income and expense arising from intra-group transactions are eliminated in preparing the financial report. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same manner as gains, but only to the extent that there is no evidence of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Transactions and non-controlling interests

The Group accounts for transactions with non-controlling interests as transactions with the equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

(f) Transactions between entities under common control

Common control transactions arise between entities that are under the ultimate ownership of the Company.

Certain transactions between entities that are under common control may not be transacted on an arm's length basis. Accordingly any gains or losses on these types of transactions are recognised directly in equity. Examples of such transactions include but are not limited to:

- debt forgiveness transactions;
- transfer of assets for greater than or less than fair value; and
- acquisition or disposal of subsidiaries for no consideration or consideration greater than or less than fair value.

3.2 Foreign currency

(a) Functional and presentation currency

Items included in the financial report of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of the respective entities at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency of the respective entities at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency of the respective entities at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognised in the statement of comprehensive income as a component of the profit or loss, except for differences arising on the translation of a financial liability designated as a hedge of the net investment in a foreign operation (see (c) further).

(c) Foreign operations

The results and financial position of those entities that have a functional currency different from the presentation currency of the Group are translated into the Group's presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date of the statement of financial position;
- income and expense items for each profit or loss item are translated at average exchange rates;
- items of other comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments are recognised as a component of equity and included in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the statement of comprehensive income as a component of the profit or loss as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated on this basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(d) Changes in functional currency

Any change in a Group company's functional currency is applied prospectively from the date of the change. All items are translated into the new functional currency using the exchange rate at the date of the change. The resultant translated amounts for non-monetary items are thereafter treated as their historical cost.

Following the issue of the Mt Kellett convertible bonds, the primary economic environment in which the Company operates has changed. Management performed a functional currency review and concluded that the functional currency of the Company should change prospectively to the United States dollar ("USD"), effective as of January 24, 2012. Prior to this date the functional currency of the Company was the AUD.

3.3 Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, receivables, available for sale financial assets, trade and other payables, interest bearing borrowings and compound instruments.

A non-derivative financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Non-derivative financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Non-derivative financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described further.

Non-derivative financial instruments are recognised on a gross basis unless a current and legally enforceable right to off-set exists and the Group intends to either settle the instrument net or realise the asset and liability simultaneously.

Upon initial acquisition the Group classifies its financial instruments in one of the following categories, which is dependent on the purpose for which the financial instruments were acquired.

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, restricted cash and other short-term highly liquid investments with maturities of less than three months. Bank overdrafts are included within borrowings and are classified as current liabilities on the statement of financial position except where these are repayable on demand, in which case they are included separately as a component of current liabilities. In the statement of cash flows, overdrafts are included as a component of cash and cash equivalents.

(b) Financial instruments at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on the instrument's fair value. Upon initial recognition (at the trade date) attributable transaction costs are recognised in the statement of comprehensive income as a component of the profit or loss. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the statement of comprehensive income as a component of the profit or loss.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for instruments with maturities greater than 12 months from the reporting date, which are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables (including related party receivables) which are stated at their cost less impairment losses.

(d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest over the relevant years. The effective interest method results in an interest rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or, where appropriate, a shorter period to the net amount of the financial instrument.

(e) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Available-for-sale financial assets are measured at fair value on initial recognition plus transaction costs. Subsequent to initial recognition, the assets are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the statement of comprehensive income as a component of the profit or loss.

(f) Other liabilities

Other liabilities comprise all non-derivative financial liabilities that are not disclosed as liabilities at fair value through profit or loss. Other liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The Group's other liabilities comprise trade and other payables and interest bearing borrowings, including compound instruments and those with related parties. The Group's other liabilities are measured as follows:

(i) Trade and other payables

Subsequent to initial recognition trade and other payables are stated at amortised cost using the effective interest method.

(ii) Interest bearing borrowings including related party borrowings

Subsequent to initial recognition interest bearing loans and borrowings are measured at amortised cost using the effective interest method.

(g) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, with the number of shares to be issued being fixed.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar financial liability that does not have the equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the financial liability component. Any directly attributable transaction costs are then allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to the initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognised in the statement of comprehensive income as a component of the profit or loss. On conversion the financial liability is reclassified to equity and no gain or loss is recognised in the statement of comprehensive income.

3.4 Derivative financial instruments

A derivative financial instrument is recognised if the Group becomes a party to the contractual provisions of an instrument at the trade date.

Derivative financial instruments are initially recognised at fair value (which includes, where applicable, consideration of credit risk), with transaction costs being expensed as incurred. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised in the statement of comprehensive income as a component of the profit or loss unless the derivative financial instruments qualify for hedge accounting. Where a derivative financial instrument qualifies for hedge accounting, recognition of any resulting gain or loss depends on the nature of the hedging relationship (see further).

Derivative financial instruments are recognised on a gross basis unless a current and legally enforceable right to off-set exists.

Derivative financial assets are derecognised if the Group's contractual right to the cash flows from the instrument expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset.

Derivative financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

(a) Cash flow hedges

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognised directly in equity as a component of other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the statement of comprehensive income as a component of the profit or loss for the year.

If a hedging instrument no longer meets the criteria for hedge accounting or it expires, is sold, terminated or exercised, then hedge accounting is discontinued prospectively. At this point in time, the cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In all other cases the amount recognised in equity is transferred within the statement of comprehensive income in the same year that the hedged item affects this statement and is recognised as part of financial income or expenses. If the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred within the statement of comprehensive income and is recognised as part of financial income or expenses in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(b) Fair value hedges

Changes in the fair value of a derivative financial instrument designated as a fair value hedge are recognised in the statement of comprehensive income as a component of the profit or loss in financial income or expenses together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(c) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the following conditions are met:

- the economic characteristics and risks of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value through profit or loss.

At the time of initial recognition of the embedded derivative an equal adjustment is also recognised against the host contract. The adjustment against the host contract is amortised over the remaining life of the host contract using the effective interest method.

Any embedded derivatives that are separated are measured at fair value with changes in fair value recognised through net financial expense in the statement of comprehensive income as a component of the profit or loss.

3.5 Inventories

(a) Raw materials, work in progress and finished goods

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based either on the first in first out ("FIFO") or weighted average principles and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured or refined inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory expected to be sold or consumed within the next 12 months is classified as current, with amounts expected to be consumed or sold after this time being classified as non-current.

(b) Engineering and maintenance materials

Engineering and maintenance materials (representing either critical or long order components but excluding rotatable spares) are measured at the lower of cost and net realisable value. The cost of these inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is determined with reference to the cost of replacement of such items in the ordinary course of business compared to the current market prices.

3.6 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (if any).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of property, plant and equipment acquired in a business combination is determined by reference to its fair value at the date of acquisition. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the cost of that equipment.

(b) Assets under construction

Assets under construction are transferred to the appropriate asset category when they are ready for their intended use. Assets under construction are not depreciated but tested for impairment at least annually or when there is an indication of impairment.

(c) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an item of property, plant and equipment are capitalised until such time as the assets are substantially ready for their intended use. The interest rate used equates to the effective interest on debt where general borrowings are used or the relevant interest rate where specific borrowings are used to finance the construction.

(d) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Depreciation

Depreciation is recognised in the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) using a method that reflects the pattern in which the economic benefits embodied within the asset are consumed. Generally this is on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment.

The estimated useful lives for the material classes of property, plant and equipment are as follows:

| | |
|--------------------------|----------------|
| • leasehold land | 99 years |
| • buildings | 20 to 30 years |
| • plant and equipment | 15 to 20 years |
| • fixtures and fittings | 5 years |
| • leasehold improvements | 1 to 30 years |
| • motor vehicles | 5 years |

Depreciation methods, useful lives and residual values are reassessed on an annual basis.

Gains and losses on the disposal of items of property, plant and equipment are determined by comparing the proceeds (if any) at the time of disposal with the net carrying amount of the asset.

3.7 Mineral exploration, evaluation and development expenditure

(a) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Exploration and evaluation expenditure includes:

- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the mineral resource;
- surveying transportation and infrastructure requirements;
- conducting market and finance studies;
- administration costs that are directly attributable to a specific exploration area; and
- licensing costs.

These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area of interest, or where activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated costs in relation to an abandoned area of interest are written off in full in the statement of comprehensive income as a component of the profit or loss in the period in which the decision to abandon the area is made.

(b) Development expenditure

Once an area of interest has been established as commercially viable and technically feasible, expenditure other than that relating to land, buildings and plant and equipment is capitalised as development expenditure. Development expenditure includes previously capitalised exploration and evaluation expenditure, pre-production development expenditure and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

When an area of interest is abandoned or the Directors decide that it is not commercially viable or technically feasible, any accumulated costs in respect of that area are written off in full in the statement of comprehensive income as a component of the profit or loss in the period in which the decision to abandon the area is made to the extent that they will not be recoverable in the future.

Development assets are assessed for impairment if the facts and circumstance suggest that the carrying amount exceed the recoverable amount. For the purpose of impairment testing, development assets are allocated to the cash-generating units ("CGUs") to which the development activity relates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(c) Deferred stripping

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development stripping. The directly attributable costs associated with these activities are capitalised as a component of development costs. Capitalisation of development stripping ceases and amortisation of those capitalised costs commences upon extraction of ore. Amortisation of capitalised development stripping costs occurs on a straight line basis with reference to the life of mine of the relevant area of interest.

Removal of waste material normally continues through the life of a mine. This activity is referred to as production stripping and commences upon the extraction of ore.

(d) Amortisation of development

Amortisation of development is recognised either in the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) on a units of production basis which aims to recognise cost proportionally to the depletion of the economically recoverable mineral resources. Costs are amortised from the commencement of commercial production.

3.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates, joint ventures and business operations and is recognised at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the acquiree over the fair value of the identifiable net assets recognised.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of the any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any) in the acquiree, the excess is recognised immediately in the statement of comprehensive income as a component of the profit or loss as a bargain purchase gain.

Goodwill is measured at cost less accumulated impairment losses (if any) and is tested at least annually for impairment. Goodwill is not amortised and is allocated to CGUs for the purpose of impairment testing. The allocation is made to the CGUs that are expected to benefit from the business combination in which the goodwill arose after the allocation of purchase consideration is finalised.

In respect of joint ventures and investments accounted for using the equity method, the carrying amount of goodwill is included in the carrying amount of the investment and is tested for impairment at least annually as part of the overall investment balance.

(b) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technological knowledge and understanding, is recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technologically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

Intangible assets arising from development activities are measured at cost less accumulated amortisation and accumulated impairment losses (if any).

(c) Other intangible assets

Other intangible assets comprise internally developed software (which is capitalised in accordance with the Group's policy in respect of Research and Development as outlined at note 3.8(b)). Other intangible assets have finite useful lives and are carried at cost less accumulated amortisation and impairment losses (if any).

(d) Subsequent expenditure

Subsequent expenditure in respect of intangible assets is capitalised only when the expenditure increases the future economic benefits embodied in the specific asset to which the expenditure relates and it can be reliably measured. All other expenditure, including expenditure on internally generated goodwill and other intangibles, is recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(e) Amortisation

Amortisation is recognised in either the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and indefinite life trademarks, from the date that the intangible assets are available for use. The estimated useful lives for the material classes of intangible assets are as follows:

- software/technology 3 years

3.9 Impairment

The carrying amounts of the Group's assets are reviewed regularly and at least annually to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the statement of comprehensive income as a component of the profit or loss.

(a) Impairment of loans and receivables and held-to-maturity financial assets

The recoverable amount of the Group's loans and receivables and held-to-maturity financial assets carried at amortised cost is calculated with reference to the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at the date of initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment losses on individual instruments that are considered significant are determined on an individual basis through an evaluation of the specific instruments' exposures. For trade receivables which are not significant on an individual basis, impairment is assessed on a portfolio basis taking into consideration the number of days overdue and the historical loss experiences on a portfolio with a similar number of days overdue.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in respect of interest or principal repayment; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio.

(b) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. If any such indicators exist then the asset or CGU's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amounts are estimated at least annually and whenever there is an indication that they may be impaired.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income as a component of the profit or loss. Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other non-financial assets in the CGU on a pro-rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In assessing the fair value less cost to sell, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. The methods used to determine fair value include a discounted future cash flow analysis and forecasted EBITDA multiplied by a relevant market indexed multiple.

In respect of assets other than goodwill, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's revised carrying amount will not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Assets and liabilities classified as held for sale

Assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets or components of a disposal group are re-measured in accordance with the Group's accounting policies. Thereafter the assets (or disposal groups) are measured at the lower of their carrying amount or fair value less costs to sell. Upon reclassification the Group ceases to depreciate or amortise non-current assets classified as held for sale. Any impairment loss on a disposal group is first allocated to goodwill and then to the

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

remaining assets on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses incurred on the initial classification as being held for sale and subsequent gains or losses on re-measurement are recognised in the statement of comprehensive income as a component of the profit or loss. Gains are not recognised in excess of any prior cumulative impairment loss.

3.11 Employee benefits

(a) Pension and superannuation obligations

A defined contribution pension and superannuation plan is a plan under which the employee and the Group pay fixed contributions to a separate entity. The Group has no legal or constructive obligation to pay further contributions in relation to an employee's service in the current and prior years. The contributions are recognised in the statement of comprehensive income as a component of the profit or loss as and when they fall due.

(b) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed in the statement of comprehensive income as a component of the profit or loss as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus plans and outstanding annual leave balances if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(c) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

(d) Incentive compensation plans

The Group recognises a liability and associated expense for incentive compensation plans based on a formula that takes into consideration certain threshold targets and the associated measures of profitability. The Group recognises a provision when it is contractually obligated or when there is a past practice that has created a constructive obligation to its employees.

3.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision for the passage of time is recognised as a financial expense in the statement of comprehensive income as a component of the profit or loss.

(a) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(b) Business closure and rationalisation

A provision for business closure and rationalisation is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

(c) Rehabilitation

The mining/extraction and refining/processing activities of the Group give rise to obligations for asset and site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies using current restoration standards and techniques. Provisions for the cost of each rehabilitation programme are recognised at the time that the environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The value of the provision is progressively increased over time as the effect of discounting unwinds. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of rehabilitation activities for the Group's mining operations is recognised as a component of "development expenditure", whereas those relating to its refining operations are recognised as a component of either "buildings" or "plant and equipment". Amounts capitalised are depreciated or amortised accordingly.

Where rehabilitation is expected to be conducted systematically over the life of the operation, rather than at the time of closure, a provision is made for the present obligation or estimated outstanding continuous rehabilitation work at each balance sheet date with the costs recognised in the statement of comprehensive income as a component of the profit or loss in line with the remaining future cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, changes to the estimated lives of the associated operations, new regulatory requirements and revisions to discount rates. Changes to the rehabilitation liability are added or deducted from the related rehabilitation asset and amortised accordingly.

3.13 Royalties

Royalties are treated as taxation arrangements when they have the characteristics of a tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described in note 3.20(a) for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions (as outlined in note 3.12) and included as part of the cost of goods sold in the statement of comprehensive income as a component of profit or loss.

3.14 Dividends

Dividends to the Group's shareholders are recognised as a liability in the Group's statement of financial position in the period in which the dividends are declared.

3.15 Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where equity instruments are reacquired by the Group, for example, as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the statement of comprehensive income and the consideration paid including any directly attributable incremental costs (net of income taxes) is directly recognised in equity.

3.16 Share-based payment

Share-based remuneration benefits are provided to employees via a variety of schemes which are further set out in note 30.

The fair values of the options granted under these various schemes are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is measured to reflect the expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and production targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to become exercisable. The employee benefits expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income as a component of profit or loss, with a corresponding adjustment to equity.

3.17 Revenue

(a) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable net of returns and allowances, trade discounts, volume rebates and other customer incentives. Revenue is recognised when the significant risks and rewards of ownership have been substantially transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(b) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for an item which is to be expensed are recognised in the statement of comprehensive income on a systematic basis in the same years in which the expenses are recognised or, for expenses already incurred the grants are recognised in the year in which they become receivable. Grants that compensate the Group for the cost of purchasing, constructing or otherwise acquiring a long-term asset are recognised as a reduction in the cost of that asset and included in the statement of comprehensive income as a component of depreciation expense in accordance with the Group's depreciation policy.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(d) Royalties

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

3.18 Lease payments

Minimum lease payments made under finance leases are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges which are recognised in the statement of comprehensive income as a component of the profit or loss are allocated to each year during the lease term so as to produce a constant rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for in the years in which the payments are incurred.

Payments made under operating leases are recognised in the statement of comprehensive income as a component of the profit or loss on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent lease payments arising under operating leases are recognised as an expense in the year in which the payments are incurred.

In the event that lease incentives are received to enter into an operating lease, such incentives are deferred and recognised as a liability. The aggregated benefits of the lease incentives are recognised as a reduction to the lease expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.19 Financial income and expenses

Financial income comprises interest income, foreign currency gains and gains on derivative financial instruments in respect of financing activities that are recognised in the statement of comprehensive income as a component of the profit or loss. Interest income is recognised as it accrues using the effective interest method.

Financial expenses comprise interest expense, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables) and losses in respect of financing activities on derivative instruments that are recognised in the statement of comprehensive income as a component of the profit or loss. All borrowing costs not qualifying for capitalisation are recognised in the statement of comprehensive income as a component of the profit or loss using the effective interest method.

3.20 Income tax

(a) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income as a component of the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised with the associated items on a net basis.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method of providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future and the Group is in a position to control the timing of the reversal of the temporary differences. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time the liability to pay the related dividend is recognised. Deferred income tax assets and liabilities in the same jurisdiction are offset in the statement of financial position only to the extent that there is a legally enforceable right to offset current tax assets and current tax liabilities and the deferred balances relate to taxes levied by the same taxing authority and are expected either to be settled on a net basis or realised simultaneously.

(b) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from July 1, 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Lynas Corporation Limited. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Entities within the tax-consolidated group have entered into a tax sharing agreement with the Company. The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the Company default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

3.21 Sales tax, value added tax and goods and services tax

All amounts (including cash flows) are shown exclusive of sales tax, value added tax ("VAT") and goods and services tax ("GST") to the extent the taxes are reclaimable, except for receivables and payables that are stated inclusive of sales tax, VAT and GST.

3.22 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor – finance leases

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases.

(b) The Group as lessee – finance leases

Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included within loans and borrowings as a finance lease obligation. Subsequent to initial recognition the liability is accounted for in accordance with the accounting policy described at note 3.3(f) and the asset is accounted for in accordance with the accounting policy applicable to that asset.

3.23 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

(b) Diluted earnings per share

Diluted earnings per share adjusts the amount used in the determination of the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share from continuing operations.

3.24 Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operation that has been disposed of or is held for sale, or is a subsidiary or business acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

3.25 Segment reporting

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Makers ("CODM") in order to allocate resources to the segment and to assess its performance.

3.26 Company entity financial information

The financial information for the Company entity as disclosed in note 34 has been prepared on the same basis as that applied by the Group, except as set out below:

(a) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial information of the Company. Dividends received from associates are recognised in the statement of comprehensive income as a component of profit or loss, rather than being deducted from the carrying amount of these investments.

(b) Effect of tax consolidation

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group, are accounted for by the Company rather than by the members of the tax-consolidated group themselves.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.27 New and revised standards and interpretations

(a) Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in this financial report but may affect the accounting for future transactions or arrangements.

| NEW AND REVISED STANDARD | REQUIREMENTS AND IMPACT ASSESSMENT |
|---|---|
| Amendments to AASB 7 'Financial Instruments: Disclosure' | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The application of the amendment to AASB 7 has not had a material effect on the Company or Group's financial information as neither transact in instruments of this type. |
| Amendments to AASB 101 'Presentation of Financial Statements' | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial report. The application of the amendment to AASB 101 has not had a material impact on the Company or Group's financial information as the amendment merely provides further choice in the disclosure options available for presentation purposes. |
| AASB 124 'Related Party Disclosures' (revised December 2009) | <p>AASB 124 (revised December 2009) has been revised on the following two aspects:</p> <p>(a) AASB 124 (revised December 2009) has changed the definition of a related party and</p> <p>(b) AASB 124 (revised December 2009) introduces a partial exemption from the disclosure requirements for government-related entities.</p> <p>The application of the revision to AASB 124 has not had a material effect on the Company or Group's financial information as neither are government-related entities and the expanded definition of related parties does not extend the current disclosure being undertaken.</p> |
| AASB 2009-12 'Amendments to Australian Accounting Standards' | The application of AASB 2009-12 makes amendments to AASB 8 'Operating Segments' as a result of the issuance of AASB 124 'Related Party Disclosures' (2009). The amendment to AASB 8 requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The Standard also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of the amendment to AASB 2009-12 has not had a material effect on the Company or Group's financial information as neither are government-related entities |
| AASB 2010-6 'Amendments to Australian Accounting Standards' | <p>The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred and derecognised but the transferor retains some level of continuing exposure in the asset.</p> <p>The application of the amendment to AASB 2010-6 has not had a material effect on the Company or Group's financial information as neither have transacted in instruments of this type.</p> |
| AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement' | Interpretation 114 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of AASB 119; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendment to AASB 2009-14 has not had a material effect on the Company or Group's financial information as neither operate a defined benefit plan. |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(b) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, the following Standards and Interpretations listed below were in issue but not yet effective.

| STANDARD/INTERPRETATION | EFFECTIVE FOR THE ANNUAL REPORTING PERIOD BEGINNING ON | EXPECTED TO BE INITIALLY APPLIED IN THE FINANCIAL YEAR ENDING |
|---|---|--|
| Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20' | July 1, 2013 | June 30, 2014 |
| AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' | July 1, 2013 | June 30, 2014 |
| AASB 10 'Consolidated Financial Statements' | July 1, 2013 | June 30, 2014 |
| AASB 11 'Joint Arrangements' | July 1, 2013 | June 30, 2014 |
| AASB 12 'Disclosure of Interests in Other Entities' | July 1, 2013 | June 30, 2014 |
| AASB 127 'Separate Financial Statements' (2011) | July 1, 2013 | June 30, 2014 |
| AASB 128 'Investments in Associates and Joint Ventures' (2011) | July 1, 2013 | June 30, 2014 |
| AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13' | July 1, 2013 | June 30, 2014 |
| AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)' | July 1, 2013 | June 30, 2014 |
| AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets' | July 1, 2012 | June 30, 2013 |
| AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' | July 1, 2013 | June 30, 2014 |
| AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards' | July 1, 2013 | June 30, 2014 |
| AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income' | July 1, 2012 | June 30, 2013 |

The Directors anticipate that the above amendments and interpretations will not have a material impact on the financial report of the Group in the year of initial application with the exception of AASB 9 *Financial Instruments*. Although the Group is yet to assess the full implications of this new Standard, initial indications are that it may affect the Group's accounting for its available for sale financial assets, since the standard only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Directors have not yet decided when to adopt AASB 9 *Financial Instruments*.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies management has made certain estimates and assumptions about the carrying values of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. Management has not made any significant judgements apart from those involving estimations (as discussed further). The key assumptions concerning the future and other key sources of uncertainty in respect of estimates at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are as listed below.

4.1 Reserve estimates and mine life

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining tenements. In order to calculate reserves, estimates and assumptions are required to be formulated about a range of geological, technical and economic factors including quantities, grades, production techniques, recovery rates, production costs, transportation costs, refining costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of the ore bodies or field to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgement and calculation to interpret the data.

As the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including:

- asset carrying values may be affected due to changes in the estimated future cash flows; and
- depreciation and amortisation charges in the statement of comprehensive income may change as result of the change in the useful economic lives of assets.

4.2 Impairment of assets

Assets are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

4.3 Income taxes

The Group is subject to income taxes in multiple jurisdictions which require significant judgement to be exercised in determining the Group's provision for income taxes. There are a number of transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Current tax liabilities and assets are recognised at the amount expected to be paid to or recovered from the taxation authorities.

4.4 Realisation of deferred tax assets

The Group assesses the recoverability of deferred tax assets with reference to estimates of future taxable income. To the extent that actual taxable income differs from management's estimate of future taxable income, the value of recognised deferred tax assets may be affected. Deferred tax assets have been recognised to offset deferred tax liabilities to the extent that the deferred tax assets and liabilities are expected to be realised in the same jurisdiction and reporting period. Deferred tax assets have also been recognised based on management's best estimate of the recoverability of these assets against future taxable income. Deferred income tax assets and liabilities in the same jurisdiction are off-set in the statement of financial position only to the extent that there is a legally enforceable right to off-set current tax assets and current tax liabilities and the deferred balances relate to taxes levied by the same taxing authority and are expected either to be settled on a net basis or realised simultaneously.

4.5 Exploration, evaluation and development expenditure

The Group's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the statement of comprehensive income.

Development activities commence after project sanctioning by the appropriate level of management and the Board. Judgement is applied by management in determining when a project is economically viable. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the statement of comprehensive income.

4.6 Restoration and rehabilitation expenditure

The Group's accounting policy for its restoration and rehabilitation closure provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination; and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting both the closure and rehabilitation asset and the provision.

5. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and associated disclosures require the determination of fair values for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information regarding the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

5.1 Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Given the short-term nature of trade receivables the carrying amount is a reasonable approximation of fair value.

5.2 Investments in equity securities

The fair value of investments in listed equity securities is determined by reference to their quoted bid price at the reporting date.

5.3 Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates for a similar instrument at the measurement date.

The fair value of commodity and other price derivatives is based on a valuation model. The valuation model (which includes where relevant the consideration of credit risk) discounts the estimated future cash flows based on the terms and maturity of each contract using forward curves and market interest rates at the reporting date.

5.4 Non-derivative financial liabilities

The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated by discounting the future contractual cash flows at the current market interest rates that are available for similar financial instruments.

6. SEGMENT REPORTING

AASB 8 *Operating Segments* ("AASB 8") requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Makers ("CODM") in order to allocate resources to the segment and to assess its performance.

The Group's CODM are the Board of Directors of the Company, the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer of the Group. Information reported to the Group's CODM for the purposes of resource allocation and assessment of performance currently focuses on the construction and development of the Group's integrated rare earth extraction and process facilities.

The Group has only one reportable segment under AASB 8 being its Rare Earth Operations. The CODM do not review the business activities of the Group based on geography.

The accounting policies applied by each segment are the same as the Group's accounting policies. Results from operating activities represent the profit earned by each segment without allocation of central administrative revenue and expenses, interest income and expense and income tax benefit (expense).

The CODM assess the performance of the operating segments based on adjusted EBITDA. Adjusted EBITDA is defined as net profit before income tax expense, net of financial expenses, depreciation and amortisation and adjusted to exclude certain significant items, including but not limited to such items as employee remuneration settled through share-based payments, restructuring costs, unrealised gains or losses on derivatives, gains or losses on the sale of non-strategic assets, asset impairments and write downs.

The composition of reportable segments has changed during the current year. As a result of this, the corresponding information disclosed for the year ended June 30, 2011 has been revised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

6. SEGMENT REPORTING CONTINUED

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, 2012 | | | FOR THE YEAR ENDED JUNE 30, 2011* | | |
|--|----------------------------------|---------------------------|-----------------------------------|-----------------------------------|---------------------------|-----------------------------------|
| | RARE EARTH OPERATIONS | CORPORATE/ UNALLOCATED | TOTAL CONTINUING OPERATIONS | RARE EARTH OPERATIONS | CORPORATE/ UNALLOCATED | TOTAL CONTINUING OPERATIONS |
| Business segment reporting | | | | | | |
| Expenses and other income | (69,932) | (20,120) | (90,052) | (29,084) | (28,822) | (57,906) |
| Earnings before interest and tax ("EBIT") | (69,932) | (20,120) | (90,052) | (29,084) | (28,822) | (57,906) |
| Financial income | | | 2,840 | | | 10,006 |
| Financial expenses | | | (10,667) | | | (9,388) |
| Profit (loss) before income tax | | | (97,879) | | | (57,288) |
| Income tax benefit (expense) | | | 10,109 | | | (1,798) |
| Profit (loss) for the year | | | (87,770) | | | (59,086) |
| EBIT | | | (90,052) | | | (57,906) |
| Depreciation and amortisation | | | 1,349 | | | 1,221 |
| Earnings before interest, tax, depreciation and amortisation ("EBITDA") | | | (88,703) | | | (56,685) |
| Included in EBITDA: | | | | | | |
| Impairment charge – property, plant and equipment | | | 4,770 | | | – |
| Impairment charge – deferred exploration, evaluation and development expenditure | | | 2,613 | | | 1,322 |
| Impairment charge – inventory | | | 8,545 | | | – |
| Non-cash employee remuneration settled through share-based payments | | | 9,431 | | | 9,615 |
| Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") | | | (63,344) | | | (45,748) |

* Information for the year ended June 30, 2011 has been revised to conform to the current period presentation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

7. AUDITORS REMUNERATION

The following items of expenditure are included in general and administration expenses:

| IN \$A | FOR THE YEAR ENDED JUNE 30, | |
|---|-----------------------------|----------------|
| | 2012 | 2011 |
| Auditor's remuneration to Ernst & Young (Australia), comprising: | | |
| Audit fees | 209,850 | 177,204 |
| Tax fees | 25,600 | 15,813 |
| Other fees | 11,300 | 6,500 |
| Total auditor's remuneration Ernst & Young (Australia) | 246,750 | 199,517 |
| Auditor's remuneration to Ernst & Young (other locations), comprising: | | |
| Audit fees | 25,286 | 55,196 |
| Other fees | – | 151,255 |
| Total auditor's remuneration Ernst & Young (other locations) | 25,286 | 206,451 |

Other fees include accounting advice on the Mt Kellett convertible bond issue and change in functional currency of the Company.
Tax fees include reviews of transfer pricing positions and tax losses.

8. PERSONNEL EXPENSES

The following items of expenditure are included in general and administration expenses:

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | |
|--|-----------------------------|---------------|
| | 2012 | 2011 |
| Wages and salaries | 26,254 | 16,814 |
| Superannuation and pension contributions | 1,327 | 943 |
| Employee remuneration settled through share-based payments | 9,431 | 9,615 |
| Termination costs | 256 | 230 |
| Other | 791 | 1,368 |
| Total personnel expenses | 38,059 | 28,970 |

9. OTHER EXPENSES

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | |
|--|-----------------------------|--------------|
| | 2012 | 2011 |
| Impairment loss - inventory | 8,545 | – |
| Impairment loss - property, plant and equipment | 4,770 | – |
| Impairment loss - deferred exploration, evaluation and development expenditure | 2,613 | 1,322 |
| Total other expenses | 15,928 | 1,322 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

10. FINANCIAL INCOME AND EXPENSES

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | |
|---|-----------------------------|----------------|
| | 2012 | 2011 |
| Interest income on cash and cash equivalents* | 2,840 | 10,006 |
| Financial income | 2,840 | 10,006 |
| Interest expense on financial liabilities measured at amortised cost* | | |
| Mt Kellett convertible bonds | (974) | – |
| Amortisation of deferred transaction costs – Mt Kellett convertible bonds | (35) | – |
| Amortisation of Mt Kellett equity conversion option | (2,881) | – |
| Financing transaction costs and fees | (4,526) | (755) |
| Net foreign currency exchange loss | (2,251) | (8,633) |
| Financial expenses | (10,667) | (9,388) |
| Net financial income (expense) | (7,827) | 618 |

* Interest income (expense) are shown net of amounts capitalised in respect of qualifying assets.

11. INCOME TAXES

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | |
|--|-----------------------------|--------------|
| | 2012 | 2011 |
| Current tax | | |
| Current tax expense in respect of the current year | 371 | 1,798 |
| Adjustments recognised in the current year in relation to the current tax in prior years | (383) | – |
| | (12) | 1,798 |
| Deferred tax | | |
| Deferred tax expense recognised in the year | (10,097) | – |
| | (10,097) | – |
| Total income tax (benefit) expense relating to the continuing operations | (10,109) | 1,798 |

11.1 Income tax recognised in the statement of comprehensive income

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | |
|--|-----------------------------|--------------|
| | 2012 | 2011 |
| Profit (loss) before tax for continuing operations | (97,879) | (57,288) |
| Income tax (benefit) expense calculated at 30% (2011:30%) | (29,364) | (17,186) |
| Add (deduct): | | |
| Effect of expenses that are not deductible in determining taxable profit | 11,644 | 7,635 |
| Effect of unrealised foreign exchange gains and losses on USD assets and liabilities | (5,376) | – |
| Effect of unused tax losses and tax offsets not recognised as deferred tax assets | 13,243 | 10,640 |
| Effect of different tax rates of operations in foreign jurisdictions | (57) | (360) |
| Foreign tax paid on profits attributable to foreign permanent establishments | 87 | – |
| Other adjustments | 97 | 1,069 |
| Effect of (under) over provision in prior years | (383) | – |
| Total current year income tax (benefit) expense | (10,109) | 1,798 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

11. INCOME TAXES CONTINUED

11.2 Income tax recognised directly in equity

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | |
|---|-----------------------------|----------------|
| | 2012 | 2011 |
| Deferred tax | | |
| Initial recognition of the equity component of Mt Kellett convertible bonds | 12,193 | – |
| Share issue costs | – | (2,365) |
| | 12,193 | (2,365) |

11.3 Income tax recognised directly in other comprehensive income

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | |
|-------------------------------------|-----------------------------|--------------|
| | 2012 | 2011 |
| Deferred tax | | |
| Financial assets available for sale | (2,096) | 2,365 |
| | (2,096) | 2,365 |

11.4 Current tax assets and liabilities

| IN A\$'000 | AS AT JUNE 30, | |
|--------------------------------|----------------|----------|
| | 2012 | 2011 |
| Current tax liabilities | | |
| Income tax payable | (120) | – |
| | (120) | – |

12. DEFERRED TAX ASSETS AND LIABILITIES

12.1 Deferred tax balances

| IN A\$'000 | BALANCE AT JULY 1, 2011 | RECOGNISED IN PROFIT OR LOSS | RECOGNISED IN EQUITY | RECOGNISED IN COMPRE- HENSIVE INCOME | BALANCE AT JUNE 30, 2012 |
|--|----------------------------|------------------------------------|-------------------------|---|-----------------------------|
| Temporary differences | | | | | |
| Deferred exploration, evaluation and development expenditure | – | 1,346 | – | – | 1,346 |
| Property, plant and equipment | – | 430 | – | – | 430 |
| Financial assets available for sale | (2,365) | (102) | – | 2,096 | (371) |
| Borrowings | – | 6,768 | (12,230) | – | (5,462) |
| Share-based payments | – | (2,820) | – | – | (2,820) |
| Costs of equity and debt raisings | 2,365 | (623) | 37 | – | 1,779 |
| Other | – | 408 | – | – | 408 |
| | – | 5,407 | (12,193) | 2,096 | (4,690) |
| Unused tax losses and credits | | | | | |
| Tax losses | – | 4,690 | – | – | 4,690 |
| | – | 10,097 | (12,193) | 2,096 | – |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

12. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

12.1 Deferred tax balances continued

| IN A\$'000 | BALANCE AT JULY 1, 2010 | RECOGNISED IN PROFIT OR LOSS | RECOGNISED IN EQUITY | RECOGNISED IN COMPRE- HENSIVE INCOME | BALANCE AT JUNE 30, 2011 |
|-------------------------------------|----------------------------|------------------------------------|-------------------------|---|-----------------------------|
| Temporary differences | | | | | |
| Financial assets available for sale | – | – | – | (2,365) | (2,365) |
| Equity raising costs | – | – | 2,365 | – | 2,365 |
| | – | – | 2,365 | (2,365) | – |

12.2 Unrecognised deferred tax assets

| IN A\$'000 | AS AT JUNE 30, | |
|---|----------------|----------------|
| | 2012 | 2011 |
| Deductible unused tax losses for which no deferred tax assets have been recognised are attributable to the following: | | |
| Tax losses – revenue in nature | 125,808 | 101,496 |
| Tax losses – capital in nature | 2,330 | 2,330 |
| | 128,138 | 103,826 |

The Group's deductible unused tax losses for which no deferred tax assets have been recognised relate to Malawi. At June 30, 2012 it was not highly probable that the Group would have future taxable profits against which these unused tax losses can be utilised.

The Australian unused tax losses may be carried forward indefinitely subject to meeting certain statutory tests. The Malawian unused tax losses may only be carried forward for six years subject to meeting certain statutory tests.

At June 30, 2012 a deferred tax asset of \$4,690 thousand has been recognised in relation to unused tax losses in Australia on the basis that the Group had sufficient net taxable temporary differences against which these unused tax losses can be utilised at that date.

13. OTHER COMPREHENSIVE INCOME

Within the statement of comprehensive income the Group has disclosed certain items of other comprehensive income net of the associated income tax expense or benefit. The pre-tax amount of each of these items and the associated tax effect is as follows:

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | | | | | |
|--|-----------------------------|--------------|-----------------|-----------------|----------------|-----------------|
| | 2012 | | | 2011 | | |
| | PRE-TAX | TAX EFFECT | TOTAL | PRE-TAX | TAX EFFECT | TOTAL |
| Exchange differences on translating foreign operations | (10,191) | – | (10,191) | (50,560) | – | (50,560) |
| Available for sale financial assets | (6,647) | 1,994 | (4,653) | 7,883 | (2,365) | 5,518 |
| Total other comprehensive income | (16,838) | 1,994 | (14,844) | (42,677) | (2,365) | (45,042) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

14. CASH AND CASH EQUIVALENTS

| IN A\$'000 | AS AT JUNE 30, | |
|--|----------------|----------------|
| | 2012 | 2011 |
| Cash at bank and on hand | 26,040 | 37,810 |
| Short-term deposits | 98,337 | 160,601 |
| Restricted cash | 81,061 | 235,545 |
| Total cash and cash equivalents | 205,438 | 433,956 |

Restricted cash represents funds provided under the Sojitz loan facility (refer to note 23) which is only available to fund capital expenditure required for Phase 2 of the Rare Earths Project.

15. TRADE AND OTHER RECEIVABLES

| IN A\$'000 | AS AT JUNE 30, | |
|--|----------------|--------------|
| | 2012 | 2011 |
| Other receivables | 2,470 | 5,748 |
| Total current trade and other receivables | 2,470 | 5,748 |

Other receivables represent interest receivable and operating prepayments.

16. INVENTORIES

| IN A\$'000 | AS AT JUNE 30, | |
|-------------------------------|----------------|---------------|
| | 2012 | 2011 |
| Raw materials and consumables | 41,823 | 29,885 |
| Work in progress | 23,868 | 358 |
| Total inventories | 65,691 | 30,243 |
| Current inventories | 52,419 | 11,569 |
| Non-current inventories | 13,272 | 18,674 |

During the year ended June 30, 2012 the write-down of inventories to net realisable value relating to externally acquired raw materials for the Malaysian operations totalled \$8,545 thousand (2011: nil).

17. OTHER FINANCIAL ASSETS

Non-current financial assets comprise the following investment in listed equity securities which is classified as available for sale:

| IN A\$'000 | AS AT JUNE 30, | |
|--|----------------|--------------|
| | 2012 | 2011 |
| Listed equity securities | | |
| Northern Minerals Limited (ASX:NTU): | | |
| – at cost | 2,518 | 1,769 |
| – impact of mark-to-market movement (gross of tax) | 1,236 | 7,883 |
| | 3,754 | 9,652 |

Northern Minerals Limited is a company listed on the Australian Securities Exchange. The fair value of the available for sale financial asset is considered to be a Level 1 fair value as it is derived from quoted market selling prices.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

18. OTHER NON-CURRENT ASSETS

| IN A\$'000 | AS AT JUNE 30, | |
|--|----------------|--------------|
| | 2012 | 2011 |
| Security deposits – bank facilities, Malaysia | 8,058 | – |
| Security deposits – mining tenements, Mount Weld | 4,980 | 3,731 |
| | 13,038 | 3,731 |

Security deposits relate both to cash provided for security bonds issued to secure the mining tenements at Mount Weld and a restricted deposit pledged as collateral for bank facilities in Malaysia. The weighted average annual interest rate was 3.6% (2011: 3.5%).

19. PROPERTY, PLANT AND EQUIPMENT

| IN A\$'000 | LEASE-HOLD LAND | BUILDINGS, PLANT AND EQUIPMENT | FIXTURES AND FITTINGS | MOTOR VEHICLES | ASSETS UNDER CONSTRUCTION | LEASE-HOLD IMPROVEMENTS | TOTAL |
|---|-----------------|--------------------------------|-----------------------|----------------|---------------------------|-------------------------|----------------|
| As at June 30, 2012 | | | | | | | |
| Cost | 26,962 | 88,060 | 5,956 | 968 | 598,900 | 249 | 721,095 |
| Accumulated impairment losses | – | (845) | (28) | (161) | (3,736) | – | (4,770) |
| Accumulated depreciation | (1,105) | (6,036) | (2,187) | (202) | – | (192) | (9,722) |
| Carrying amount | 25,857 | 81,179 | 3,741 | 605 | 595,164 | 57 | 706,603 |
| As at June 30, 2011 | | | | | | | |
| Cost | 27,169 | 1,429 | 2,900 | 818 | 331,180 | 249 | 363,745 |
| Accumulated depreciation | (839) | (96) | (1,478) | (92) | – | (170) | (2,675) |
| Carrying amount | 26,330 | 1,333 | 1,422 | 726 | 331,180 | 79 | 361,070 |
| Cost at the beginning of the year | 27,169 | 1,429 | 2,900 | 818 | 331,180 | 249 | 363,745 |
| Accumulated depreciation and impairment losses at the beginning of the year | (839) | (96) | (1,478) | (92) | – | (170) | (2,675) |
| Carrying amount at the beginning of the year | 26,330 | 1,333 | 1,422 | 726 | 331,180 | 79 | 361,070 |
| Additions | – | 2,350 | 626 | 146 | 355,404 | – | 358,526 |
| Capitalisation of borrowing costs | – | – | – | – | 7,051 | – | 7,051 |
| Depreciation for the year | (277) | (5,935) | (755) | (111) | – | (22) | (7,100) |
| Impairment loss for the year | – | (845) | (28) | (161) | (3,736) | – | (4,770) |
| Transfers | – | 84,262 | 2,417 | – | (86,679) | – | – |
| Effect of movements in exchange rates | (196) | 14 | 59 | 5 | (8,056) | – | (8,174) |
| Carrying amount at June 30, 2012 | 25,857 | 81,179 | 3,741 | 605 | 595,164 | 57 | 706,603 |
| Cost at the beginning of the year | 31,450 | – | 2,054 | 133 | 146,730 | 229 | 180,596 |
| Accumulated depreciation and impairment losses at the beginning of the year | (652) | – | (1,133) | (31) | – | (149) | (1,965) |
| Carrying amount at the beginning of the year | 30,798 | – | 921 | 102 | 146,730 | 80 | 178,631 |
| Additions | – | 1,429 | 873 | 817 | 199,330 | 20 | 202,469 |
| Depreciation for the year | (292) | (87) | (369) | (62) | – | (21) | (831) |
| Effect of movements in exchange rates | (4,176) | (9) | (3) | (131) | (14,880) | – | (19,199) |
| Carrying amount at June 30, 2011 | 26,330 | 1,333 | 1,422 | 726 | 331,180 | 79 | 361,070 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

19. PROPERTY, PLANT AND EQUIPMENT CONTINUED

During the year ended June 30, 2012, the Group recognised an impairment loss of \$1,211 thousand in relation to its property, plant and equipment in Malawi (resulting from the previously reported court proceeding that arose during the period) and a \$3,559 thousand impairment loss in relation to property, plant and equipment at its Malaysian operation (which resulted from the identification of certain assets being surplus or redundant to the current operational plan). These charges were recognised in the statement of comprehensive income as a component of other expenses in the profit or loss (2011: \$nil) and reduced the carrying value of these assets to nil.

The depreciation charge of \$7,100 thousand for the year ended June 30, 2012 (2011: \$831 thousand) is recognised in the statement of comprehensive income as a component of the profit or loss within general and administration expenses (2012: \$965 thousand and 2011: \$831 thousand) and within the statement of financial position within inventory (2012: \$6,135 thousand and 2011: 2011: \$nil). On the sale of inventory to customers the component of the depreciation expense capitalised within inventory is reflected in the cost of goods sold in the statement of comprehensive income as a component of the profit or loss.

Depreciation during the year ended June 30, 2012 commenced for the Mount Weld operations from July 1, 2011, with the Malaysian operations holding all assets as under construction pending the completion of the Lynas Advanced Materials Plant ("LAMP"). Restrictions on the title of items of property, plant and equipment are outlined in note 23.

20. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

| IN A\$'000 | EXPLORATION AND EVALUATION EXPENDITURE | DEVELOPMENT EXPENDITURE | PRE- PRODUCTION STRIPPING | TOTAL |
|---|---|----------------------------|---------------------------------|---------------|
| As at June 30, 2012 | | | | |
| Cost | 20,540 | 20,394 | 4,078 | 45,012 |
| Accumulated impairment losses | (14,220) | (3,641) | – | (17,861) |
| Accumulated amortisation | (809) | – | – | (809) |
| Carrying amount | 5,511 | 16,753 | 4,078 | 26,342 |
| As at June 30, 2011 | | | | |
| Cost | 20,430 | 20,394 | 4,078 | 44,902 |
| Accumulated impairment losses | (11,607) | (3,641) | – | (15,248) |
| Accumulated amortisation | (367) | – | – | (367) |
| Carrying amount | 8,456 | 16,753 | 4,078 | 29,287 |
| Cost at the beginning of the year | 20,430 | 20,394 | 4,078 | 44,902 |
| Accumulated amortisation and impairment losses at the beginning of the year | (11,974) | (3,641) | – | (15,615) |
| Carrying amount at the beginning of the year | 8,456 | 16,753 | 4,078 | 29,287 |
| Additions | 111 | – | – | 111 |
| Amortisation for the year | (443) | – | – | (443) |
| Impairment loss for the year | (2,613) | – | – | (2,613) |
| Carrying amount at June 30, 2012 | 5,511 | 16,753 | 4,078 | 26,342 |
| Cost at the beginning of the year | 17,331 | 20,021 | 4,078 | 41,430 |
| Accumulated amortisation and impairment losses at the beginning of the year | (10,387) | (3,641) | – | (14,028) |
| Carrying amount at the beginning of the year | 6,944 | 16,380 | 4,078 | 27,402 |
| Additions | 3,099 | – | – | 3,099 |
| Amortisation for the year | (265) | – | – | (265) |
| Impairment loss for the year | (1,322) | – | – | (1,322) |
| Movement in rehabilitation asset | – | 373 | – | 373 |
| Carrying amount at June 30, 2011 | 8,456 | 16,753 | 4,078 | 29,287 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

20. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE CONTINUED

During the year ended June 30, 2012, the Group recognised an impairment loss of \$2,613 thousand in relation to its exploration and evaluation expenditure in Malawi (resulting from the previously reported court proceeding that arose during the period). These charges were recognised in the statement of comprehensive income as a component of other expenses in the profit or loss (2011: \$1,322) and reduced the carrying value of these assets to nil.

The amortisation charge of \$443 thousand for the year ended June 30, 2012 (2011: \$265 thousand) is recognised in the statement of comprehensive income as a component of the profit or loss within general and administration expenses (2012: \$260 thousand and 2011: \$265 thousand) and within the statement of financial position within inventory (2012: \$183 thousand and 2011: \$nil). On the sale of inventory to customers the component of the amortisation expense capitalised within inventory is reflected in the cost of goods sold in the statement of comprehensive income as a component of the profit or loss. Restrictions on the title of the deferred exploration, evaluation and development expenditure are outlined in note 23.

21. INTANGIBLE ASSETS

| IN A\$'000 | COMPUTER SOFTWARE |
|---|-------------------|
| As at June 30, 2012 | |
| Cost | 883 |
| Accumulated amortisation | (562) |
| Carrying amount | 321 |
| As at June 30, 2011 | |
| Cost | 758 |
| Accumulated amortisation | (412) |
| Carrying amount | 346 |
| Cost at the beginning of the year | 758 |
| Accumulated amortisation and impairment losses at the beginning of the year | (412) |
| Carrying amount at the beginning of the year | 346 |
| Additions | 125 |
| Amortisation for the year | (150) |
| Carrying amount at June 30, 2012 | 321 |
| Cost at the beginning of the year | 602 |
| Accumulated amortisation and impairment losses at the beginning of the year | (287) |
| Carrying amount at the beginning of the year | 315 |
| Additions | 156 |
| Amortisation for the year | (125) |
| Carrying amount at June 30, 2011 | 346 |

The amortisation charge of \$150 thousand for the year ended June 30, 2012 (2011: \$125 thousand) is recognised in the statement of comprehensive income as a component of the profit or loss within general and administration expenses (2012: \$124 thousand and 2011: \$125 thousand) and within the statement of financial position within inventory (2012: \$26 thousand and 2011: \$ nil). On the sale of inventory to customers the component of amortisation capitalised within inventory is reflected in the cost of goods sold in the statement of comprehensive income as a component of the profit or loss. Restrictions on the title of the intangible assets are outlined in note 23.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

22. TRADE AND OTHER PAYABLES

| IN A\$'000 | AS AT JUNE 30, | |
|---------------------------------------|----------------|---------------|
| | 2012 | 2011 |
| Trade payables | 21,521 | 12,468 |
| Accrued expenses | 23,170 | 14,800 |
| Other payables | 3,640 | 697 |
| Total trade and other payables | 48,331 | 27,965 |
| Current | 48,331 | 27,965 |
| Non-current | – | – |

Trade and other payables are non-interest bearing and are normally settled on 30 day terms. Trade and other payables include amounts in relation to Phase 1 of the Rare Earth Project (2012: \$29,087 thousand) and Phase 2 of the Rare Earth Project (2012: \$11,415 thousand).

23. BORROWINGS

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

| IN A\$'000 | AS AT JUNE 30, | |
|-------------------------------|----------------|----------------|
| | 2012 | 2011 |
| Sojitz loan facility | 221,479 | 212,364 |
| Mt Kellett convertible bonds | 181,583 | – |
| Non-current borrowings | 403,062 | 212,364 |
| Sojitz loan facility | 221,479 | 212,364 |
| Transaction costs | – | – |
| Carrying amount | 221,479 | 212,364 |
| Mt Kellett convertible bonds | 182,045 | – |
| Transaction costs | (462) | – |
| Carrying amount | 181,583 | – |

Sojitz facility

The Sojitz loan facility for US\$225,000 thousand was received from a Special Purpose Company ("SPC") established by Sojitz Corporation and Japan, Oil, Gas and Metals National Corporation ("JOGMEC"). The proceeds of the loan facility are only available to fund capital expenditure required for Phase 2 of the Rare Earths Project, enabling the Company to increase planned production of REO to 22,000 tonnes per annum from the expected Phase 1 run-rate production of 11,000 tonnes per annum. The facility was signed on March 30, 2011, the funds were received as restricted cash on June 3, 2011 and the first withdrawal of funds occurred on July 19, 2011.

The facility is secured over all of the assets of the Group, other than the Malawi assets. Most of the Sojitz fixed securities are released upon the Group achieving "Completion of Phase 1", which occurs once there has been an average level of production over three consecutive months of not less than 70% of the nameplate capacity of the LAMP. After the Group achieves Completion of Phase 1, the securities retained by Sojitz comprise of a floating featherweight charge over the assets of the Company, charges over some bank accounts related to the Sojitz loan facility and a charge over receivables from Japanese customers.

Interest on the principal accrues daily on the basis of the actual number of days based on a 360 day year and is payable quarterly. The rate of interest for each interest period is the LIBOR published quarterly rate plus a margin of 2.75%. There is also a requirement to pay withholding tax on this interest.

The principal must be repaid in five equal instalments with the first principal repayment scheduled on March 31, 2015, and the last principal repayment scheduled on March 31, 2017. The principal can be prepaid in whole or in part at any time by giving 10 business days' prior written notice to Sojitz. If the prepayment is made on a day other than the last day of a quarterly interest period, a break fee may be payable by the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

23. BORROWINGS CONTINUED

The Sojitz loan facility agreement contains a number of financial covenants including, for example, covenants relating to the Group's debt service cover ratio (both forward-looking and backward-looking), loan life coverage ratio and gross debt to equity ratio. The Company is required to report on compliance with these covenants on a semi-annual basis. A failure to comply with a covenant will constitute a "Review Event", which will impose certain restrictions on the Company. In addition, during the period in which a Review Event subsists, the rate of interest payable by Lynas in respect of the loan facility increases to the LIBOR published quarterly rate plus a margin of 5.25%.

The Sojitz loan facility agreement also contains customary covenants which restrict the Group from creating, or permitting to exist, any security over its assets or disposing of any of its assets (other than defined "Permitted Encumbrances" and "Permitted Disposals"). Unless a Review Event has occurred, the Company may incur an additional financial liability provided that such liability is unsecured and is either subordinated to, or ranks pari passu with, the Sojitz loan. The Sojitz loan facility agreement also contains customary events of default, including the "Completion of Phase 2" which requires the Group to meet certain production volumes and cash operating costs over a three month period, by no later than the Project Sunset Date of January 19, 2014.

The obligations of the Company under the Sojitz loan facility are guaranteed by the subsidiaries other than Lynas Africa Holdings Pty Ltd and Lynas Africa Limited. Any wholly-owned subsidiary that becomes a member of the Group is required to accede to the loan agreement.

Mt Kellett convertible bonds

On January 24, 2012, the Company executed binding documentation for a US\$225,000 thousand unsecured convertible bonds issue with Mt Kellett Capital Management ("Mt Kellett"), a US-based investment firm. The Company received the first tranche amount of US\$50,000 thousand on January 25, 2012 and it was agreed that the balance of the US\$175,000 thousand convertible bonds would be paid upon the satisfaction of certain conditions precedent. The parties subsequently agreed to increase the number of convertible bonds to be issued as part of the second tranche subscription from 175,000 thousand to 225,000 thousand ("Tranche 2 Convertible Bonds") and for the first tranche of 50,000 thousand convertible bonds ("Tranche 1 Convertible Bonds") to be redeemed early. The redemption of the Tranche 1 Convertible Bonds and the issue of the Tranche 2 Convertible Bonds occurred simultaneously. The final payment of US\$175,000 thousand was received on February 28, 2012. None of the 225,000 thousand Tranche 2 Convertible Bonds had been converted into shares as at the end of the financial year.

The convertible bond issue is being used to fund construction and commissioning of Phase 1 of the LAMP in Malaysia and for operational expenses. Interest accrues daily on the basis of the actual number of days based on a 365-day year and is payable quarterly. The rate of interest is 2.75% per annum. Each bond entitles the holder to convert to one share at an initial conversion price of \$1.25 per share. Conversion may occur at any time between July 25, 2012 and July 25, 2016.

A bondholder may, at any time following the occurrence of a defined "Redemption Event", require the Company to redeem some or all of the Convertible Bonds held by the bondholder. The Redemption Events include, for example, an insolvency event occurring in relation to a Group Company, a Group Company ceasing (or threatening to cease) to carry on all or part of its business which is likely to be materially adverse to the Group as a whole, and a change in control of any member of the Group.

If, at any time during the period between July 25, 2015 and July 25, 2016, the 30-day Volume Weighted Average Price ("VWAP") of the shares is equal to or exceeds 160% of the conversion price, the Company may give notice of its intention to redeem all of the Convertible Bonds on issue by delivering a redemption notice to bondholders. The conversion price was subject to adjustment upon the occurrence of a Reset Event. A "Reset Event" is: (a) the Temporary Operating License ("TOL") not being obtained by the Group on or before October 15, 2012; or (b) the announcement by the Malaysian government on or before October 15, 2012 of its decision to refuse to grant the TOL.

Where the TOL was not obtained on or before October 15, 2012, the conversion price would have been the lower of: (a) \$1.25; and (b) 120% of the VWAP for the 30 trading days commencing on October 16, 2012. Where the Malaysian government communicates its decision to the Group on or before October 15, 2012 to refuse to grant the TOL, the conversion price would have been the lower of: (a) \$1.25; and (b) 120% of the VWAP for the 30 trading days commencing on the date of such announcement. As stated in Note 37, the TOL was received subsequent to June 30, 2012.

The Convertible Bonds are unsecured. The Mt Kellett Convertible Bond subscription documents contain customary covenants which restrict the Group from incurring any financial liabilities or creating any security interests which in each case would rank senior to or pari passu with the Convertible Bonds, subject to specified exceptions which include the Sojitz loan facility. Those restrictions are released upon the Group achieving "Completion of Phase 1", which occurs once there has been an average level of production over six consecutive months of not less than 70% of the nameplate capacity of the LAMP. After the Group achieves Completion of Phase 1, the obligations of the Company and the Guarantors in respect of the Convertible Bonds must at all times rank at least pari passu with all other present and future unsecured financial liabilities (other than the Sojitz loan facility).

On July 25, 2016, the Company must redeem all Convertible Bonds held by bondholders that have not otherwise been redeemed or converted by paying the relevant redemption amount to each bondholder.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

23. BORROWINGS CONTINUED

The net proceeds received from the issue of the convertible bonds have been split between the financial liability element and an equity component, representing the residual attributable to the option to convert the financial liability into equity of the Company, as follows:

IN US\$'000

| | |
|--------------------------------------|---------------|
| Net proceeds of issue | 224,510 |
| Liability component at date of issue | (181,568) |
| Equity component | 42,942 |

The equity component of US\$42,942 thousand (A\$40,936 thousand) has been credited to reserves within equity.

The liability component is measured at amortised cost. The interest expense for the year (\$974 thousand) is calculated by applying an effective interest rate of 9.48% against the first tranche and 7.83% against the second tranche of the liability component. The difference between the carrying amount at the date of issue (\$173,501 thousand) and the amount reported in the statement of financial position as at June 30, 2012 (\$181,583 thousand) represents the effective interest rate less interest paid to that date.

Terms and debt repayment schedule

| | CURRENCY | NOMINAL INTEREST RATE | YEAR OF MATURITY | AS AT JUNE 30, | | AS AT JUNE 30, | |
|------------------------------|----------|-----------------------------|---------------------|-------------------------------------|--|-------------------------------------|--|
| | | | | 2012 FACE VALUE (USD '000) | 2012 CARRYING AMOUNT (AUD '000) | 2011 FACE VALUE (USD '000) | 2011 CARRYING AMOUNT (AUD '000) |
| Sojitz loan facility | USD | LIBOR + 2.75% | 2017 | 225,000 | 221,479 | 225,000 | 212,364 |
| Mt Kellett convertible bonds | USD | 2.75% | 2016 | 225,000 | 181,583 | – | – |
| | | | | 450,000 | 403,062 | 225,000 | 212,364 |

Nominal interest rates

| | AS AT JUNE 30, 2012 | | | AS AT JUNE 30, 2011 | | |
|------------------------------|---------------------|--------|------------|---------------------|--------|------------|
| | BASE RATE | MARGIN | TOTAL RATE | BASE RATE | MARGIN | TOTAL RATE |
| Sojitz loan facility | 0.57% | 2.75% | 3.32% | 0.30% | 2.75% | 3.05% |
| Mt Kellett convertible bonds | 2.75% | – | 2.75% | – | – | – |

24. EMPLOYEE BENEFITS

| IN A\$'000 | AS AT JUNE 30, | |
|----------------------------------|----------------|--------------|
| | 2012 | 2011 |
| Provision for annual leave | 1,382 | 997 |
| Provision for long service leave | 430 | 335 |
| Total employee benefits | 1,812 | 1,332 |
| Current | 1,382 | 997 |
| Non-current | 430 | 335 |

The provision for employee benefits represents annual leave and long service leave entitlements accrued.

The liability for long service leave for which settlement can be deferred beyond 12 months from the balance date is measured as the present value of expected future payments to be made in respect of services provided by employees. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

25. PROVISIONS

| IN A\$'000 | RESTORATION AND REHAB- -ILITATION | ONEROUS CONTRACTS | TOTAL |
|--|---|----------------------|--------------|
| Balance at the beginning of the year | 3,674 | 1,931 | 5,605 |
| Provisions made during the year | – | 4,100 | 4,100 |
| Provision utilised during the year | – | (2,970) | (2,970) |
| Effect of discounting | 103 | – | 103 |
| Balance at June 30, 2012 | 3,777 | 3,061 | 6,838 |
| Current | – | 3,061 | 3,061 |
| Non-current | 3,777 | – | 3,777 |
| Total provisions at June 30, 2012 | 3,777 | 3,061 | 6,838 |
| Current | – | 1,931 | 1,931 |
| Non-current | 3,674 | – | 3,674 |
| Total provisions at June 30, 2011 | 3,674 | 1,931 | 5,605 |

Restoration and Rehabilitation

The activities of the Group give rise to obligations for asset and site restoration and rehabilitation. The provision recognised in the current year relates to site rehabilitation at Mount Weld and is measured at the expected value of future cash flows required to rehabilitate the site, discounted to its present value. As a component of the finalisation of the construction of the Phase 1 capital project in Malaysia, management is presently assessing the valuation of the associated restoration and rehabilitation provision which will be recognised on receipt of the TOL and on the commencement of production.

Onerous contracts

The provision for onerous contracts represents the expected value of the “take or pay” obligations the Group is currently obliged to make under non-cancellable supplier contracts.

26. EQUITY AND RESERVES

26.1 Share capital

| | AS AT JUNE 30, | | | |
|---|---------------------|----------------|---------------------|----------------|
| | 2012 | | 2011 | |
| | NUMBER OF SHARES | A\$'000 | NUMBER OF SHARES | A\$'000 |
| Balance at the beginning of the year | 1,713,647 | 821,994 | 1,655,499 | 719,857 |
| Equity raising | – | – | 47,548 | 98,355 |
| Issue of shares pursuant to option conversion | 1,382 | 1,167 | 10,600 | 3,268 |
| Equity raising costs | – | – | – | (1,851) |
| Deferred tax on equity raising costs | – | – | – | 2,365 |
| Balance at June 30 | 1,715,029 | 823,161 | 1,713,647 | 821,994 |

All issued ordinary shares are fully paid and have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share. All shares rank equally with regard to the Group's residual assets in the event of a wind-up.

Further detail regarding the issue of shares on option conversion is provided in note 30.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

26. EQUITY AND RESERVES CONTINUED

26.2 Reserves

| IN A\$'000 | AS AT JUNE 30, | |
|----------------------------------|----------------|--------------|
| | 2012 | 2011 |
| Equity settled employee benefits | 33,993 | 24,562 |
| Foreign currency translation | (36,132) | (25,941) |
| Investment revaluation | 865 | 5,518 |
| Other | 28,743 | – |
| Balance at June 30 | 27,469 | 4,139 |

The equity settled employee benefits reserve relates to share options granted by the Group to its employees under the employee share option plan. Further information about share-based payments to employees is set out in note 30.

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

The investment revaluation reserve represents the cumulative gains and losses arising on the revaluation of available for sale financial assets that have been recognised in other comprehensive income (see note 17).

The other reserve represents the equity component of the 225,000 thousand unsecured Mt Kellett convertible bonds issued during the year, net of tax (see note 23).

26.3 Earnings (loss) per share

The earnings and weighted average number of ordinary shares used in the calculations of basic and diluted loss per share are as follows:

| | AS AT JUNE 30, | |
|--|------------------|------------------|
| | 2012 | 2011 |
| Net loss attributed to ordinary shareholders (in A\$'000) | (87,770) | (59,086) |
| Loss used in calculating basic and diluted loss per share (in A\$'000) | (87,770) | (59,086) |
| Number of shares ('000) | | |
| Weighted average number of ordinary shares used in calculating basic loss per share: | 1,714,094 | 1,668,999 |
| Diluted earnings per share: | | |
| The number of options which are potential ordinary shares that are not dilutive and hence not used in the valuation of the diluted loss per share | 83,029 | 82,129 |
| The number of convertible bonds which are potential ordinary shares that are not dilutive and hence not used in the valuation of the diluted earnings per share – assuming 100% conversion at the inception date of the bonds. | 171,594 | – |
| Adjusted weighted average number of ordinary shares used in calculating diluted loss per share | 1,714,094 | 1,668,999 |
| Basic loss per share (cents per share) | (5.12) | (3.54) |
| Diluted loss per share (cents per share) | (5.12) | (3.54) |

26.4 Capital management

The Directors are responsible for monitoring and managing the Group's capital structure.

The Directors' policy is to maintain an acceptable capital base to promote the confidence of the Group's financiers and creditors and to sustain the future development of the business. The Directors monitor the Group's financial position to ensure that it complies at all times with its financial and other covenants as set out in its financing arrangements.

In order to maintain or adjust the capital structure, the Directors may elect to take a number of measures including, for example, to dispose of assets or operating segments of the business, to alter its short to medium term plans in respect of capital projects and working capital levels, or to re-balance the level of equity and external debt in place.

Capital comprises share capital, external debt and reserves.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

27. FINANCIAL RISK MANAGEMENT

27.1 Overview

This note presents information about the Group's exposure to market risk, credit risk and liquidity risk, and, where applicable, the Group's objectives, policies and procedures for managing these risks.

Exposure to market, credit and liquidity risks arise in the normal course of the Group's business. The Directors and management of the Group have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Directors have established a treasury policy that identifies risks faced by the Group and sets out policies and procedures to mitigate those risks. Monthly consolidated treasury reports are prepared for the Directors, who ensure compliance with the Group's risk management policies and procedures.

27.2 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's cash flows or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

(a) Foreign exchange risk

As a result of the Group's international operations, foreign exchange risk exposures exist on purchases, assets and borrowings that are denominated in foreign currencies (i.e. currencies other than the functional currency of each of the Group's operating entities). The currencies in which these transactions are primarily denominated are the AUD, USD and the Malaysian Ringgit ("MYR").

The Group takes advantage of natural offsets to the extent possible. Therefore, when commercially feasible, the Group borrows in the same currencies in which cash flows from operations are generated. Generally the Group does not use forward exchange contracts to hedge residual foreign exchange risk arising from receipts and payments denominated in foreign currencies. However, when considered appropriate the Group may enter into forward exchange contracts to hedge foreign exchange risk arising from specific transactions.

Exposure to foreign exchange risk

| IN A\$'000 | AUD | USD | TOTAL |
|-----------------------------|---------------|--------------|---------------|
| As at June 30, 2012 | | | |
| Cash and cash equivalents | 60,379 | 3,997 | 64,376 |
| Trade and other receivables | 4,088 | – | 4,088 |
| Total exposure | 64,467 | 3,997 | 68,464 |

| IN A\$'000 | USD | AUD | TOTAL |
|----------------------------|---------------|------------|---------------|
| As at June 30, 2011 | | | |
| Cash and cash equivalents | 225,292 | 342 | 225,634 |
| Loans and borrowings | | | |
| Sojitz loan facility | (212,364) | – | (212,364) |
| Total exposure | 12,928 | 342 | 13,270 |

In addition to the above, the Group is exposed to foreign exchange risk on future sales and purchases that are denominated in foreign currencies. It should be noted that during the year ended June 30, 2012 the Group altered the functional currency of the Company to the USD, which resulted in a change in the Group's currency exposure profile.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

27. FINANCIAL RISK MANAGEMENT CONTINUED

Significant exchange rates

The following significant exchange rates applied during the period:

| | AVERAGE RATE FOR THE YEAR ENDED JUNE 30, | | CLOSING RATE AS AT JUNE 30, | |
|-----|---|--------|--------------------------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| USD | 1.0367 | 0.9994 | 1.0159 | 1.0595 |
| MYR | 3.1968 | 3.0663 | 3.2431 | 3.2184 |

Sensitivity analysis

A change in exchange rates would impact future payments and receipts on the Group's assets and liabilities denominated in differing currencies to each respective member of the Group's functional currency. A 10% strengthening or weakening of these currencies against the respective Group member's functional currency, at the reporting date, would have increased (decreased) the reported profit or loss for the period in the statement of comprehensive income, by the amounts shown. This analysis assumes that all other variables, in particular interest rates, remain constant. The same basis has been applied for all periods presented.

| In A\$'000 | FOR THE YEAR ENDED JUNE 30, 2012 | | FOR THE YEAR ENDED JUNE 30, 2011 | |
|------------|-------------------------------------|-----------|-------------------------------------|-----------|
| | STRENGTHENING | WEAKENING | STRENGTHENING | WEAKENING |
| USD | 400 | (400) | 1,293 | (1,293) |
| AUD | 6,447 | (6,447) | 34 | (34) |

The Group's primary exposure to foreign exchange risk is on the translation of net assets of Group entities which are denominated in currencies other than AUD, which is the Group's presentation currency. The impact of movements in exchange rates is therefore recognised primarily in other comprehensive income.

Certain subsidiaries within the Group are exposed to foreign exchange risk on purchases denominated in currencies that are not the functional currency of that subsidiary. In these circumstances, a change in exchange rates would impact the net operating profit recognised in the profit or loss component of the Group's statement of comprehensive income.

Effective from January 24, 2012, the functional currency of Lynas Corporation Limited (the Parent) changed from AUD to USD, following the issue of the US\$225,000 thousand Mt Kellett convertible bonds.

(b) Interest rate risk

The Group's interest rate risk arises from long-term borrowings at both fixed and floating rates and deposits which earn interest at floating rates. Borrowings and deposits at floating rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group's primary exposure is to both floating and fixed interest rates on borrowings in Australia denominated in USD.

Interest rate risk on borrowings is partially offset by the Group as it has a component of its cash deposits in both floating and fixed rate accounts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

27. FINANCIAL RISK MANAGEMENT CONTINUED

The following table sets out the Group's interest rate risk repricing profile:

| IN A\$'000 | TOTAL | 6 MONTHS OR LESS | 6 TO 12 MONTHS | 1 TO 2 YEARS | 2 TO 5 YEARS | MORE THAN 5 YEARS |
|--|------------------|---------------------|-------------------|-----------------|------------------|----------------------|
| As at June 30, 2012 | | | | | | |
| Fixed rate instruments | | | | | | |
| Loans and borrowings | | | | | | |
| Mt Kellett convertible bonds | (182,045) | – | – | – | (182,045) | – |
| Total fixed rate instruments | (182,045) | – | – | – | (182,045) | – |
| Floating rate instruments | | | | | | |
| Cash and cash equivalents | 205,438 | 205,438 | – | – | – | – |
| Loans and borrowings | | | | | | |
| Sojitz loan facility | (221,479) | (221,479) | – | – | – | – |
| Total variable rate instruments | (16,041) | (16,041) | – | – | – | – |
| Total | (198,086) | (16,041) | – | – | (182,045) | – |

| IN A\$'000 | TOTAL | 6 MONTHS OR LESS | 6 TO 12 MONTHS | 1 TO 2 YEARS | 2 TO 5 YEARS | MORE THAN 5 YEARS |
|--|----------------|---------------------|-------------------|-----------------|-----------------|----------------------|
| As at June 30, 2011 | | | | | | |
| Floating rate instruments | | | | | | |
| Cash and cash equivalents | 433,956 | 433,956 | – | – | – | – |
| Loans and borrowings | | | | | | |
| Sojitz loan facility | (212,364) | (212,364) | – | – | – | – |
| Total variable rate instruments | 221,592 | 221,592 | – | – | – | – |
| Total | 221,592 | 221,592 | – | – | – | – |

The Group's sensitivity to interest rate risk can be expressed in two ways:

Fair value sensitivity analysis

A change in interest rates impacts the fair value of the Group's fixed rate borrowings. Given all debt instruments are carried at amortised cost, a change in interest rates would not impact the statement of comprehensive income as a component of the profit or loss.

Cash flow sensitivity analysis

A change in interest rates would have an impact on future interest payments and receipts on the Group's floating rate assets and liabilities. An increase or decrease in interest rates of 50 basis points at the reporting date would negatively or positively impact the statement of financial position result by the amounts shown, based on the assets and liabilities held at the reporting date and a one year time frame. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for comparative periods.

| IN A\$'000 | FOR THE YEAR ENDED 30 JUNE | |
|--|----------------------------|---------|
| | 2012 | 2011 |
| 50 basis point parallel increase in interest rates | (80) | 1,108 |
| 50 basis point parallel decrease in interest rates | 80 | (1,108) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

27. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Commodity and other price risk

Commodity and other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

27.3 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and related entities.

The Group's exposure to credit risk is primarily in its other receivables and is influenced mainly by the individual characteristics of each customer. Demographically there are no concentrations of credit risk.

27.4 Liquidity risk

Liquidity risk is the risk that the Group will not meet its contractual obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities as and when they fall due and comply with covenants under both normal and stressed conditions.

The Group evaluates its liquidity requirements on an ongoing basis and ensures that it has sufficient cash on demand to meet expected operating expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following table sets out contractual cash flows for all financial liabilities including derivatives.

| IN A\$'000 | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE | TOTAL | 1 MONTH OR LESS | 1 TO 3 MONTHS | 3 MONTHS TO 1 YEAR | 1 TO 5 YEARS | MORE THAN 5 YEARS |
|---|--|----------------|--------------------|------------------|-----------------------|-----------------|----------------------|
| As at June 30, 2012 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | n/a | 48,331 | 48,331 | – | – | – | – |
| Loans and borrowings | | | | | | | |
| Sojitz loan facility | 3.75% | 252,555 | 643 | 1,287 | 8,559 | 242,066 | – |
| Mt Kellett convertible bonds | (1) | 260,913 | 713 | 1,425 | 6,413 | 252,362 | – |
| Total | | 561,799 | 49,687 | 2,712 | 14,972 | 494,428 | – |
| As at June 30, 2011 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | n/a | 27,965 | 27,965 | – | – | – | – |
| Loans and borrowings | | | | | | | |
| Sojitz loan facility | 3.32% | 255,540 | 644 | 1,287 | 6,000 | 29,610 | 217,999 |
| Total | | 283,505 | 28,609 | 1,287 | 6,000 | 29,610 | 217,999 |

(1) The cash coupon on the instrument of 2.75% is payable on the \$US225,000 thousand principal. The weighted average effective interest rate is 8.07% on the Mt Kellett convertible bonds. This rate is impacted by the unwinding of the equity component of the instrument which is recognised as a component of the Group's net financing expenses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

27. FINANCIAL RISK MANAGEMENT CONTINUED

27.5 Classification and fair values

| IN A\$'000 | FAIR VALUE THROUGH THE PROFIT AND LOSS | AVAILABLE FOR SALE | CASH, LOANS AND RECEIVABLES | OTHER LIABILITIES | TOTAL CARRYING AMOUNT | TOTAL FAIR VALUE |
|------------------------------|---|-----------------------|-----------------------------------|----------------------|-----------------------------|---------------------|
| As at June 30, 2012 | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | – | – | 205,438 | – | 205,438 | 205,438 |
| Trade and other receivables | – | – | 2,470 | – | 2,470 | 2,470 |
| Investments | – | 3,754 | – | – | 3,754 | 3,754 |
| Other assets | – | – | 13,038 | – | 13,038 | 13,038 |
| Total assets | – | 3,754 | 220,946 | – | 224,700 | 224,700 |
| Liabilities | | | | | | |
| Trade and other payables | – | – | – | (48,331) | (48,331) | (48,331) |
| Tax payable | – | – | – | (120) | (120) | (120) |
| Loans and borrowings | | | | | | |
| Sojitz loan facility | – | – | – | (221,479) | (221,479) | (221,479) |
| Mt Kellett convertible bonds | – | – | – | (181,583) | (181,583) | (181,583) |
| Employee benefits | – | – | – | (1,812) | (1,812) | (1,812) |
| Total liabilities | – | – | – | (453,325) | (453,325) | (453,325) |

| IN A\$'000 | FAIR VALUE THROUGH THE PROFIT AND LOSS | AVAILABLE FOR SALE | CASH, LOANS AND RECEIVABLES | OTHER LIABILITIES | TOTAL CARRYING AMOUNT | TOTAL FAIR VALUE |
|-----------------------------|---|-----------------------|-----------------------------------|----------------------|-----------------------------|---------------------|
| As at June 30, 2011 | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | – | – | 433,956 | – | 433,956 | 433,956 |
| Trade and other receivables | – | – | 5,748 | – | 5,748 | 5,748 |
| Investments | – | 9,652 | – | – | 9,652 | 9,652 |
| Other assets | – | – | 3,731 | – | 3,731 | 3,731 |
| Total assets | – | 9,652 | 443,435 | – | 453,087 | 453,087 |
| Liabilities | | | | | | |
| Trade and other payables | – | – | – | (27,965) | (27,965) | (27,965) |
| Loans and borrowings | | | | | | |
| Sojitz loan facility | – | – | – | (212,364) | (212,364) | (212,364) |
| Employee benefits | – | – | – | (1,332) | (1,332) | (1,332) |
| Total liabilities | – | – | – | (241,661) | (241,661) | (241,661) |

The methods used in determining fair values of financial instruments are discussed in note 5.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

27. FINANCIAL RISK MANAGEMENT CONTINUED

27.6 Fair value measurements recognised in the statement of comprehensive income

The following table sets out an analysis of the Group's financial instruments that are measured subsequent to initial recognition at fair value grouped into levels based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| IN A\$'000 | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|--|--------------|----------|----------|--------------|
| As at June 30, 2012 | | | | |
| Available for sale financial assets | | | | |
| Listed shares | 3,754 | – | – | 3,754 |
| Total | 3,754 | – | – | 3,754 |

| IN A\$'000 | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|--|--------------|----------|----------|--------------|
| At as June 30, 2011 | | | | |
| Available for sale financial assets | | | | |
| Listed shares | 9,652 | – | – | 9,652 |
| Total | 9,652 | – | – | 9,652 |

28. RELATED PARTIES

Key management personnel compensation

The aggregate compensation made to the Directors and other members of KMP of the Group is set out below:

| IN A\$ | FOR THE YEAR ENDED 30 JUNE | |
|--|----------------------------|-------------------|
| | 2012 | 2011 |
| Short-term employee benefits | 3,984,094 | 3,558,316 |
| Other long-term benefits | 376,546 | 589,145 |
| Share-based payments | 7,403,530 | 7,650,076 |
| Total compensation paid to key management personnel | 11,764,170 | 11,797,537 |

The compensation of each member of the KMP of the Group for the current and prior year is set out within the Remuneration Report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

28. RELATED PARTIES CONTINUED

Transactions with key management personnel

Key management personnel equity holdings

The following tables outline the fully paid ordinary shares of the Group held by the Directors and other members of KMP during the 2012 and 2011 financial years.

| JUNE 30, 2012 | BALANCE AT JULY 1 | RECEIVED ON EXERCISE OF OPTIONS | NET OTHER CHANGE | BALANCE AT JUNE 30 |
|-----------------------------|----------------------|---------------------------------------|----------------------------|-----------------------|
| A. Arnold | 1,000 | – | 2,000 | 3,000 |
| G. Barr | 2,828 | – | – | 2,828 |
| N. Curtis | 16,045,758 | – | – | 16,045,758 |
| D. Davidson | 700,828 | – | – | 700,828 |
| W. Forde | 1,001,656 | – | – | 1,001,656 |
| J. Klein | 2,082,236 | – | – | 2,082,236 |
| E. Noyrez | – | – | – | – |
| Z. Switkowski | 400,828 | – | 300,000 | 700,828 |
| L. Catanzaro ⁽¹⁾ | – | – | – | – |
| K. Conlon ⁽²⁾ | – | – | 18,154 | 18,154 |
| J.G. Taylor ⁽³⁾ | 71,973 | – | (71,973) ⁽⁴⁾ | – |
| M. James ⁽⁵⁾ | 1,151,058 | – | (1,151,058) ⁽⁶⁾ | – |
| Total | 21,458,165 | – | (902,877) | 20,555,288 |

(1) Appointed December 12, 2011.

(2) Appointed November 1, 2011. Shares in Company held by spouse.

(3) Ceased as a member of the KMP on December 12, 2011.

(4) During the period J.G. Taylor ceased being a member of the KMP. All fully paid ordinary shares on issue at this time ceased being reported from this date for the purpose of this disclosure.

(5) Ceased as a member of the KMP on August 31, 2011.

(6) During the period M. James ceased being a member of the KMP. All fully paid ordinary shares on issue at this time ceased being reported from this date for the purpose of this disclosure.

| JUNE 30, 2011 | BALANCE AT JULY 1 | RECEIVED ON EXERCISE OF OPTIONS | NET OTHER CHANGE | BALANCE AT JUNE 30 |
|---------------|----------------------|---------------------------------------|---------------------|-----------------------|
| A. Arnold | 1,000 | – | – | 1,000 |
| G. Barr | 2,000 | – | 828 | 2,828 |
| N. Curtis | 23,045,758 | – | (7,000,000) | 16,045,758 |
| D. Davidson | 935,000 | – | (234,172) | 700,828 |
| W. Forde | 1,000,000 | – | 1,656 | 1,001,656 |
| J. Klein | 2,080,580 | – | 1,656 | 2,082,236 |
| E. Noyrez | – | – | – | – |
| Z. Switkowski | – | – | 400,828 | 400,828 |
| J.G. Taylor | 49,836 | – | 22,137 | 71,973 |
| M. James | 599,000 | 1,000,000 | (447,942) | 1,151,058 |
| Total | 27,713,174 | 1,000,000 | (7,255,009) | (21,458,165) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

28. RELATED PARTIES CONTINUED

Key management personnel share options

The following tables outline the options and performance rights issued for the benefit of Directors and the KMP during the 2012 and 2011 financial years and those options which have vested at each respective year-end.

| JUNE 30, 2012 | BALANCE AT BEGINNING OF PERIOD | GRANTED | GRANT DATE | OPTIONS EXERCISED/ CANCELLED/ OTHER ⁽¹⁾ | OPTIONS EXPIRED WITHOUT EXERCISE | NET CHANGE | BALANCE AT END OF PERIOD | AMOUNT VESTED AT JUNE 30, 2012 |
|-----------------------------|--------------------------------------|-------------------|----------------------------------|---|---|--------------------|--------------------------------|---|
| A. Arnold | 5,900,000 | 935,000 | September 23, 2011 | – | – | 935,000 | 6,835,000 | 2,000,000 |
| G. Barr | 850,000 | 1,210,000 | September 23, 2011 | – | – | 1,210,000 | 2,060,000 | 450,000 |
| L. Catanzaro ⁽²⁾ | – | 2,000,000 | December 12, 2011 | – | – | 2,000,000 | 2,000,000 | – |
| K. Conlon ⁽³⁾ | – | – | – | – | – | – | – | – |
| N. Curtis | 31,000,000 | 4,000,000 | November 30, 2011 ⁽⁶⁾ | – | (5,000,000) | (1,000,000) | 30,000,000 | 5,000,000 |
| D. Davidson | 3,100,000 | – | – | – | – | – | 3,100,000 | 800,000 |
| W. Forde | 4,000,000 | – | – | – | – | – | 4,000,000 | 1,100,000 |
| J. Klein | 3,100,000 | – | – | – | – | – | 3,100,000 | 800,000 |
| E. Noyrez | 8,000,000 | 2,000,000 | September 23, 2011 | – | – | 2,000,000 | 10,000,000 | – |
| Z. Switkowski | – | – | – | – | – | – | – | – |
| J.G. Taylor ⁽⁴⁾ | 2,500,000 | 1,020,000 | September 23, 2011 | (3,520,000) | – | (2,500,000) | – | – |
| M. James ⁽⁵⁾ | 7,250,000 | – | – | (5,250,000) | (2,000,000) | (7,250,000) | – | – |
| Total | 65,700,000 | 11,165,000 | | (8,770,000) | (7,000,000) | (4,605,000) | 61,095,000 | 10,150,000 |

(1) Other represents the derecognition of options and performance rights associated with individuals no longer members of the KMP or who have resigned their employment with the Group.

(2) Appointed December 12, 2011.

(3) Appointed November 1, 2011.

(4) Ceased as a member of the KMP on December 12, 2011, all options on issue at this time ceased being reported from this date for the purpose of this disclosure.

(5) Resigned August 31, 2011, all options on issue at this time ceased being reported from this date for the purpose of this disclosure.

(6) The options issued to N.Curtis were initially approved by the Board on September 23, 2011 and then subsequently approved by the shareholders of the Company at the AGM on November 30, 2011.

| JUNE 30, 2011 | BALANCE AT BEGINNING OF PERIOD | GRANTED | GRANT DATE | OPTIONS EXERCISED/ CANCELLED/ OTHER ⁽¹⁾ | OPTIONS EXPIRED WITHOUT EXERCISE | NET CHANGE | BALANCE AT END OF PERIOD | AMOUNT VESTED AT JUNE 30, 2011 |
|-------------------------|--------------------------------------|-------------------|-------------------|---|---|-------------------|--------------------------------|---|
| A. Arnold | 4,400,000 | 1,500,000 | August 19, 2010 | – | – | 1,500,000 | 5,900,000 | – |
| G. Barr | 650,000 | 200,000 | August 19, 2010 | – | – | 200,000 | 850,000 | 200,000 |
| J. Brien ⁽²⁾ | 700,000 | 2,500,000 | August 19, 2010 | (3,200,000) | – | (700,000) | – | – |
| N. Curtis | 27,000,000 | 9,000,000 | November 24, 2010 | (5,000,000) | – | 4,000,000 | 31,000,000 | 5,000,000 |
| D. Davidson | 1,900,000 | 1,200,000 | November 24, 2010 | – | – | 1,200,000 | 3,100,000 | – |
| W. Forde | 2,500,000 | 1,500,000 | November 24, 2010 | – | – | 1,500,000 | 4,000,000 | – |
| M. James | 6,250,000 | 2,000,000 | August 19, 2010 | (1,000,000) | – | 1,000,000 | 7,250,000 | 2,000,000 |
| J. Klein | 1,900,000 | 1,200,000 | November 24, 2010 | – | – | 1,200,000 | 3,100,000 | – |
| E. Noyrez | 5,000,000 | 3,000,000 | August 19, 2010 | – | – | 3,000,000 | 8,000,000 | – |
| Z. Switkowski | – | – | – | – | – | – | – | – |
| J.G.Taylor | 1,000,000 | 1,500,000 | August 19, 2010 | – | – | 1,500,000 | 2,500,000 | – |
| Total | 51,300,000 | 23,600,000 | | (9,200,000) | – | 14,400,000 | 65,700,000 | 7,200,000 |

(1) Other represents the derecognition of options and performance rights associated with individuals no longer members of the KMP or who have resigned their employment with the Group.

(2) Resigned April 4, 2011.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

28. RELATED PARTIES CONTINUED

All share options and performance rights issued to KMP were made in accordance with the provisions of the employee share option plan. Further details of the employee share option plan and of the share options granted during the 2012 and 2011 financial years are contained in note 30.

Other than those noted above, there were no transactions entered into by the Group with the KMP during the 2012 and 2011 financial years.

Other related party transactions

Lynas Corporation Limited is the ultimate controlling party of the Group. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

29. GROUP ENTITIES

| NAME OF GROUP ENTITY | PRINCIPAL ACTIVITY | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST AS AT JUNE 30, | |
|---------------------------------|--|--------------------------|--------------------------------------|------|
| | | | 2012 | 2011 |
| Lynas Malaysia Sdn Bdh | Development of advanced material processing plant | Malaysia | 100% | 100% |
| Lynas Services Pty Ltd* | Provision of corporate services | Australia | 100% | 100% |
| Mount Weld Holdings Pty Ltd* | Holding company | Australia | 100% | 100% |
| Mount Weld Mining Pty Ltd* | Development of mining areas of interest and operation of concentration plant | Australia | 100% | 100% |
| Mount Weld Rare Earths Pty Ltd* | Dormant | Australia | 100% | 100% |
| Lynas Africa Holdings Pty Ltd* | Holding company | Australia | 100% | 100% |
| Lynas Africa Ltd | Mineral exploration | Malawi | 100% | 100% |

* Entity has entered into a deed of cross guarantee with Lynas Corporation Limited pursuant to ASIC Class Order 98/1418 and is relieved from the requirement to prepare and lodge an audited financial report, as discussed in note 33. Entity is also a member of the tax-consolidated group.

30. EMPLOYEE SHARE OPTION PLAN

An employee share option plan has been established whereby the Company may, at the discretion of Directors, grant options over the ordinary shares of the Group for the benefit of Directors, Executives and certain employees of the Group. The options issued for nil consideration are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. Each option is convertible into one ordinary share of the Company during the two years following the vesting date, which is the third anniversary of the grant date. The exercise price is the volume weighted average market price for the five days preceding the date the option is granted. The options hold no voting or dividend rights and are not transferable.

Options and Performance Rights are provided to KMP and other selected employees to provide greater alignment to our strategic business objectives. They have three year vesting periods, and are exercisable between three and five years after they were granted provided the employee is still employed with the Group (unless this requirement, in limited circumstances, is waived by the Board), and any relevant performance conditions are achieved.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

30. EMPLOYEE SHARE OPTION PLAN CONTINUED

The following table summarises the performance conditions attached to Options and Performance Rights issued during the financial year ended June 30, 2012 and to be issued during June 30, 2013 (in addition to the requirement that the employee is still employed by the Group at the end of a three year vesting period):

| | VESTING SCHEDULE | FOR GRANTS MADE IN FY2012 | FOR GRANTS TO BE MADE IN FY2013 |
|---|--|---|--|
| TSR hurdle (performance against ASX 100 companies) (50%) | 50% of the TSR portion will vest for: | 50th percentile performance | 51st percentile performance |
| | 100% of the TSR portion will vest for: | 75th percentile performance | 76th percentile performance |
| | Pro-rata vesting will occur between each of the above points | | |
| REO capacity hurdle (50%) | n/a | Lynas Kuantan plant must have demonstrated capacity to produce 22,000 tonnes per annum of REO over at least a four week period during last calendar quarter of 2013 | Lynas Kuantan plant must have demonstrated capacity to produce at a rate equivalent to 22,000 tonnes per annum of REO before the end of calendar year 2013 |

The Board considered that having the Lynas Kuantan plant demonstrate the capacity to produce 22,000 tonnes per annum of REO is currently the most important measure of long-term success for the Group. The reference to "before the end of calendar year 2013" was considered by the Board to be appropriate in light of the regulatory delays in Malaysia which have delayed the commissioning of Phase 1 of the Lynas Kuantan plant.

During the year, the Board approved a change to the Group's employee option plan and employee performance rights plan. From April 2012 onwards, any options or performance rights will not automatically vest during a takeover bid period. Options and performance rights will automatically vest if a change of control actually occurs in respect of the Company, unless the Board in its discretion resolves otherwise.

In accordance with the Group's policy that governs trading of the Company's shares by Directors and employees, Directors and employees are not permitted to hedge their options or performance rights before the options vest.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

30. EMPLOYEE SHARE OPTION PLAN CONTINUED

The following table lists any options and performance rights which are still to vest, or have yet to expire.

| SERIES | GRANT DATE | NUMBER | DATE VESTED AND EXERCISABLE | EXPIRY DATE | EXERCISE PRICE | VALUE PER OPTION AT GRANT DATE |
|--------------|---------------------|-------------------|-----------------------------------|--------------------|-------------------|--------------------------------------|
| A | August 20, 2007 | 50,000 | August 24, 2010 | August 24, 2012 | \$ 0.81 | \$ 0.49 |
| B | March 19, 2008 | 500,000 | December 31, 2010 | December 31, 2012 | \$ 1.06 | \$ 0.53 |
| C | July 21, 2008 | 1,000,000 | July 21, 2011 | July 21, 2013 | \$ 0.98 | \$ 0.52 |
| D | September 24, 2008 | 14,200,000 | September 24, 2011 | September 24, 2013 | \$ 0.66 | \$ 0.33 |
| E | September 24, 2008 | 2,700,000 | September 24, 2011 | September 24, 2013 | \$ 0.81 | \$ 0.34 |
| F | January 5, 2009 | 1,100,000 | January 5, 2012 | January 5, 2014 | \$ 0.16 | \$ 0.16 |
| G | July 10, 2009 | 200,000 | September 24, 2011 | September 24, 2013 | \$ 0.66 | \$ 0.08 |
| H | October 8, 2009 | 24,500,000 | October 8, 2012 | October 8, 2014 | \$ 0.66 | \$ 0.23 |
| I | July 1, 2010 | 1,000,000 | July 1, 2013 | July 1, 2015 | \$ 0.66 | \$ 0.24 |
| J | August 19, 2010 | 10,500,000 | August 19, 2013 | August 19, 2015 | \$ 1.15 | \$ 0.34 |
| K | August 19, 2010* | 1,608,618 | August 19, 2013 | August 19, 2015 | \$ 0.00 | \$ 0.96 |
| L | October 1, 2010 | 1,000,000 | October 1, 2013 | October 1, 2015 | \$ 1.60 | \$ 0.48 |
| M | August 19, 2010 | 12,900,000 | August 19, 2013 | August 19, 2015 | \$ 1.15 | \$ 0.66 |
| N | May 18, 2011 | 200,000 | October 1, 2011 | December 31, 2015 | \$ 2.36 | \$ 1.12 |
| O | June 6, 2011* | 420,000 | June 6, 2014 | June 6, 2016 | \$ 0.00 | \$ 2.30 |
| P | November 30, 2011 | 4,000,000 | September 22, 2014 ⁽¹⁾ | September 22, 2016 | \$ 1.69 | \$ 0.40 |
| Q | September 23, 2011 | 4,145,000 | September 22, 2014 | September 22, 2016 | \$ 1.69 | \$ 0.55 |
| R | September 22, 2011* | 30,232 | September 22, 2012 | September 22, 2014 | \$ 0.00 | \$ 1.41 |
| S | September 22, 2011* | 20,245 | September 22, 2013 | September 22, 2015 | \$ 0.00 | \$ 1.41 |
| T | September 22, 2011* | 10,323 | September 22, 2014 | September 22, 2016 | \$ 0.00 | \$ 1.41 |
| U | September 22, 2011* | 945,000 | September 22, 2014 | September 22, 2016 | \$ 0.00 | \$ 1.34 |
| V | December 12, 2011 | 2,000,000 | December 12, 2014 | December 12, 2016 | \$ 1.57 | \$ 0.51 |
| Total | | 83,029,418 | | | | |

(1) The options issued to N.Curtis were initially approved by the Board on September 23, 2011 and then subsequently approved by the shareholders of the Company at the AGM on November 30, 2011.

* Denotes Performance Rights which are issued on the same terms as Options, except there is no consideration payable on exercise.

Fair value of share options granted in the year

The weighted average fair value of the share options granted during the financial year is \$1,041,084 (2011:\$2,353,401). Options were priced using a Black Scholes Merton methodology. Where relevant the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past three years and peer volatility.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

30. EMPLOYEE SHARE OPTION PLAN CONTINUED

Inputs into the model

| | OPTION SERIES P | OPTION SERIES Q | OPTION SERIES V | PERFORMANCE RIGHTS SERIES R-U |
|-----------------------------|--------------------|--------------------|--------------------|-------------------------------------|
| Grant date share price (\$) | 1.22 | 1.06 | 1.36 | 1.11 |
| Exercise price (\$) | 1.69 | 1.69 | 1.57 | 0.00 |
| Expected volatility | 50% | 50% | 50% | 50% |
| Option life | 5 years | 5 years | 5 years | 5 years |
| Dividend yield | Nil | Nil | Nil | Nil |
| Risk-free interest rate | 4.75% | 4.75% | 4.75% | 4.75% |

Movements in share options during the year

| | FOR THE YEAR ENDED JUNE 30, 2012 | | FOR THE YEAR ENDED JUNE 30, 2011 | |
|-------------------------------|----------------------------------|---|----------------------------------|---|
| | NUMBER OF OPTIONS ('000) | WEIGHTED AVERAGE EXERCISE PRICE (\$) | NUMBER OF OPTIONS ('000) | WEIGHTED AVERAGE EXERCISE PRICE (\$) |
| Balance at beginning of year | 82,329 | 0.84 | 65,000 | 0.66 |
| Granted during the year | 12,170 | 1.53 | 27,929 | 1.07 |
| Forfeited during the year | (1,320) | 1.31 | – | – |
| Exercised during the year | (1,382) | 0.89 | (10,600) | 0.45 |
| Expired during the year | (8,768) | 1.00 | – | – |
| Balance at end of year | 83,029 | 0.92 | 82,329 | 0.84 |
| Exercisable at end of year | 19,850 | 0.70 | 10,500 | 1.01 |

Share options exercised during the year

The following share options were exercised during year:

| EXERCISE DATE | NUMBER EXERCISED | SHARE PRICE AT EXERCISE DATE (\$) | EXERCISE PRICE (\$) |
|-------------------|---------------------|---|------------------------|
| August 12, 2011 | 200,000 | 1.74 | 1.09 |
| February 13, 2012 | 50,000 | 1.39 | 1.01 |
| February 7, 2012 | 350,000 | 1.22 | 0.66 |
| February 8, 2012 | 100,000 | 1.22 | 0.91 |
| February 16, 2012 | 50,000 | 1.22 | 0.64 |
| March 13, 2012 | 100,000 | 1.10 | 0.66 |
| May 4, 2012 | 50,000 | 1.07 | 1.01 |
| May 4, 2012 | 50,000 | 1.07 | 1.01 |
| May 16, 2012 | 250,000 | 0.92 | 1.01 |
| June 25, 2012 | 182,218 | 0.91 | 1.01 |
| | 1,382,218 | | |

Share options outstanding at the end of the year

The share options outstanding at the end of the year had a weighted average exercise price of \$0.92 and a weighted average remaining contractual life of 943 days.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

31. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

| IN A\$'000 | AS AT JUNE 30, | |
|----------------------------|----------------|---------------|
| | 2012 | 2011 |
| Less than one year | 4,698 | 2,967 |
| Between one and five years | 8,133 | 5,301 |
| More than five years | – | 4,301 |
| Total | 12,831 | 12,569 |

During the year ended June 30, 2012 \$3,910 thousand was recognised as an expense in the statement of comprehensive income as a component of the profit or loss in respect of operating leases (2011: \$2,026 thousand).

The Group has contracts for several operating leases for business premises located in Sydney, Perth, Laverton, Beijing and Gebeng. The Group also has several operating leases for motor vehicles and mobile plant and equipment.

32. CAPITAL COMMITMENTS

There were no outstanding commitments, which are not disclosed in the consolidated financial report of the Group as at June 30, 2012 other than:

Exploration commitments

| IN A\$'000 | AS AT JUNE 30, | |
|----------------------------|----------------|--------------|
| | 2012 | 2011 |
| Less than one year | 270 | 407 |
| Between one and five years | 1,034 | 1,385 |
| More than five years | 3,076 | 1,692 |
| Total | 4,380 | 3,484 |

These include commitments relating to tenement lease rentals and the minimum expenditure requirements of the Department of Mines and Petroleum attaching to the tenements and are subject to re-negotiation upon expiry of the exploration leases or when application for a mining licence is made. These are necessary in order to maintain the tenements in which the Group and other parties are involved. All parties are committed to meet the conditions under which the tenements were granted in accordance with the relevant mining legislation.

Capital commitments

| IN A\$'000 | AS AT JUNE 30, | |
|--------------------|----------------|---------------|
| | 2012 | 2011 |
| Less than one year | 68,021 | 92,714 |
| Total | 68,021 | 92,714 |

The Group has issued contracts and orders for the procurement of equipment and services in relation to the development of the Concentration Plant at Mount Weld and the LAMP in Malaysia. At June 30, 2012 the uncommitted expenditure totalled \$10,521 thousand (2011: \$73,900 thousand).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

33. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated August 13, 1998, the wholly-owned Australian subsidiaries of Lynas Corporation Limited are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up event occurs under any other provision of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound-up.

The subsidiaries in addition to the Company subject to the deed are specified in note 29.

A statement of comprehensive income and statement of financial position, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee is presented as follows.

Statement of financial position

| IN A\$'000 | AS AT JUNE 30, | |
|--|------------------|------------------|
| | 2012 | 2011 |
| Assets | | |
| Cash and cash equivalents | 181,221 | 348,444 |
| Trade and other receivables | 2,086 | 2,154 |
| Inventories | 31,882 | 5,110 |
| Total current assets | 215,189 | 355,708 |
| Inventories | 13,272 | 18,674 |
| Property, plant and equipment | 98,270 | 87,904 |
| Deferred exploration, evaluation and development expenditure | 26,342 | 23,855 |
| Intangible assets | 261 | 346 |
| Available for sale financial assets | 3,754 | 9,652 |
| Investments in subsidiaries | 375,080 | 375,080 |
| Other assets | 365,341 | 67,799 |
| Impairment of intercompany balances | – | (125,432) |
| Total non-current assets | 882,320 | 457,878 |
| Total assets | 1,097,509 | 813,586 |
| Liabilities | | |
| Trade and other payables | (8,000) | (15,424) |
| Employee benefits | (1,337) | (985) |
| Total current liabilities | (9,337) | (16,409) |
| Provisions | (3,777) | (3,649) |
| Employee benefits | (414) | (325) |
| Borrowings | (403,062) | (212,364) |
| Total non-current liabilities | (407,253) | (216,338) |
| Total liabilities | (416,590) | (232,747) |
| Net assets | 680,919 | 580,839 |
| Equity | | |
| Share capital | 823,161 | 821,994 |
| Retained earnings (accumulated deficit) | (210,387) | (271,236) |
| Reserves | 68,145 | 30,081 |
| Total equity | 680,919 | 580,839 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

33. DEED OF CROSS GUARANTEE CONTINUED

Statement of comprehensive income

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | |
|--|-----------------------------|------------------|
| | 2012 | 2011 |
| Other income | 11,222 | – |
| Reversal of impairment (impairment) of intercompany balances | 125,432 | (125,432) |
| General and administration expenses | (60,232) | (47,654) |
| Other expenses | – | (1,322) |
| Profit (loss) from operating activities | 76,422 | (174,408) |
| Financial income | 4,073 | 5,517 |
| Financial expenses | (30,040) | (9,185) |
| Net financial income (expenses) | (25,967) | (3,668) |
| Profit (loss) before income tax | 50,455 | (178,076) |
| Income tax benefit (expense) | 10,394 | – |
| Profit (loss) for the year from continuing operations | 60,849 | (178,076) |
| Other comprehensive income, net of income tax | | |
| Exchange differences on translating foreign operations | 4,858 | – |
| Gain on available for sale financial assets | (4,653) | 5,518 |
| Total other comprehensive profit (loss) for the year, net of income tax | 205 | 5,518 |
| Total comprehensive income (loss) for the year | 61,054 | (172,558) |

34. COMPANY ENTITY INFORMATION

| IN A\$'000 | AS AT JUNE 30, | |
|---|------------------|------------------|
| | 2012 | 2011 |
| Current assets | 179,800 | 345,533 |
| Total assets | 1,192,163 | 839,476 |
| Current liabilities | (2,927) | – |
| Total liabilities | (419,815) | (212,364) |
| Net assets | 772,348 | 627,112 |
| Share capital | 823,161 | 821,994 |
| Retained earnings (accumulated deficit) | (143,074) | (224,963) |
| Reserves | 92,261 | 30,081 |
| Total shareholders' equity | 772,348 | 627,112 |

| IN A\$'000 | FOR THE YEAR ENDED JUNE 30, | |
|--|-----------------------------|-----------|
| | 2012 | 2011 |
| Profit (loss) of the Company | 81,889 | (138,335) |
| Total comprehensive income (loss) of the Company | 82,094 | (132,817) |

35. CONTINGENCIES

Litigation and legal proceedings

As result of its operations the Group has certain contingent liabilities related to certain litigation and legal proceedings. The Group has determined that the possibility of a material outflow related to these contingent liabilities is remote.

Security and guarantee arrangements

Certain members of the Group have entered into guarantee and security arrangements in respect of the Group's indebtedness as described in note 23.

36. REVISION/RECLASSIFICATION OF COMPARATIVE INFORMATION

During the year, the Group elected to make certain changes to the presentation of its financial information that has resulted in revisions to the comparative information previously presented. The material revisions in re-presenting the comparative information are as follows:

- tenements rights previously included as a component of other assets are now presented as a component of deferred exploration, evaluation and development expenditure; and
- the composition of reportable segments has changed during the year. As a result of this, the corresponding information disclosed for the year ended June 30, 2011 has been revised.

37. SUBSEQUENT EVENTS

On September 5, 2012 the Group received confirmation from the AELB in Malaysia that the TOL for the Kuantan facility had been finalised and granted. As a result of the receipt of the TOL the Group commenced its ramp-up of operations.

On September 21, 2012 the Group announced an upgrade to the Mount Weld Ore Reserves based on a mining study that re-optimised the pit design using the updated Mineral Resources estimate that was announced to the ASX on 18 January 2012. The revised Ore Reserves at the Central Lanthanide Deposit (CLD), applying cut-off grades ranging from 4 to 7% depending on the type of ore, are estimated at 9.7 million tonnes at an average grade of 11.7% REO for a total of 1.14 million tonnes of contained REO. The Ore Reserves estimate for the CLD is 362% higher compared with the 2005 Feasibility Study and the contained REO in the Ore Reserves is 260% higher than the 2005 estimate.

Given the delay in the receipt of the TOL, as at September 30, 2012, the Group anticipates it would not have met certain requirements in the Sojitz loan facility, which related to the year ended June 30, 2012. Therefore, on September 25, 2012 the Group entered into an Amendment Deed (the "Deed") with respect to the Sojitz loan facility. Under the terms of the Deed and as a result of the delays in first production at the LAMP, the parties have agreed to postpone the measurement of certain financial covenant tests until nine months after Completion of Phase 1 (as defined under the Sojitz loan facility). As a result of entering into the Deed, the Group has agreed that certain restrictions will apply until nine months after Completion of Phase 1. Those temporary restrictions relate to capital and dividend returns to shareholders, limitations on the incurrence of new indebtedness (capped at US\$80,000 thousand) and a temporary higher interest rate of LIBOR as published quarterly plus a margin of 5.25%.

As announced on September 25, 2012 the Kuantan High Court has issued an interim order maintaining the status quo in respect of the TOL that has previously been issued for the LAMP and pending a hearing that is scheduled for October 4, 2012.

With the exception of the above, there have been no other events subsequent to June 30, 2012 that would require accrual or disclosure in the financial report.

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report. The information is current as at September 6, 2012.

(a) Distribution of ordinary shares

The number of shareholders, by size of holding, of ordinary shares is:

Ordinary shares

| | NUMBER OF HOLDERS | NUMBER OF SHARES |
|--|-------------------|----------------------|
| 1 – 1,000 | 5,411 | 3,538,499 |
| 1,001 – 5,000 | 12,498 | 37,399,455 |
| 5,001 – 10,000 | 6,872 | 54,552,593 |
| 10,001 – 100,000 | 10,220 | 301,320,435 |
| 100,001 and over | 1,126 | 1,319,318,149 |
| Total on Register | 36,127 | 1,716,129,131 |
| The number of shareholders holding less than a marketable parcel of shares | 2,335 | 790,767 |

(b) Distribution of Options/ Performance Rights

The numbers of holders, by size of holding, in each class of unlisted options are:

| | VARIOUS DIRECTORS AND EMPLOYEES |
|------------------|------------------------------------|
| 1 – 1,000 | – |
| 1,001 – 5,000 | – |
| 5,001 – 10,000 | – |
| 10,001 – 100,000 | 25 |
| 100,001 and over | 26 |
| Total | 51 |

(c) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

| HOLDER NAME | LISTED ORDINARY SHARES | |
|--|------------------------|-------------------------------|
| | NUMBER OF SHARES | PERCENTAGE OF ORDINARY SHARES |
| 1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 251,809,703 | 14.673 |
| 2. JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C> | 224,633,496 | 13.090 |
| 3. NATIONAL NOMINEES LIMITED | 143,585,176 | 8.367 |
| 4. JP MORGAN NOMINEES AUSTRALIA LIMITED | 110,803,748 | 6.457 |
| 5. CITICORP NOMINEES PTY LIMITED | 99,278,765 | 5.785 |
| 6. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA | 16,920,891 | 0.986 |
| 7. MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 12,662,843 | 0.738 |
| 8. JAPAN AUSTRALIA RARE EARTHS BV | 10,972,275 | 0.639 |
| 9. BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP> | 10,927,326 | 0.637 |
| 10. UOB KAY HIAN PRIVATE LIMITED <CLIENTS A/C> | 10,642,500 | 0.620 |
| 11. MR CONGLIN YUE | 10,200,000 | 0.594 |
| 12. NYCO PTY LIMITED <N A CURTIS SUPER FUND A/C> | 9,902,673 | 0.576 |
| 13. LANDO PTY LTD <JOHN LOOSEMORE FAMILY A/C> | 9,400,000 | 0.548 |
| 14. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 8,489,495 | 0.495 |
| 15. AMP LIFE LIMITED | 8,159,338 | 0.475 |
| 16. BNP PARIBAS NOMS PTY LTD <SMP ACCOUNTS DRP> | 8,038,889 | 0.468 |
| 17. SHARE DIRECT NOMINEES PTY LTD <10026 A/C> | 7,751,948 | 0.452 |
| 18. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 7,362,530 | 0.429 |
| 19. ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | 7,033,724 | 0.410 |
| 20. ALIANA PTY LTD <MARK SUHR SUPER FUND A/C> | 6,280,000 | 0.366 |
| Total | 974,855,320 | 56.805 |

(d) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporation Act 2001* are:

| | NUMBER OF SHARES |
|---|------------------|
| 1. Morgan Stanley Investment Management Inc | 121,119,201 |
| 2. Mitsubishi UFJ Financial Group, Inc ⁽¹⁾ | 137,616,065 |

(1) A substantial portion of these Lynas shares represent a deemed relevant interest which arises by virtue of Mitsubishi UFJ Financial Group, Inc having voting power of over 20% in Morgan Stanley Investment Management Inc.

(e) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(f) Schedule of interests in mining tenements

| LOCATION | TENEMENT | PERCENTAGE HELD |
|--|--------------|-----------------|
| Mt Weld Rare Earths Project | | |
| Mt Weld | M38/58 | 100 |
| Mt Weld | M38/59 | 100 |
| Mt Weld | M38/326 | 100 |
| Mt Weld | M38/327 | 100 |
| Kangankunde Rare Earths Project | | |
| Kangankunde, Malawi | ML 0122/2003 | 100 |

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