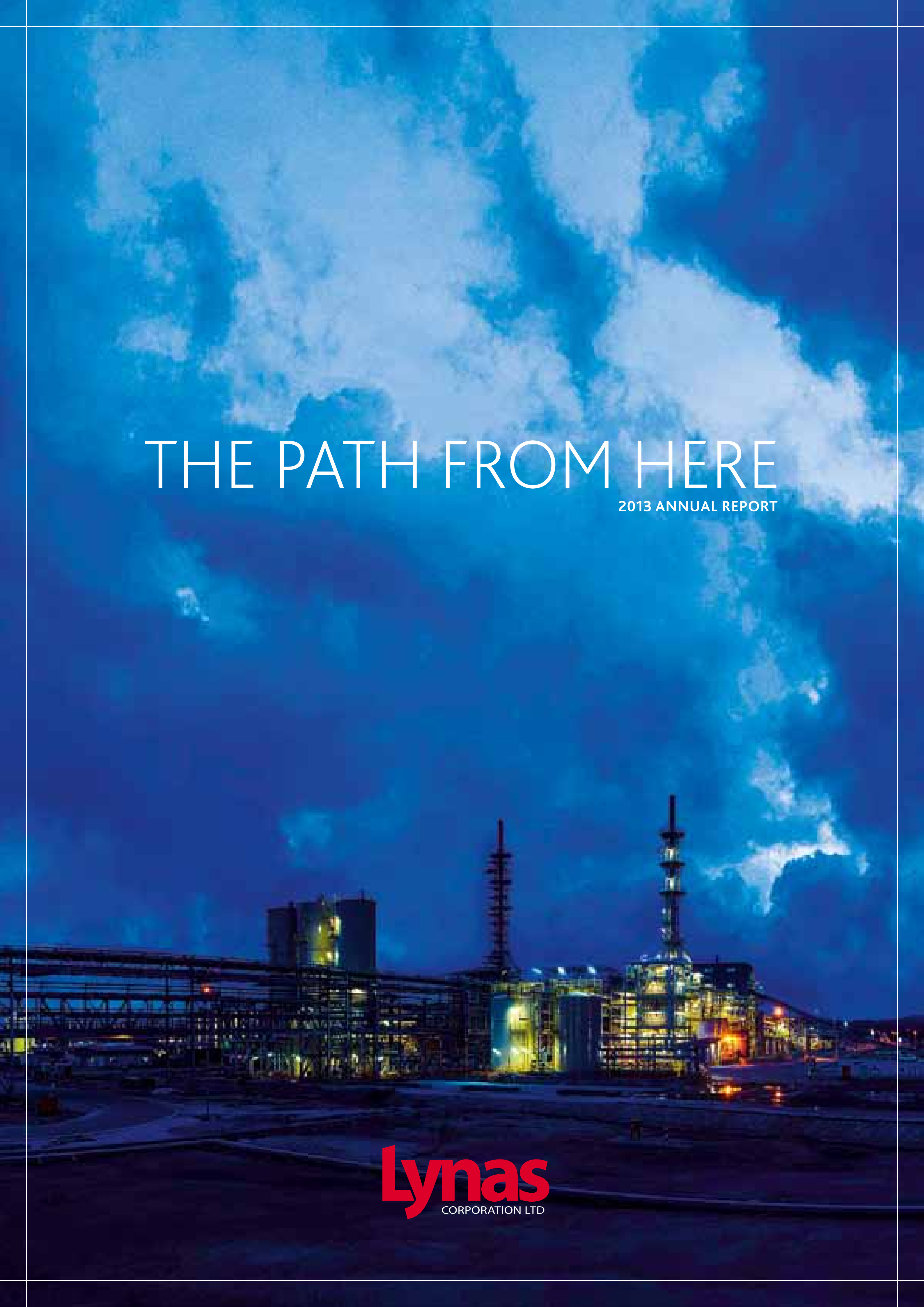
THE PATH FROM HERE

2013 ANNUAL REPORT



Lynas
CORPORATION LTD

Contents

Lynas has continued to achieve significant milestones during FY2013. With our vision to become the leader in Rare Earths for a sustainable future in sight, we remain committed to our core values:

SAFE FOR PEOPLE

SAFE FOR THE ENVIRONMENT

SECURE FOR CUSTOMERS

SAFE FOR PEOPLE

FOCUSSED ON THE SAFETY AND HEALTH OF OUR EMPLOYEES, BUSINESS PARTNERS AND THE COMMUNITY.

At Lynas, we are dedicated to becoming the benchmark for occupational safety and health standards in the global Rare Earths industry by providing and maintaining a safe working environment and preventing injury, illness and impairment to the health of our employees, business partners and the community. Our goal is Zero Harm.

	LOST TIME INJURY FREQUENCY RATIO
Chemicals industry peer 1	0.5
Chemicals industry peer 2	0.8
Lynas Corporation	**0.9**
Mining industry peer 1	1.5
Chemicals industry peer 3	1.7
Mining industry peer 2	1.9
Chemicals industry peer 4	2.4
Mining industry peer 3	3.7


ZERO
HARM

CONTRIBUTING TOWARDS ★ SUSTAINABLE DEVELOPMENT ★

SAFE FOR THE ENVIRONMENT

PAVING THE WAY IN WORLD CLASS SAFETY AND ENVIRONMENTAL STANDARDS.

Real-time independent monitoring of environmental data from the Lynas Advanced Materials Plant (LAMP) in Malaysia verifies no increase in radiological risk and that all emissions and discharges are below permissible limits. Results are publicly displayed at LAMP, in Kuantan and via Malaysia's Department of Environment and Atomic Energy Licensing Board websites.

SECURE FOR CUSTOMERS

COMMITTED TO CREATING A GREENER AND MORE SUSTAINABLE SUPPLY CHAIN.

Rare earths are essential ingredients enabling the advanced technologies that provide applications delivering a greener and more energy-efficient world. Lynas' mission is to provide a secure and sustainable rare earths supply chain to its customers operating in or supplying the oil refining, automotive, consumer electronics, lighting and power generation industries around the world.

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

CHAIRMAN'S LETTER

DEAR SHAREHOLDERS,

As Chairman of Lynas Corporation, and on behalf of my fellow Directors, I am pleased to be able to present our Annual Report for 2013.

This has been the most important year in our history in moving Lynas toward achieving its vision of becoming the leading global supplier of rare earths for a sustainable future. The Lynas Advanced Materials Plant (LAMP) in Malaysia is now complete and undergoing ramp up to targeted production capacity. Conditions in the global rare earths markets have been difficult and we have experienced a number of important operational challenges. But despite this, the production of our first products for customers in February 2013 represented an auspicious moment in the Company's history. Also noteworthy during the year were the commissioning of the Phase 2 expansion of our Mount Weld Concentration Plant in Western Australia and the virtual completion of the construction of the Phase 2 expansion of the LAMP. Pending final approvals, we expect first production from LAMP Phase 2 shortly, although subsequent ramp-up will be determined by market conditions.

I look forward in future annual reports to detailing highlights in terms of production, sales and financial metrics. For FY2013, our highlights are measured in terms of concluding our construction phase, embarking on our journey into sustainable production, and the attendant conversations we are having with customers about our products. Initial production and sales volumes are smaller than we would have liked; however, viewed in the context of our 12-year journey to achieve production, I believe they are significant nonetheless. A detailed review of operations for the year is contained in the Directors' Report, beginning on page 22.

Commercial production of rare earths is a much more complex and capital-intensive undertaking than production of many other mineral commodities. In reality, our business is as much about chemicals processing as it is about mining. Supplying our customers with refined rare earth products is only possible after an exhaustive process involving mining, crushing and concentration of ore, followed by cracking, leaching, purification, separation, and final processing to meet specific customer product specifications. Then follows a qualification process by each customer for rare earth material that can as be short as a few weeks or as long as a year – it is only complete when the customer concludes their specifications have been satisfactorily met. I am pleased to report that, at the time of writing, we had received 25 qualifications for products by customers with a similar number pending, and that we have achieved sales for each of the products that LAMP has been designed to produce.

For the past few years, our focus has been principally on construction — the construction of a concentration plant at Mount Weld in Western Australia and the construction of a state-of-the-art rare earths production facility at Gebeng in Pahang, Malaysia. With these efforts now largely accomplished, we are increasingly focused on operations, on ramping up production, on achieving quality that meets individual customer specifications, and on reducing costs and delivering value to our stakeholders.

With our total investment now in excess of $1 billion in Malaysia and $300 million in our Mount Weld operations, we look confidently towards FY2014 as a year during which we will achieve production substance and continue to transform the company to deliver sustainable returns to shareholders.

SHARED VALUE / THE LYNAS WAY

Lynas is committed to the concept that our activities are directed to benefitting all constituencies with which we engage. We believe that seeking beneficial returns for our shareholders cannot be done without also benefitting our communities, employees, customers and suppliers. In other words, we are engaged in a partnership for sustainable and mutual benefit, and this unwavering commitment to Shared Value guides our decisions at Lynas. First among equals are those who invest in our company and those who support us by purchasing our products, but just as important are our host communities, our employees and contractors, and our business partners. Examples of our community activities can be found in the CEO's Review following.

The fundamental set of behaviours and principles that underpins all of our activities is The Lynas Way. We are committed to ensuring that everything we do reflects The Lynas Way, and this includes a policy of zero tolerance with respect to bribery and other forms of corrupt behaviour. This is captured by the Lynas Anti-Bribery Policy and associated policies (such as the Lynas Code of Conduct and the Lynas Whistleblower Policy), and these policies extend beyond Directors and employees to contractors and suppliers. These policies can be viewed on our website.

Production Technician Riduan Yusof (L) and Production Supervisor Khairul Anuwa (R) overseeing lanthanum oxide product finishing in the tunnel furnace at Lynas Advanced Material Plant, Gebeng, Malaysia.

BOARD RENEWAL

I would like to take this opportunity to thank my Board colleagues, the Lynas management team, and our employees and contractors for their efforts and commitment during the 2013 financial year. We have now completed building the world's biggest, most advanced, and environmentally-friendly rare earths plant, and offer our customers an integrated, sustainable source of rare earths. Our vision of being "the global leader in rare earths for a sustainable future" is truly achievable.

Following the achievement of first production for customers from the LAMP, the Lynas Board determined it an appropriate time to implement the planned CEO succession. Consequently, from March 31, I became a non-executive Chairman and Eric Noyrez was appointed an Executive Director and Chief Executive Officer. With the subsequent appointment in August 2013 of Jean-Claude Steinmetz as Chief Operating Officer, based in Malaysia, I believe Lynas now has two very qualified and capable senior executives with a collective 70-plus years of rare earths, chemicals and industrial company management expertise.

Also in August, David Davidson and Zygmunt Switkowski announced their departure from the Lynas Board. On behalf of my Board colleagues and the entire company, I would again like to thank David and Ziggy for their counsel and their contributions to the Company through its development phase. I previously acknowledged David's contribution to helping to shape the culture and organisation of Lynas, and I am pleased to announce that the Board has decided to recognise his particular focus on the Zero Harm principles that are a priority for us by establishing a safety award in his name.

We previously established a Board succession planning and renewal program recognising that the skills, knowledge and experience required to effectively direct an organisation will change over time in response to market developments, opportunities and evolution. The program is designed to ensure Board renewal is achieved in an efficient and orderly manner. Executive search firm Egon Zehnder is assisting the Board in identifying suitable candidates, preferably with experience in global industrial or chemical operations.

THE FUTURE

The Board and management of Lynas intend delivering a significant change agenda during the coming year and expect to do so without diminishing focus on our customers or the growth of our business.

Lynas is strongly positioned for the future and your Board is confident in the company's prospects. I would like to thank customers who have continued to offer support and encouragement as we bring production on-line, our employees and contractors whose wholehearted endeavours are integral to our success, our suppliers and business partners, and the communities in Western Australia and Pahang who have accepted us as their neighbours. Lastly, I would like to thank each of you for your ongoing support.

Nicholas Curtis AM
Chairman

COMMITTED TO CREATING SHARED VALUE AND SUPPORTING LOCAL COMMUNITIES.

The Lynas Way includes creating shared value through economic development, and working with our host communities to address concerns and share the benefits of our operations. Lynas supports the Balok Ivory Tower Academy and the Hockey Development Program in Pahang State, Malaysia, and the Laverton Leonora Cross Cultural Association in Western Australia.

HRH Crown Prince of Pahang talking to students from the Lynas Hockey Development Program during a field trip to the finals of the 9th Asia Cup tournament in Ipoh.

CEO'S REVIEW

LYNAS ACHIEVED SIGNIFICANT MILESTONES during the year as it transitioned from a development company to a producer. In September 2012, the Company was issued a Temporary Operating Licence (TOL) from Malaysia's Atomic Energy Licensing Board for the Lynas Advanced Materials Plant (LAMP) following a detailed and rigorous regulatory review process. Securing the TOL enabled Lynas to commence the transport of rare earths concentrate from Western Australia to Malaysia and to complete all necessary steps to prepare for first feed to kiln. On November 30, 2012, the first Mount Weld rare earths concentrate was fed into the kiln at the LAMP and, following the initial period of filling the plant, our first two rare earths products for customers were produced on February 27 and 28, 2013.

By May, the full suite of rare earth products had been produced – cerium, lanthanum, lanthanum/cerium, neodymium/praseodymium and SEG (samarium, europium, gadolinium). As we ramped up Phase 1 operations, we experienced premature wearing of some equipment in the cracking unit and some clogging of filters in the leaching section which affected our ability to operate sustainably at nameplate production capacity. We began implementing a series of work programs involving equipment changes and materials handling (such as replacing some stainless steel components with special alloys) from June 2013, and we are confident that production rates will improve in the coming year.

During the second half of the financial year, we completed a detailed assessment of each of the rare earth market segments in order to refine our development strategy. Lynas expects rare earths demand to grow at above-GDP rates over the medium term, particularly in the key sectors of rare earth permanent magnets, automotive catalysts and fluid cracking catalysts (FCCs) for oil refineries. These three end markets are projected to account for around half of global rare earths product demand by 2015. By the end of the decade, Lynas predicts that demand growth in these sectors could create supply shortages in certain rare earth element markets, most likely in neodymium/praesodymium and, to a lesser extent, lanthanum.

Close consultation with customers as well as with major OEM (original equipment manufacturer) end-users was a key component of this analysis, and I am pleased to report we continue to receive strong support and encouragement from those groups with which we have established long-standing relationships. We have now commenced supplying products to these customers and looks forward to continued growth in volumes.

Phase 1 rotary kiln and waste gas treatment plant at Lynas Advanced Material Plant, Gebeng, Malaysia.

Notwithstanding the medium-term outlook, the present rare earths market remains subdued with prices continuing to fall through the first half of calendar 2013. In response to this macro environment, we implemented a program to reduce operating costs and expenditure and announced our intention to optimise production at the Phase 1 capacity level until such time as higher rare earth prices can be sustainably achieved. Recognising that the market requires a pricing paradigm that is sustainable for both producers and customers if it is to achieve its full potential over the long term and avoid triggering another supply crisis such as that of 2010 – 2011, we also announced our intention to adhere to a minimum price schedule. We received encouraging support from customers. Prices in some categories have since begun showing signs of recovery (see charts and tables on pages 20-21).

We also reviewed and reprioritised our expansion and exploration projects, as well as related ongoing expenditure. While some expenditure was curtailed, much of our efficiency improvement program involves ensuring future spending delivers cost-competitive growth over time to support the specific value proposition expected by our stakeholders.

Our objective is to ensure that our people and our financial resources are directed exclusively towards activities deemed essential to the Company's mission of becoming the leader in rare earths for a sustainable future. Underlying everything we do at Lynas is an irrevocable commitment to be safe for people, to be safe for the environment, and to be secure for our customers.

With rare earths being used in oil refineries, permanent magnet wind turbines, cars, and many high tech and household electronic devices such as smart phones and tablet computers, a founding principle of Lynas is to offer a secure and sustainable supply of rare earths to our customers. Lynas has a very strong customer base; we are committed to providing supply visibility and, where necessary, price visibility, to allow the rare earths market to continue growing to its full potential. By June 30, 2013, several major customers had qualified our rare earth products allowing for commercial shipments to commence. Subsequent to the end of the year, we completed additional product qualifications with more customers, especially in the rapidly-growing rare earth magnet industry. Based on existing customer agreements and negotiations, we expect to sell our annual Phase 1 production of 11,000tpa REO.

Top: Production technician Izzatrafizzi Napis (L), Panelman Kamal Mustaffa (seated) and Supervisor Production Mohd Zahari Zakarian in the main control room at Lynas Advanced Material Plant, Gebeng, Malaysia.

Bottom: Office assistant Norizah Othman in the main administration building at Lynas Advanced Material Plant, Gebeng, Malaysia.

Construction of the Phase 2 expansion project in Malaysia to 22,000tpa REO (rare earth oxide) production capacity was virtually completed by end of June 2013 with 6.2 million hours worked with zero Lost Time Injury (LTI). This is an excellent achievement, well in keeping with safety being our primary objective, and I congratulate the Lynas personnel and our main contractors specifically involved in achieving this milestone. Pre-commissioning activities reached 90% completion at the end of June 2013; by September 30 commissioning was pending approvals ahead of an expected start-up later in 2013. The construction was completed within budget. The subsequent ramp-up of Phase 2 production will be determined mainly by market conditions.

As our operations ramp up and move to steady-state basis, we strongly believe the Lynas rare earths operation in Malaysia has the potential to act as a hub for a cluster of high-technology industries that depend on our materials. The development of a rare earths cluster is consistent with the Malaysian Government's aspirations to move Malaysia up to a middle-income economy based on a greater contribution from high-skilled, value-add industries. In addition, Lynas is making a significant economic contribution to Malaysia by buying locally-produced products, materials, equipment, and support activities.

Our Western Australia Concentration Plant operated as required during the year following the successful commissioning and ramp-up in the prior financial year. The operations in Western Australia are synchronised to the requirements of the LAMP, and sufficient stockpiles of concentrate were produced ahead of the ramp up of LAMP. At the end of June 2013, 15,710 dry tonnes of concentrate containing 5,626 tonnes of REO were bagged ready for export. Ore commissioning of the Phase 2 Concentration Plant circuit commenced on April 15, 2013. The new flotation circuit, concentrate thickener and pressure filter were successfully commissioned with first concentrate produced on April 18, 2013. The plant reached more than 90% of design capacity several days after the start-up, a performance usually only achieved after several months. Again, I congratulate the Lynas staff and contractors responsible.

Metallurgical technician Meagan Cunningham testing samples in the laboratory at Mount Weld, Western Australia.

SUSTAINABILITY

Safety for our people and for the communities in which we operate is at the front of mind in everything we do. We are committed to Zero Harm and excellence in health and safety. During the year, our Lost Time Injury Frequency Rate was 0.9, which is on par with benchmark chemical companies and compares favourably with mining company peers. Nevertheless, we had six LTIs, and will continue to strive towards our goal of Zero Harm as we move into steady-state operations. We continue to recruit talented and motivated people, to provide training and growth opportunities for existing employees, and to maintain a commitment to diversity and sustainability principles.

In August 2012, our Western Australian operations were externally audited by the internationally-renowned Bureau Veritas and subsequently certified to ISO and OHSAS Safety, Environment and Quality Management Standards (ISO9001, ISO14001 and OHSAS18001). Certification was confirmed by two further audits during 2013. We are very proud of this certification achieved for Quality, Occupational Health and Safety and Environment protection. Subsequent to the end of the year, Lynas Malaysia continues to implement the Lynas Integrated Operational Management System Standards (LIOMSS), which incorporates compliance to OHSAS 18001 (Occupational Health and Safety), ISO14001 (Environment) and ISO9001 (Quality). We are targeting Bureau Veritas certification for Lynas Malaysia by the end of 2013. Considering legacy standards in the rare earths industry, and the associated reputation, it was essential for us to differentiate Lynas from the beginning. Our standards are based on the best practices adopted by other mature and reputable chemicals companies.

Since the commencement of LAMP operations, we have proven beyond doubt that the LAMP is safe for people and safe for the local community. Environmental monitoring data from the LAMP, undertaken by independent third-party experts and available through the websites of the Malaysian Department of Environment and the Malaysian Atomic Energy Licensing Board, verifies our absolute compliance with radiation, air and water quality standards. All results are well below the permissible limits. Lynas emissions data is also displayed in real-time displays and visible to the public at LAMP and in Kuantan. Lynas remains committed to absolute transparency to the local community, and our results will continue to be assessed by independent parties.

Lynas is committed to shared value with its local communities. In Western Australia, the Mount Weld Community Consultative Committee provides a forum for open discussion between the Company and community representatives to determine initiatives for sharing value and building community resilience. Lynas is also an active participant in the Laverton Leonora Cross Cultural Association.

Since 2010, Lynas Malaysia has sponsored the Balok Ivory Tower Academy (BITA) program. BITA's vision is to eradicate poverty through education. Funded jointly with The Abdul Aziz Palace Foundation and utilising staff from the National University of Malaysia, BITA identifies students with good academic performance from families from the villages close to LAMP and provides a specially-developed program of learning modules conducted on weekends. This also includes inter-session mentoring and motivation programs to assist the students graduate to university.

During 2012-13, Lynas Malaysia also began a Hockey Development Project. With similar objectives to BITA, the hockey program provides continuous training by experienced coaches accredited by the Malaysia Hockey Confederation to talented hockey students from families close to LAMP. At the end of the program, consistently well-performed students will earn selection to further education at the Pahang Hockey Academy, a sports boarding school. Since the end of the financial year, the Company also initiated an education program in which Lynas Malaysia staff visit schools to talk about rare earths and outline career development opportunities in rare earths and rare earth dependent industries. The program is initially being rolled out in Pahang State.

Mount Weld Senior Site Administrator Amelia Cox assisting in the Laverton Outback Art Gallery, which is run on a co-operative basis by the Laverton Leonora Cross Cultural Association, of which Lynas is a sponsor. The gallery was established in 2002 to display, promote and sell authentic Aboriginal art on behalf of the people of the Laverton and Western Desert areas. The art and craft on display is made by the local Wongi people from the lands of the North Eastern Goldfields extending into the Western Desert region. The artists receive up to 80% of the price of the artwork.

RESPONSIBLE CARE

Aligned with our vision to become the leader in Rare Earths for a sustainable future and our Lynas Way values, Responsible Care ensures our employees' health and safety is guaranteed and their social rights are secured. Attracting and retaining employees is critical to our success so it is equally important that they remain engaged and are provided opportunities to develop their skills and experience. Our commitment to gender diversity remains strong and I am proud to report that the number of women involved in the senior management of our Company has risen from 20.5% in 2012 to 26.7%.

From an environmental perspective, we have implemented robust environmental management systems to promote sustainability, limit our impact on the environment and comply with relevant environmental legislation. Part of our commitment to environmental management is the minimisation of the storage of solid residues from the LAMP. We are actively engaged in the commercialisation of our solid residues in the form of synthetic mineral products that have potential applications ranging from construction materials to fertiliser additives. We have received customer interest for our synthetic mineral products and we are continuing market trials for these products. These results allow the relevant authorities in Malaysia to address the necessary regulatory approvals to commence commercialisation of these products. I look forward to keeping you updated as we progress this work.

Initial testing of the synthetic mineral products made from our recycled solid residues has demonstrated that they are non-toxic, will not leach into the ground and are non-radioactive. The Company has applied for approval from the AELB to use the aggregate co-product in a road base trial. We plan to build a road at LAMP that will be tested and monitored by independent experts over a period of 12 months to demonstrate the performance of the material. The Company has also applied to the AELB to approve the release of our synthetic gypsum co-products from its jurisdiction after a three-month radioactivity analysis revealed levels of radioactivity concentration below 1Bq/g. Once approved, these products will be subjected to Department of Environment jurisdiction as scheduled waste material. Market trials and product testing continue across the range of synthetic mineral products, with further work being done with potential customers and relevant regulatory agencies.

PEOPLE AND RELATIONSHIPS

The key to our success will be how well we build and sustain effective relationships, including the way in which we interact with each other, the way we collaborate and cooperate, and the way we access and use each other's capabilities and experience. Lynas endeavours to create a climate of trust and respect in an environment where people can grow both personally and professionally.

In April 2013, I was privileged to be appointed by the Board to the position of Executive Director and Chief Executive Officer. I would like to acknowledge the vision and perseverance of Nicholas Curtis in recognising the potential of Mount Weld and creating the opportunity for Lynas to become a new source of rare earths, and I would like to thank the Board for entrusting me with the responsibility for delivering that potential.

During 2013, we welcomed a number of highly experienced individuals who will help lead and guide the Company in its journey to being the leading rare earths producer: one that is safe for people, safe for the environment and secure for customers. Within the senior executive management, Mr Alan Jury joined as Executive Vice President for Corporate Affairs in April 2013, and Mr Jean-Claude Steinmetz was appointed Chief Operating Officer, based in Malaysia, in August 2013.

I would like to thank everyone in the Lynas team for their significant contributions this year as we progressed from development into production. I believe Lynas is well positioned to benefit from robust rare earths demand growth in our major markets. As we ramp up our operations I believe Lynas has the potential to deliver further shared value for the communities in which we operate and long-term value for our shareholders.

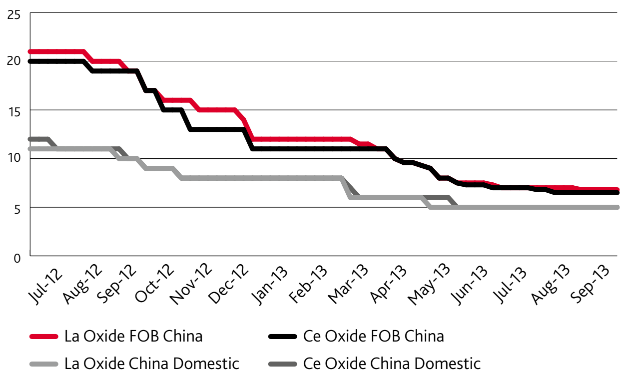
Eric Noyrez
Chief Executive Officer

GLOBAL MARKET ACTIVITY

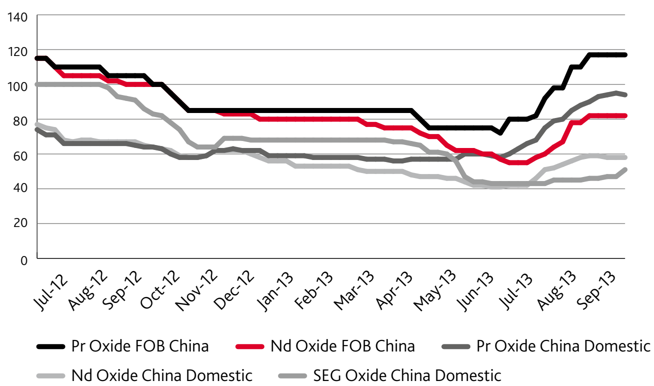
MARKET CONDITIONS WERE CHALLENGING during the year. Demand for new product was subdued reflecting ongoing customer destocking and weaker than expected global economic growth, especially in China and Japan. Production shutdowns by some leading Chinese producers to try to improve market dynamics and foster sustainable production practices failed to halt falling prices as customers deferred purchases. By financial year end, rare earths prices had fallen to levels that were reportedly impacting the ability of major producers to supply product sustainably over the long term.

Since the year end, rare earths prices, especially those for magnet-making raw materials and heavy rare earths, have increased in response to several important trends. On the supply side, ongoing restructuring and consolidation of the Chinese rare earths industry continues to limit the availability of illegal and environmentally unsustainable supply of rare earths. Authorised Chinese producers are also facing higher costs associated with complying with stricter enforcement of China's environmental emission regulations. This has led to a general reluctance to lower offer prices further. On the demand side, evidence of a continued economic recovery in the US, stimulus-driven economic growth in Japan and the first signs of a recovery in the Eurozone have seen a number of major consumers resume rare earths raw materials offtake to support growth in their businesses.

Cerium and Lanthanum oxide prices ($US/kg)



Neodymium, Praseodymium and SEG oxide prices ($US/kg)



Source: Metal-Pages

GLOBAL DEMAND OUTLOOK

Magnets

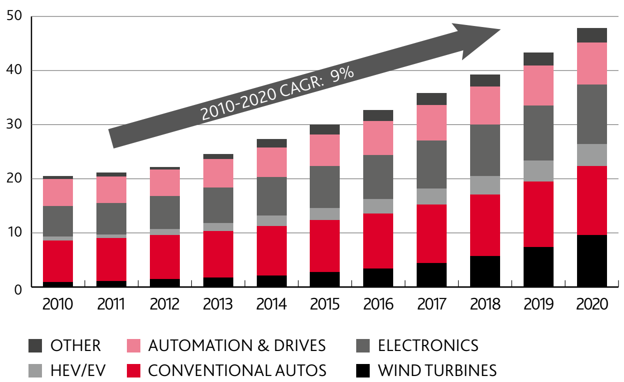
Rare earth permanent magnets are expected to be the major growth market over the medium term. The automotive market is an important demand driver for rare earth magnets. Conventional autos use numerous rare earth magnets in electric motors to reduce weight and improve fuel efficiency. In addition to growth in global vehicle sales, Lynas also expects increased magnet consumption per vehicle to contribute to growth over the long term. The hybrid electric vehicle (HEV) market is also expected to drive strong growth for rare earth magnets. HEVs use more rare earth magnets per vehicle compared with conventional autos as they are also used in the vehicle's drive-train.

The use of rare earth magnets in wind turbines is expected to be another major growth market over the long term. The latest generation of direct drive wind turbines, in which the use of rare earth magnets allows the gearbox to be removed from the turbine, have greatly reduced weight and maintenance costs. This makes them ideal for large offshore wind farms. Lynas expects direct drive turbines could account for at least 15% of global rare earth magnet consumption by the end of the decade.

Rare earth magnets continue to be the preferred choice in major consumer and industrial electronic applications due to their high magnetic strength and high performance to size ratio. Key applications include smart phones, acoustic speakers, hard disk drives, inverter air conditioners, industrial automation and drive units.

Overall, Lynas believes demand for rare earths used in permanent magnets has the potential to grow by at least 10% per annum over the medium term.

Forecast REO demand in magnet industry ('000 tonnes REO)



Source: Industry sources, Lynas est.

Catalysts

Cerium and lanthanum are highly effective components of catalyst systems. They absorb, store and release oxygen and also stabilise environments in which they operate. The major applications for rare earth catalysts are in automotive catalytic converters (autocats) for cars and utility vehicles, and in fluid cracking catalysts (FCCs) used in oil refineries.

Cerium-based autocats are mainly used to reduce pollutant emissions from vehicles. Apart from growth in global vehicle sales, demand for autocats is further supported by increasingly demanding legislation around the world governing vehicle emissions. Lynas believes demand for rare earths in autocats has the potential to continue to grow by around 6% per annum between 2010 and 2020. Once autocat take-up reaches 100% globally, autocat growth is likely to average around 3% per annum, in line with global vehicle sales growth.

Lanthanum stabilises the molecular sieve used in the FCC process which increases the life of the catalyst and increases oil refinery yields by around 5-7%. The FCC market is expected to remain resilient with good growth in demand for rare earth-based FCCs, partially offset by declining gasoline consumption per capita, especially in the Western World.

Nickel metal hydride (NiMH) Batteries

The hybrid electric vehicle market using NiMH batteries is expected to grow over the medium term with HEVs accounting for increased number of global vehicle sales per year. Major HEV producers have confirmed their commitment to NiMH batteries for the time being; however, non-rare earth-consuming lithium-ion batteries may take some market share over the longer term. Lynas expects rare earths demand in NiMH batteries to increase by around 3% per annum over the medium term.

Polishing

Glass polishing powders are used in a number of different end markets (e.g. LCD screens, HDD, precision optical, ophthalmic, crystals and flat glass). While rare earth-based polishing powders are the most effective, rare earth price increases in prior years have impacted demand through the introduction of improved glass manufacturing process and recycling of polishing powder slurries. Lynas expects demand for rare earth-based polishing powders to increase in line with global glass demand at around 4-5% per annum over the medium term.

GLOBAL SUPPLY OUTLOOK

Global supply of rare earths is predominantly sourced from China, although Lynas and the US now offer customers alternative sources of supply. China continues to restructure and consolidate its rare earths industry to industrialise what was once a “cottage” industry. Environmentally sustainable rare earths production involves significant capital and operating expenditure to safely manage waste gases, process water and solid residues. Such investment requires large-scale operations to justify the cost, well beyond the economical scale of many small operators. China has imposed various production control measures and enforces them through periodic inspections and audits of producing workshops. It is expected that the industry will become economically viable only for a few large state-owned enterprises in a rationalisation similar to that previously undertaken by China in base metals, steel and other commodity industries.

The speed with which new suppliers can enter the market is likely to be very slow due to rare earth price volatility in recent years and the early-stage nature of potential new developments. New supply, over time, is more likely to come from existing producers expanding their capacity. Lynas, for example, is able to supply an additional 11,000tpa REO from its completed Phase 2 expansion as and when market conditions warrant bringing this supply to market.

RARE EARTHS PRICING

Rare Earths Oxide	FOB CHINA AVERAGE PRICE					CHINA DOMESTIC AVERAGE PRICE				
(Purity 99% min)	**Sep-12**	**Dec-12**	**Mar-13**	**Jun-13**	**Sep-13**	**Sep-12**	**Dec-12**	**Mar-13**	**Jun-13**	**Sep-13**
Lanthanum Oxide	19.54	13.92	11.00	8.42	6.50	10.82	8.18	7.15	5.43	4.56
Cerium Oxide	20.38	15.31	11.85	8.49	6.80	10.98	8.18	7.20	5.44	4.56
Neodymium Oxide	105.31	87.46	79.15	65.71	82.00	68.88	60.60	52.64	45.30	57.80
Praseodymium Oxide	108.85	88.46	85.00	77.64	117.00	67.13	60.79	58.14	57.91	94.44
Samarium Oxide	64.77	34.85	25.00	19.36	11.00	9.88	8.19	7.71	5.88	4.56
Dysprosium Oxide	967.69	716.15	630.00	561.43	550.00	596.94	452.71	345.35	246.74	366.35
Europium Oxide	2020.00	1853.08	1600.00	1110.71	1100.00	1028.38	937.74	838.37	636.24	797.82
Terbium Oxide	1938.46	1446.15	1300.00	954.29	950.00	874.03	709.92	617.81	481.80	667.57

Disclaimer: Information concerning rare earths market data has been sourced from independent analysis of end application demand, along with Lynas estimates of quantities of rare earths end use in various key applications. Although Lynas believes that the outcomes expressed in any forward-looking statements in this document are based on reasonable assumptions, such statements are not guarantees of future performance. Forward-looking statements are based on assumptions and contingencies which are subject to change without notice. Factors that could cause actual results to differ materially from those in forward-looking statements include new applications, the development of economic substitutes, and general economic, market or business conditions. While Lynas has made every reasonable effort to ensure the veracity of the information presented, Lynas does not guarantee the accuracy and reliability of the estimates, forecasts and conclusions contained herein. Accordingly, the market data in this document should be used for general guidance only. There can be no guarantee that actual outcomes will not differ materially from forward-looking statements.

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, 2013. 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), FAICD
CHAIRMAN

Mr Curtis is Chairman of the Company. He is Chairman of Forge Resources Limited (renamed Rutila Resources Limited on September 26, 2013) and of the private corporate advisory firm, Riverstone Advisory. Mr Curtis 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. Mr Curtis also serves as a Governor of the Mining and Metals Industry Partnership Group at the World Economic Forum, and is Co-Chair of the Global Growth Company community with the World Economic Forum. 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), MAICD
DEPUTY CHAIRMAN

Mr Forde joined the Company as a Non-Executive Director in December 2007 and is the Deputy Chairman 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 Limited. Mr Forde is also a Director of Hastings High Yield Fund.

In addition, Mr Forde 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, REA Group Limited and The Benevolent Society. She is also President of the NSW division of the Australian Institute of Company Directors, a member of the National Board of the Australian Institute of Company Directors and 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.

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.

Eric Noyrez
EXECUTIVE DIRECTOR

Mr Noyrez is an Executive Director and Chief Executive Officer of the Company and was appointed to the Board on 31 March 2013. Mr Noyrez joined Lynas as Chief Operating Officer in February 2010 and was given additional responsibilities as President in March 2011. Mr Noyrez has extensive senior management and board level experience in major multinational industrial and chemical companies. He also has detailed knowledge of the international rare earths industry.

Prior to joining Lynas he was a member of the Executive Committee of Rhodia, a global specialty chemicals company and President of Rhodia Silcea, its rare earths, silicas and diphenols division. Before joining Rhodia, Mr Noyrez held Director and Senior Executive roles in several divisions at Shell between 1989 and 2000 after an earlier career with the Peugeot-Citroen Group. He holds a Masters degree in Engineering and Mechanicals from ENSM (Ecole Nationale Supérieure des Mines) in France.

David Davidson
NON-EXECUTIVE DIRECTOR
(resigned with effect from August 20, 2013)

As announced by Lynas on August 20, 2013, Mr Davidson resigned as a director of Lynas with effect from August 20, 2013.

Mr Davidson 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.

Zygmunt (Ziggy) Switkowski PhD, FAICD, FTSE
NON-EXECUTIVE DIRECTOR
(resigned with effect from August 20, 2013)

As announced by Lynas on August 20, 2013, Dr Switkowski resigned as a director of Lynas with effect from August 20, 2013.

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, Managing Director of Kodak (Australasia) and Chairman of Opera Australia.

Dr Switkowski currently serves as Executive Chairman of NBN Co, a Director of Tabcorp Limited and Oil Search Limited and is Chairman of Suncorp Group. 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.

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, following six years as a lawyer at Norton Rose and Addleshaw Goddard.

DIRECTORS' SHAREHOLDINGS

As at the date of this report, the interests of the Directors who held office during the 2013 financial year in the shares and options of the Group were:

	ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES
N. Curtis (1)	16,045,758	25,500,000
W. Forde	1,028,441	3,250,000
K. Conlon (2)	129,515	–
D. Davidson (3)	727,613	2,500,000
J. Klein	2,082,236	2,500,000
Z. Switkowski (4)	727,613	–
E. Noyrez (5)	–	9,812,853
Total	**20,741,176**	**43,562,853**

(1) Ceased to be a member of the Executive and assumed role of Non-Executive Chairman from March 31, 2013.
(2) Shares held by spouse.
(3) Resigned with effect from August 20, 2013.
(4) Resigned with effect from August 20, 2013.
(5) Appointed as CEO and an Executive Director, and ceased to act as COO and President, with effect from March 31, 2013.

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.

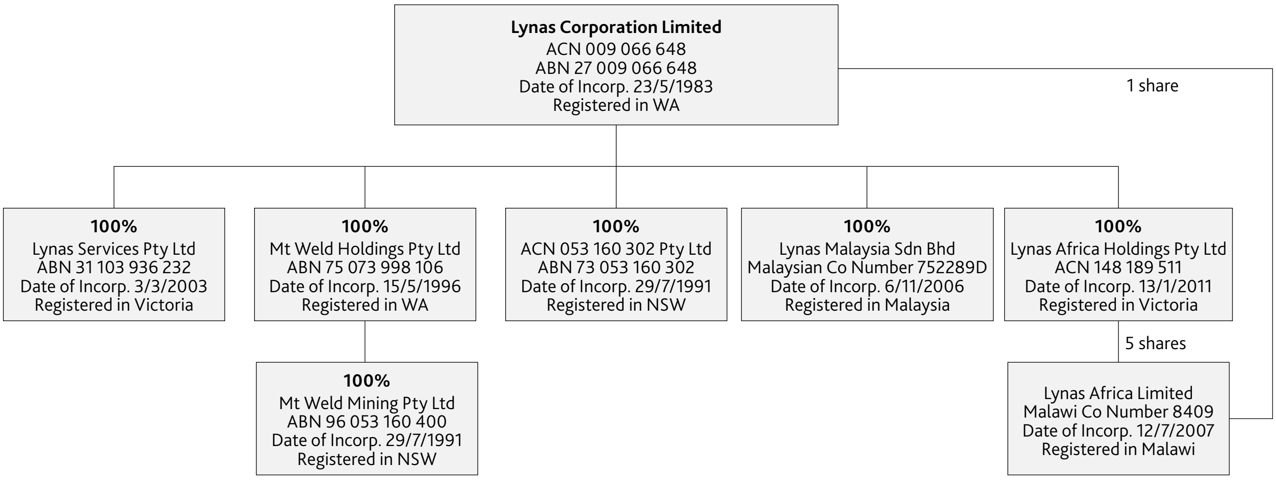
SHARE OPTIONS GRANTED TO KEY MANAGEMENT PERSONNEL

The following table outlines the options and performance rights issued for the benefit of Directors and other key management personnel during the 2013 financial year.

GRANTED OPTIONS	OPTIONS GRANTED	PERFORMANCE RIGHTS GRANTED	GRANT DATE
A. Arnold	1,057,402	–	September 25, 2012
G. Barr	–	439,806	September 25, 2012
L. Catanzaro	453,172	–	September 25, 2012
E. Noyrez	–	1,312,853	September 25, 2012
	1,510,574	**1,752,659**	

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; and
- development of Rare Earth deposits.

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

FOR THE YEAR ENDED	JUNE 30,	
IN A$ MILLION	2013	2012
Revenue	0.9	–
Cost of sales	(0.9)	–
Gross profit (loss)	**–**	**–**
Other income	9.8	–
General and administration expenses	(125.1)	(74.1)
Other expenses	(13.1)	(16.0)
Profit (loss) from operating activities	**(128.4)**	**(90.1)**
Financial income	4.8	2.8
Financial expenses	(17.4)	(10.6)
Net financial income (expenses)	**(12.6)**	**(7.8)**
Profit (loss) before income tax	**(141.0)**	**(97.9)**

The year ended June 30, 2013 was a period of significant milestones for the Group, with the finalisation of commissioning and commencement of production from the Phase 1 operations at the LAMP (January 2013), the production of the Group's first rare earth oxide (REO) separated and finished products (February 2013) and the completion and commissioning of the Phase 2 expansion of the Mount Weld operations (June 2013). These milestones mark the end of the Group's development stage and the commencement of its transition into production.

Commensurate with the above milestones, the Group recognised its maiden revenue from the sales of REO products. Although these sales were limited, just $0.9 million, and were impacted by the early stage nature of the Group's production profile and on-going customer qualification processes, they represent a clear step forward in the Group achieving its core objective of becoming the leading sustainable supplier of Rare Earth materials to the market.

The overall loss from operating activities increased by $38.3 million, or 43%, to $128.4 million for the year ended June 30, 2013, compared to $90.1 million for the year ended June 30, 2012. Consistent with its state of operational readiness, the Group has recognised increased non-cash depreciation and amortisation resulting from the commissioning of Phase 1 of the LAMP in Malaysia (2013: $16.5 million; 2102: $1.3 million) while also recognising higher employee costs (2013: $38.1 million; 2012 $26.5 million) as a result of staffing the Group's operations to full Phase 1 production capacity.

In addition, the loss for the year ended June 30, 2013 reflects the impact of reduced production at the Group's Mount Weld operations due to the planned shutdown (aimed at managing the Group's on hand concentrate stocks) and the tie in of the Phase 2 expansion that resulted in production costs of $16.5 million during the period not being captured and capitalised to inventory. Also, the Group has been impacted by the recognition of charges under non-cancellable take or pay obligations (2013: $20.7 million; 2012: $4.1 million) which have been provided for based on our future short-term (12 months) delivery estimates, non-cash impairment charges on inventory (2013: $9.1 million; 2012: $8.5 million) from the valuation of certain inventory items to their current net realisable value, while also recognising non-cash impairment charges on property plant and equipment (2013: $3.4 million; 2012: $4.8 million) for items identified as surplus or redundant to current operating capacity.

The Group was also positively impacted during the year ended June 30, 2013 by the recognition in the profit and loss of $9.8 million of the $15.2 million received from the Australian Taxation Office arising from eligible research and development expenditure undertaken in the year ended June 30, 2012 around the testing, development and commissioning of the Mount Weld processing facilities.

Net financial expenses increased by $4.8 million, or 62%, to $12.6 million for the year ended June 30, 2013 compared to $7.8 million for the year ended June 30, 2012. During the year the Group recognised an increase in interest income of $2.0 million offset by an increase of $7.5 million in interest and financing costs associated with the Sojitz facility and Mt Kellett convertible bonds. The increased interest expense reflected a full year of interest on the Mt Kellett convertible bonds (2012 included a part-year of interest on the facility) and an additional 2.5% margin on the Sojitz facility since September 2012. In addition, the Group had a period-on-period $0.7 million foreign exchange movement (2013: net loss of $1.5 million; 2012: net loss of $2.2 million) primarily attributable to the movement of the US Dollar and Malaysian Ringgit exchange rates against the AUD.

On an adjusted EBITDA basis (refer to note 6 to the Financial Report for the basis of this measure) the Group reported a loss of $107.4 million in the year ended June 30, 2013, compared to a loss of $63.3 million in the year ended June 30, 2012.

Cash flow

FOR THE YEAR ENDED	JUNE 30,	
IN A$ MILLION	2013	2012
Net Operating Cash flow	(106.2)	(86.9)
Net Investing Cash flow	(114.2)	(349.7)
Net Financing Cash flow	155.0	206.2
Net cash flow	**(65.4)**	**(230.4)**

Overall the net cash out flow for the period decreased by $165.0 million from a net cash outflow of $230.4 million for the year ended June 30, 2012 to a net cash outflow of $65.4 million for the year ended June 30, 2013.

Operating cash flows

Net operating cash outflows increased by $19.3 million, or 22%, to $106.2 million for the year ended June 30, 2013, compared to $86.9 million for the year ended June 30, 2012. The increase in the net cash outflow period-on-period is in line with the Group's operational readiness and ramp-up activities and was principally driven by an increase in employee costs and the build-up of working capital reflecting the procurement of chemicals and associated inventory items for use in the Groups processing operations. These amounts were offset by the receipt from the Australian Taxation Office of $15.2 million in recognition of the eligible research and development activities undertaken in the year ended June 30, 2012 around the testing, development and commissioning of the Mount Weld processing facilities and $0.6 million representing receipts on the sales of the Group's first REO products.

Investing cash flows

Net investing cash outflows decreased by $235.5 million or 67%, to $114.2 million for the year ended June 30, 2013, compared with $349.7 million for the year ended June 30, 2012. The decrease in the net outflow for the year principally reflects the operational readiness of the LAMP in Malaysia where Phase 1 of the Group's capital programme outflow were predominantly completed in the 2012 and previous financial years ($132.3 million reduction in cash payments when compared to the June 30, 2012 year) combined with a $95.8 million reduction in settlements on the Phase 2 capital expansion programme (when compared to the June 30, 2012 year) due to the timing of the associated progress payments and the Phase 2 expansion project nearing completion.

Financing cash flows

Net financing cash flows have decreased by $51.2 million, or 25%, to a net cash inflow of $155.0 million for the year ended June 30, 2013, compared to a net cash inflow of $206.2 million for the year ended June 30, 2012. The $155.0 million inflow in the current year principally reflects the net proceeds from the Group's equity raising completed during November and December 2012 ($169.7 million). The prior year financing inflows mainly comprise the net proceeds of $211.2 million from the Mt Kellett convertible bonds issue in February 2012. These amounts were offset by net interest expense and other finance costs in the respective years.

Financial position

FOR THE YEAR ENDED IN A$ MILLION	JUNE 30, 2013	 2012
Assets		
Cash and cash equivalents	141.4	205.4
Inventories	92.9	65.7
Property, plant and equipment	880.3	706.6
Deferred exploration, evaluation and development expenditure	47.7	26.3
Available for sale financial assets	1.8	3.8
Other assets	23.6	15.8
Total assets	**1,187.7**	**1,023.6**
Liabilities		
Borrowings	(458.0)	(403.1)
Other liabilities	(101.0)	(57.0)
Total liabilities	**(559.0)**	**(460.1)**
Net assets	**628.7**	**563.5**
Equity		
Share capital	994.6	823.1
Retained earnings (accumulated deficit)	(430.7)	(287.1)
Reserves	64.8	27.5
Total equity	**628.7**	**563.5**

The overall net assets of the Group increased by $65.2 million from $563.5 million as at June 30, 2012 to $628.7 million as at June 30, 2013.

Cash and cash equivalents at June 30, 2013 comprise $125.7 million of unrestricted cash and $15.7 million of restricted cash. Restricted cash is principally available to fund the capital expenditure associated with the Phase 2 expansion of the Concentration Plant at Mount Weld and the Lynas Advanced Materials Plant in Malaysia ($10.3 million), with the residual available to fund future interest payments under the Sojitz facility ($5.4 million).

Inventory has increased by $27.2 million, or 41%, to $92.9 million at June 30, 2013, compared to $65.7 million at June 30, 2012. This increase in inventory (net of non-cash impairment charges of $9.1 million made in the year ended June 30, 2013 as previously discussed), reflects the production ramp-up at the LAMP which has seen increases in the Group's work in progress by $26.3 million, finished goods by $0.5 million and raw materials and consumables by $0.4 million. As at June 30, 2013 the Group continues to hold 15,865 tonnes of processed concentrate and unprocessed ore of 343,533 tonnes at its Mount Weld operations which are expected to be used for production purposes over the next 12 to 24 month periods respectively.

Property plant and equipment has increased by $173.7 million, or 25%, to $880.3 million at June 30, 2013 compared to $706.6 million at June 30, 2012. The increase in property plant and equipment during the year is largely driven by additions of $96.2 million in relation to Phases 1 and 2 construction of the LAMP ($67.1 million) and Phase 2 construction of the Mount Weld concentration plant ($29.1 million). During the year the Group also recognised an initial rehabilitation asset of $16.3 million (and corresponding provision) for the costs associated with the decommissioning, restoration and rehabilitation of the LAMP site in Malaysia. These costs arise from the ongoing construction and operation of Phase 1 of the LAMP. The remainder of the movement relates to the uplift in value of the Malaysian Ringgit denominated assets due to foreign exchange movements, offset by depreciation ($18.6 million) and a transfer of consumables from assets under construction to inventory on completion of Phase 1 construction of the LAMP ($9.3 million).

Deferred exploration and evaluation costs have increased by $21.4 million, or 81%, to $47.7 million at June 30, 2013, compared to $26.3 million at June 30, 2012. The increase mainly relates to recognition of an increase in the rehabilitation asset (and corresponding provision) of $20.8 million for the future costs to decommission, restore and rehabilitate the Mount Weld mine and concentration plant back to pastoral-use land. These costs arise from the operation of the mining and concentration processing facilities at Mount Weld and take into account the areas of disturbance back to pastoral used land at the balance date and the actions required upon cessation of operations to decommission and remove the processing plant from the location.

Borrowings of $458.0 million represent the US$225 million Sojitz loan facility revalued at the June 30, 2013 exchange rate, and the liability component of the convertible bonds issued to funds managed or selected by Mt Kellett Capital Management.

Other liabilities have increased by $44.0 million, or 77%, to $101.0 million at June 30, 2013, compared to $57.0 million at June 30, 2012. The increase is driven principally by the aforementioned initial recognition of the rehabilitation costs of the LAMP in Malaysia $16.3 million ,the revision to the rehabilitation costs in relation to the Mount Weld concentration plant of $20.8 million and the change in change in provisions for onerous contacts $13.5 million.

The increase in share capital of $171.5 million is primarily attributable to the net proceeds of $169.7 million from the equity raising announced during the period which was completed in November and December 2012.

The movement in reserves of $37.3 million during the current period reflects movements in the equity settled employee benefits, foreign currency translation and investment revaluation reserves.

As outlined in note 23 to the financial report, on September 13, 2013 the Group amended the Sojitz loan facility to extend the existing Project Sunset Date from January 19, 2014 to March 31, 2015. In connection with this amendment certain terms relating to the principal repayments of the loan facility and the release of security were modified, as outlined in note 23.

Capital structure

At the start of the year the Group had 1,715,029,131 ordinary shares on issue. During the year an additional 245,772,161 shares were issued as follows:

	NUMBER
Shares on issue June 30, 2012	1,715,029,131
Issue of shares pursuant to equity raising	244,641,929
Issue of shares pursuant to option conversion	1,130,232
Shares on issue June 30, 2013	**1,960,801,292**

In addition to the ordinary shares on issue there were 72,485,196 unlisted options and performance rights and 225,000,000 unlisted convertible bonds on issue with a conversion price of A$1.15 (based on a US$:A$ exchange rate of 0.9533).

REVIEW OF OPERATIONS

Lynas commenced commercial production and shipments of Rare Earths products during the year. The Company was issued a Temporary Operating Licence (TOL) for its Lynas Advanced Materials Plant (LAMP) in September 2012. First feed of Rare Earths concentrate into the LAMP rotary kilns occurred in November 2012 and first Rare Earths products were produced in February 2013. Since then, the LAMP has been ramping up production towards the Phase 1 nameplate production capacity of 11,000 tonnes per annum Rare Earths Oxide (REO).

Western Australia operations

During the year, the Mount Weld Concentration Plant effectively remained shut down due to sufficient stockpiles of concentrate having been produced ahead of the ramp up of operations at the LAMP. At the end of the year 15,710 dry tonnes of concentrate containing 5,626 tonnes of REO were bagged ready for export.

Ore commissioning of the Phase 2 Concentration Plant circuit commenced on April 15, 2013. The new flotation circuit, concentrate thickener and pressure filter were successfully commissioned with first concentrate produced on April 18, 2013.

In August 2012, the Western Australian Operations achieved certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards. The Operations remain certified to these standards.

In September 2012, Lynas announced a significant upgrade of the Ore Reserves at Mount Weld. The new Ore Reserves at the Central Lanthanide Deposit (CLD), using cut-off grades ranging from 4-7% depending on the type of ore, are 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 estimate and the contained REO in the Ore Reserves is 260% higher than the 2005 estimate.

In June 2012, Lynas announced it had completed a scoping study on the development of the Duncan deposit at Mount Weld. Since that time, further work has been done evaluating potential locations for processing and optimising the metallurgical flowsheet. However, against the backdrop of declining Rare Earths prices and the Group's strategy to reduce operating costs, management has decided to postpone further development work on the Duncan Deposit until market conditions recover.

In February 2013, the Australian Taxation Office made a $15.2 million payment to Lynas for eligible research and development expenditure during the year ended June 30, 2012, principally on the development of the Lynas Mount Weld Rare Earths project.

Global rare earths market conditions were relatively challenging during the year. Demand for fresh product was subdued reflecting ongoing customer destocking and weaker than expected global economic growth, especially in China. Rare earths pricing reflected this trend with prices continuing to retrace over the course of the year. Declining prices triggered temporary production shutdowns in 2012 by some of the leading Chinese producers in an effort to improve market dynamics. Despite these measures, prices continued to fall as customers deferred fresh purchases due to prevailing macroeconomic uncertainties affecting the growth outlook for their businesses. By year end, rare earths prices had fallen to levels that were impacting the ability of producers to supply product sustainably over the long term.

Malaysia operations

On September 5, 2012, the Malaysian Atomic Energy Licensing Board (AELB) issued the TOL for the LAMP. The AELB will monitor the plant's operations and adherence to prescribed safety standards. Compliance with those standards will be the criteria for conversion of the TOL to a permanent operating licence during the next two years.

Following receipt of the TOL, the Group commenced transportation of Rare Earths concentrate from Western Australia and achieved first feed of concentrate into the LAMP rotary kilns in November 2012. In February 2013, Lynas produced its first Rare Earths products for customers. In the year ending June 30, 2013, the Company produced 144 tonnes on an REO equivalent basis and shipped 117 tonnes on an REO equivalent basis.

Following commencement of commercial production, the Group began engaging with its customers in a series of product qualifications. Several customers qualified the Group's Rare Earths products during the year allowing for commercial shipments to commence. The Group remained engaged in the qualification process with other customers at year end.

In the process of ramping up operations at the LAMP, the Company identified some issues relating to clogging and premature wearing of equipment that affected its ability to operate at around nameplate production capacity in the cracking and leaching units of Phase 1 of the LAMP. Subsequent to the end of the period, the Company began implementing a series of work programs involving equipment changes and materials handling to allow the cracking and leaching units to operate continuously at nameplate production capacity. None of these programs involved significant capital investments. Commercial production of REO products continues at a reduced volume while these programs are ongoing during the second half of calendar 2013.

Concurrent with the production of Rare Earths at the LAMP, the Group also commenced production of synthetic gypsum and aggregate co-products on site. Lynas has received customer interest for its synthetic mineral products and is continuing market trials for these products. The Group remained in discussions with the relevant authorities in Malaysia at year end regarding obtaining the necessary regulatory approvals to commence exports of these products. One of the products was tested by a third party laboratory during the year which concluded that it is safe and meets regulatory requirements. For other synthetic mineral products, testing and market trials remained ongoing.

Construction of the Phase 2 project in Malaysia was virtually completed by end of June 2013 with 6.2 million hours worked with zero Loss Time Injury (LTI). Pre-commissioning activities reached 90% complete and commissioning has started ahead of an expected start-up in Q3 2013. The subsequent ramp-up of Phase 2 production will be determined by various factors, primarily being market conditions.

In total, there have been three legal challenges to the TOL. The first challenge related to the decision of the AELB in February 2012 to approve the TOL. That challenge has been dismissed by the Kuala Lumpur High Court, the Malaysian Court of Appeal and the Malaysian Federal Court. There are no further avenues for this challenge to be appealed.

The second challenge relates to the decision of the Minister of Science, Technology and Innovation to dismiss a statutory appeal of the AELB's decision to approve the TOL. That challenge is expected to be heard by the Kuantan High Court during 2013.

The third challenge relates to the decision of the AELB in September 2012 to issue the TOL. That challenge has been dismissed by the Kuantan High Court. Lynas understands that the applicants intend to appeal this decision to the Court of Appeal. The appeal is expected to be heard during 2013.

Since the commencement of LAMP operations, the measured emissions on site have consistently been significantly lower than the regulatory limits. Lynas provides real-time monitoring of these emissions at LAMP, and the results are transmitted to Malaysia's Department of Environment (DoE) and to the AELB.

Lynas Malaysia continues to implement the Lynas Integrated Operational Management System Standards (LIOMSS), which incorporates compliance to OHSAS 18001 (Occupational Health and Safety), ISO14001 (Environment) and ISO9001 (Quality). Lynas Malaysia is on track to achieve external certification to these standards in 2013.

Malawi operations

The company is continuing to work with the Malawi Government with the aim of resolving the issues affecting Lynas' title to the Kangankunde Rare Earths ("KGK") resource development in Malawi. Since fiscal year 2012, no further capital investment has been made and the project remains on hold.

EARNINGS PER SHARE

EARNINGS (LOSS) PER SHARE	JUNE 30, 2013	2012
Basic loss per share (cents per share)	(7.71)	(5.12)
Diluted loss per share (cents per share)	(7.71)	(5.12)

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 and Environment 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.

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, 2013, and complied with all of the Council's Principles and Recommendations except as noted below in relation to Recommendations 2.2 and, up until March 31, 2013, Recommendation 2.3.

Details of the Group's corporate governance practices in place throughout the financial year ended June 30, 2013 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 evaluation.

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.

During the financial year ended June 30, 2013, the Board had 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 were viewed as independent Directors. During the financial year ending June 30, 2012, Mr Forde acted as Chairman of the LampsOn Board, which had oversight of the construction of Phase 1 of the Rare Earths Project, and received consultancy fees for those services. As construction of 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. The Board does not view this historical consultancy arrangement as interfering with the exercise of unfettered and independent judgement.

N. Curtis is the Non-Executive Chairman. As Mr Curtis was employed as the Chief Executive Officer of the Group up until March 31, 2013, Mr Curtis is not an independent Director of the Group in accordance with the definition above.

E. Noyrez is an Executive Director and the Chief Executive Officer of the Group. As the Chief Executive Officer of the Group, Mr Noyrez 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 Chairman of the Group. Mr Curtis has a 0.82% shareholding in the Group and the Board does not view this as interfering with the exercise of unfettered and independent judgement. However, as Mr Curtis was employed as the Chief Executive Officer of the Group up until March 31, 2013, Mr Curtis is not an independent Director of the Group in accordance with the Council's definition of independence.

The Board believes that Mr Curtis is the best person to perform the role of Chairman of the Group. The role of Mr Curtis as Chairman is balanced by the presence of a clear majority of independent Directors on the Board. In addition Mr Forde, who is an independent Non-Executive Director, acts as the Deputy Chairman of the Board. The role of the Deputy Chairman 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.

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

As disclosed in relation to Recommendation 2.2, N. Curtis acted as both Executive Chairman and Chief Executive Officer of the Group up until March 31, 2013. During that period, the Group was primarily in the development phase and the Board believed that Mr Curtis was the best person to perform both the roles of Chairman and Chief Executive Officer at that stage of the Group's growth. To reflect the Group's transition from development to producing status, Mr Curtis' role changed from Executive Chairman and Chief Executive Officer to Non-Executive Chairman with effect from March 31, 2013. E. Noyrez succeeded Mr Curtis as Chief Executive Officer from that date.

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 Ms Conlon and Messrs. Davidson, Forde and Switkowski. 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.

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 who held office as at June 30, 2013 is as follows:

NAME	TERM IN OFFICE
N. Curtis	11 years
J. Klein	8 years
D. Davidson	7 years 7 months
W. Forde	5 years 5 months
Z. Switkowski	2 year 5 months
K. Conlon	1 year 8 months
E. Noyrez	3 months*

* E. Noyrez joined Lynas in February 2010 as the President and Chief Operating Officer. Mr Noyrez was appointed as Chief Executive Officer and Executive Director with effect from March 31, 2013.

(3) The reasons why Messrs Klein, Davidson, Forde and Switkowski and Ms Conlon were 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 during the year 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 Company'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 Chief Executive Officer 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 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.

Recommendation 3.4 – Proportion of Women Employees

The Group provides the following statistics on gender diversity as at August 28, 2013 (prior year: July 23, 2012):

(1) Proportion of women employees in the whole organisation: 30.5% (2012 – 19.7%)

(2) Proportion of women in senior management positions: 26.7% (2012 – 20.5%)

(3) Proportion of women on the Board: 20% (2012 – 17.0%)

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) During the financial year, the Audit Committee had 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 during the year 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) Four 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 and Environment Committee, the Audit Committee and management.

(2) The Risk Management, Safety, Health and Environment 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 and Environment 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 during the financial year were Ms Conlon and Messrs. Davidson, Forde and Switkowski. Further details are provided in the Directors Meetings section of the Directors' Report.

The Nomination and Remuneration Committee was chaired by David Davidson up until June 25, 2013. During that time, Mr Davidson was an independent Director and was not Chair of the Board. Mr Davidson resigned as chair of the Committee, and Ms Conlon was appointed as chair of the Committee, with effect from 25 June 2013.

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 Executive Directors 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, 2013 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 during the financial year were Ms Conlon and Messrs. Davidson, Forde and Switkowski. 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:

SERIES	GRANT DATE	NUMBER	DATE VESTED AND EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER OPTION AT GRANT DATE
A	July 21, 2008	1,000,000	July 21, 2011	July 21, 2013	$ 0.98	$ 0.52
B	September 24, 2008	14,100,000	September 24, 2011	September 24, 2013	$ 0.66	$ 0.33
C	September 24, 2008	2,700,000	September 24, 2011	September 24, 2013	$ 0.81	$ 0.34
D	January 5, 2009	100,000	January 5, 2012	January 5, 2014	$ 0.16	$ 0.16
E	July 10, 2009	200,000	September 24, 2011	September 24, 2013	$ 0.66	$ 0.08
F	October 8, 2009	24,500,000	October 8, 2012	October 8, 2014	$ 0.66	$ 0.23
G	July 1, 2010	1,000,000	July 1, 2013	July 1, 2015	$ 0.66	$ 0.24
H	August 19, 2010	5,250,000	August 19, 2013	August 19, 2015	$ 1.15	$ 0.34
I	August 19, 2010*	604,309	August 19, 2013	August 19, 2015	$ 0.00	$ 0.96
J	October 1, 2010	1,000,000	October 1, 2013	October 1, 2015	$ 1.60	$ 0.48
K	August 19, 2010	6,450,000	August 19, 2013	August 19, 2015	$ 1.15	$ 0.66
L	May 18, 2011	200,000	October 1, 2011	December 31, 2015	$ 2.36	$ 1.12
M	June 6, 2011*	420,000	June 6, 2014	June 6, 2016	$ 0.00	$ 2.30
N	November 30, 2011	4,000,000	September 22, 2014(1)	September 22, 2016	$ 1.69	$ 0.40
O	September 23, 2011	4,145,000	September 22, 2014	September 22, 2016	$ 1.69	$ 0.55
P	September 22, 2011*	9,302	September 22, 2013	September 22, 2015	$ 0.00	$ 1.41
Q	September 22, 2011*	4,651	September 22, 2014	September 22, 2016	$ 0.00	$ 1.41
R	September 22, 2011*	765,000	September 22, 2014	September 22, 2016	$0.00	$1.34
S	December 12, 2011	2,000,000	December 12, 2014	December 12, 2016	$ 1.57	$ 0.51
T	September 25, 2012	1,510,574	September 24, 2015	September 24, 2017	$ 1.02	$ 0.26
U	September 25, 2012*	2,526,360	September 24, 2015	September 24, 2017	$ 0.00	$ 0.72
	Total	**72,485,196**				

(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 1,130,232 options were exercised as set out in note 30 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 $163,876. This amount is not included as part of the Directors remuneration in note 30 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 are outlined in note 10 of the 'notes to the financial statements'. The Directors are satisfied that the provision of non-audit services by the auditor during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

DIRECTORS MEETINGS

Committee membership

During the financial year, the Group had an Audit Committee, a Nomination and Remuneration Committee, and a Risk Management, Safety, Health and Environment Committee of the Board of Directors.

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

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

(c) Designates the Chair of the Committee as at June 30, 2013.

* Mr Davidson resigned as chair of the Nomination and Remuneration Committee with effect from June 25, 2013. Ms Conlon was appointed as chair with effect from June 25, 2013.

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 AND ENVIRONMENT
Number of meetings held:	**9**	**4**	**3**	**4**
Number of meetings attended:				
N. Curtis	7	–	–	2
W. Forde	9	4	3	–
K. Conlon	9	4	3	–
D. Davidson	8	–	3	4
J. Klein	8	4	–	4
Z. Switkowski	9	4	3	4
E. Noyrez	3*	–	–	–

* Mr. Noyrez was appointed as a Director with effect from March 31, 2013.

As noted earlier in this report, Messrs Davidson and Switkowski resigned as directors of the Company with effect from August 20, 2013.

The Directors acting on the committees of the Board as at the date of this report are as follows:

AUDIT / RISK MANAGEMENT, SAFETY, HEALTH AND ENVIRONMENT *	NOMINATION AND REMUNERATION
W. Forde (c)	K. Conlon (c)
K. Conlon	N. Curtis
J. Klein	W. Forde

(c) Designates the Chair of the Committee.

* With effect from August 20, 2013, the Board resolved to merge the Audit Committee and the Risk Management, Safety, Health & Environment Committee into one committee.

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.

The Ore Reserves statement in this report has been compiled in accordance with the guidelines defined in The JORC Code. The Ore Reserves have been compiled by Ross Bertinshaw of Golder Associates, who is a fellow of The Australasian Institute of Mining and Metallurgy and a Chartered Professional (Mining). Mr Bertinshaw has had sufficient experience in Ore Reserve estimation relevant to the style of mineralisation and type of deposit under consideration to qualify as Competent Person as defined in The JORC Code. Mr Bertinshaw consents to the inclusion in this 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 2013. 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 enhanced by the attraction and retention of talented and motivated individuals 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. In recent years we have focussed on enhancing alignment to shareholders through refining the performance hurdles associated with the LTI plan. For example, in 2011, we introduced a performance hurdle (net positive operating cash flow) into our LTI plan and then further enhanced the plan by assessing LTI against project milestones and relative total shareholder return ("TSR").

For the current year, we introduced a formal Short Term Incentive ("STI") plan to further link pay with performance. The introduction of the STI plan reflects the Group's transition from a development phase to an 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 and meeting appropriate funds employed, working capital and cash flow targets. The STI component was in substitution for (and not in addition to) portions of remuneration that were previously paid as LTI.

In the current year, we also introduced a clawback policy, in line with best practice in corporate governance. The policy entitles the Group to "claw back" certain elements of the remuneration of Key Management Personnel ("KMP") if the Group becomes aware of any material misstatement in its financial statements for the immediately preceding three financial years due to: (i) non-compliance with any financial reporting requirement (provided that the relevant KMP was a KMP at the time of non-compliance); (ii) the misconduct of the KMP; or (iii) the misconduct of any other Lynas personnel under the supervision of the KMP.

Our remuneration report for 2013 reflects key events that occurred during the year, including the following:

- Effective March 31, 2013, Nicholas Curtis became Non-Executive Chairman and Eric Noyrez became Chief Executive Office and an Executive Director. One-off termination payments totalling $953,516 were made to Mr Curtis pursuant to the cessation of his employment contract as Executive Chairman. This is reflected in the table in Section F of this report.
- The performance hurdle for some Long Term Incentive ("LTI") awards made in the financial year ended June 30, 2011 was not satisfied. As a consequence, 11,700,000 options and 604,609 performance rights were cancelled. This has resulted in a reversal of current and prior period share based payments expense of $5.5 million of which $4.1 million related to KMP. This is reflected in the table in Section F of this report as a component of the net share based payment expense.

Other fundamental elements of our remuneration structure remain unchanged, and include:

- Fixed pay targeted at the median level (50th percentile) or better of relevant peer groups, and total remuneration (that is, fixed plus variable pay) targeted at the 75th percentile. In response to the current operating environment, the Group has adopted a policy of no salary increases for the financial year ending June 30, 2014.
- The LTI grant for the Executives includes relative TSR and operating milestone performance hurdles.
- In 2013, 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,

Kathle Conlon

Kathleen Conlon
Chair

Nomination and Remuneration Committee

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 market value to the Lynas 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 (until March 31, 2013), the Chief Executive Officer and Executive Director ("CEO") (from March 31, 2013), the President and Chief Operating Officer ("COO") (until March 31, 2013), 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 Corporate Affairs (from April 2, 2013).
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 the Directors (whether executive or otherwise) and the Executives.
Lynas Advanced Materials Plant ("LAMP")	The LAMP, which is located in the State of Pahang, Malaysia, is the facility for the cracking and separation of concentrate into separated Rare Earths products.
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 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 and LTI.
Total Shareholder Return ("TSR")	Total Shareholder Return is the total return from a share to an investor (i.e. capital gain plus dividends).

The KMP during the financial year ended June 30, 2013 were as follows:

NON-EXECUTIVE DIRECTORS:

N. Curtis	Chairman (from March 31, 2013, previously Executive Chairman)
W. Forde	Deputy Chairman, Non-Executive Director (from March 31, 2013, previously Lead Independent Director), and Chairman of the Audit Committee
K. Conlon	Non-Executive Director, and Chairman of the Nomination and Remuneration Committee
D. Davidson	Non-Executive Director (resigned with effect from August 20, 2013)
J. Klein	Non-Executive Director
Z. Switkowski	Non-Executive Director, and Chairman of the Risk Management, Safety, Health and Environment Committee (resigned with effect from August 20, 2013)

EXECUTIVES:

E. Noyrez	CEO and Executive Director (from March 31, 2013), previously President and COO
L. Catanzaro	CFO
A. Arnold	General Counsel and Company Secretary
G. Barr	Executive Vice President People and Culture
A. Jury	Executive Vice President Corporate Affairs (from April 2, 2013)

Except as noted, the named person held their current position for the whole of the financial year and since the end of the financial year.

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 of directors 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, both long and short term in nature, with 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 total remuneration in three elements: fixed pay, STI and LTI.

The peer group used to benchmark remuneration consisted of 12 companies (Australian and international) with similarities to the Group in respect of their operating model, size (based on the Group's projected size following the completion and commissioning of the Phase 2 expansion of the Rare Earths Project), market capitalisation, target revenue, and industry sector. They were selected based on the criteria of comparable market capitalisation and projected revenue. The peer group is designed to provide a consistent view of the market for Executive talent over the next few years.

External advisors and remuneration advice

The Committee engages external advisors to provide advice and market related information as required.

- During the year, the Committee received remuneration recommendations (as defined in the *Corporations Act 2001*) from Mercer in relation to the Non-Executive Director remuneration for the Chairman and Deputy Chairman. The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:
  - The terms of Mercer's engagement were finalised by the Chair of the Committee and all remuneration recommendations were provided directly to the Committee Chair.
  - The report containing the remuneration recommendations was provided by Mercer directly to the Chair of the Committee.
  - Neither the Chairman nor the Deputy Chairman were involved in the selection and appointment of Mercer or in the development of any advice in relation to their roles.

  As a consequence, the Board is satisfied that the remuneration recommendations received were made free from 'undue influence' by the members of the Key Management Personnel to whom the recommendations related.
- During the year, the Committee also received advice (but no remuneration recommendations) from Mercer in setting the appropriate levels of total remuneration for Executives.
- Total fees paid during the year to Mercer totalled $23,463 (2012: $53,191). Of that amount, $17,325 was for the remuneration recommendation referred to above in respect of the Chairman and Deputy Chairman. This work was completed by June 30, 2013.
- From June 2011, PricewaterhouseCoopers ("PwC") was appointed by the Committee as its lead external adviser. During the year, PwC did not provide any remuneration recommendations to the Committee.

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).

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 consists of the following key elements:

- fixed pay (base salary and superannuation); and
- variable remuneration, being:
  - STI; and
  - LTI.

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

Fixed pay

Fixed pay 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 pay is targeted at approximately the median level (50th percentile) or better of the relevant peer group.

Variable remuneration

Notwithstanding the introduction of a formal STI Plan, the Board retains ultimate 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 pay = base + super	**Variable remuneration** = STI + LTI

STIs

Prior to June 30, 2012 the Board had a discretionary STI policy used to reward exceptional performance. However, with effect from July 1, 2012, the Board decided that a move towards a formalised STI policy was appropriate. The introduction of a formal STI plan resulted in an adjustment of remuneration mix of fixed pay and variable remuneration, rather than an increase in Total Remuneration received by Executives. The STI target opportunities for the KMP are contained in the table below.

STRATUM	ROLE EXAMPLE	STI TARGET (EXPRESSED AS % OF BASE SALARY)
5	Members of the Lynas Leadership Team (excluding CEO)	30 %
6	CEO & Executive Director	35 %

The goals and measures of the STI programme (including individual, team and company performance goals and measures), the relative weightings of those measures and goals, and STI target amounts are determined and approved at the commencement of each review period by the Remuneration Committee. During the financial year ended June 30, 2013, the measures were drafted with reference to the following goals:

- **Corporate:** Profitability, Liquidity, Return on Capital, Safety
- **Team:** Responsible Care, Customer Satisfaction, Asset Optimisation, Growth Management
- **Individual:** Performance Rating

The payment of any award under the STI programme is subject to the Group achieving 90% of budgeted performance for free operating cash flows.

LTIs

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 award recipient is still employed with the Group (unless this requirement, in limited circumstances, is waived by the Board), and any relevant performance conditions are achieved.

A summary of the performance conditions attached to Options and Performance Rights issued during the financial year ended June 30, 2013 (in addition to the requirement that the award recipient is still employed by the Group at the end of a three year vesting period) is set out below:

(i) 50% will be conditional on the LAMP having demonstrated the capacity to produce at a rate equivalent to 22,000 tonnes per annum rare earth oxides (REO) before the end of calendar year 2013; and

(ii) 50% will be conditional on the company's Total Shareholder Return (TSR) being at least at the 51st percentile of ASX 100 companies calculated over the 3-year vesting period, in accordance with the following sliding scale:

   (a) If the Lynas TSR is at least at the 51st percentile, 50% of the TSR portion will vest.

   (b) If the Lynas TSR is at least at the 76th percentile, 100% of the TSR portion will vest.

   (c) If the Lynas TSR is between the 51st percentile and the 76th percentile, a pro rata amount of between 50% and 100% of the TSR portion will vest (with the relevant percentile being rounded up or down to the nearest 5%, for ease of calculation).

In accordance with the Group's policy governing the trading of the Company's shares by Directors and employees, award recipients are not permitted to hedge their Options or Performance Rights before they vest.

Clawback Policy

In circumstances where the Group becomes aware of any material misstatement in its financial statements due to: (i) non-compliance with a financial reporting requirement; (ii) the KMP's misconduct; or (iii) the misconduct of any other Lynas personnel under the supervision of the relevant KMP, the Board has authority under the clawback policy to:

(a) require a KMP to repay some or all of any STI award or LTI award granted to the KMP from July 1, 2013 ("Relevant Award"), to the extent such award has vested;

(b) forfeit the reference units representing all or a part of the KMP's Relevant Award, to the extent such award remains unvested; or

(c) withhold the payment or allocation of all or a part of the KMP's Relevant Award, to the extent such award has not been paid or given to that KMP.

E. SERVICE AGREEMENTS

The CEO and Executive Director has signed an executive services agreement containing reasonable commercial conditions. Subject to the following provisions, the agreement is for an indefinite duration. The key provisions of the agreement are:

Notice by CEO:	Mr Noyrez must give three months written notice of an intention to resign. The effective date of any such notice cannot fall prior to 31 March 2014.
Notice by Group:	The Group may terminate the agreement by giving six months' written notice. The effective date of any such notice cannot fall prior to 31 March 2014.
Treatment of incentives on termination:	On resignation, any unvested Options may be forfeited subject to the discretion of the Board. Upon termination of Mr Noyrez' employment by the Group other than as a result of misconduct, Mr Noyrez will be entitled to retain a pro – rata portion of any unvested Options and Performance Rights held by him on the date of termination. For example, where 50% of the vesting period has been served, Mr Noyrez will be entitled to retain 50% of the unvested Options or Performance Rights. Mr Noyrez will also be entitled to retain any Options or Performance Rights that have vested prior to the date of termination.
Termination benefits:	Upon the Group terminating Mr Noyrez' employment, 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 sum of: (i) the balance of Mr Noyrez' salary over the greater of one year, plus (ii) the STI applicable to the year in which the date of termination occurs, calculated at target. In accordance with the Corporations Act 2001 and the formula specified above, the maximum termination payment payable to Mr Noyrez is equal to his base salary for one year (i.e. excluding any LTI component). Upon the Group terminating Mr Noyrez' employment, provided that Mr Noyrez remains an employee of good standing up until termination, Mr Noyrez will be eligible to be relocated back to his nominated home country in accordance with Lynas' relocation policy. The Group may terminate Mr Noyrez' employment 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, unvested incentives will be treated in the same manner set out above in respect of Mr Noyrez; and
- the Group may terminate employment at any time without notice if serious misconduct has occurred.

F. 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 a 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. That hurdle was not satisfied.
- In the financial year ended June 30, 2012, LTI grants were subject to TSR and project milestone hurdles related to REO capacity. The reference period for these hurdles has not yet expired.
- In the financial year ended June 30, 2013, LTI grants were also subject to TSR and project milestone hurdles related to REO capacity, as detailed in Section D above. The reference period for these hurdles has not yet expired.

Individual performance reviews link total remuneration to individual and business unit performance. From July 1, 2012 the mix of fixed pay and variable remuneration has been adjusted by the introduction of a formal STI plan. The introduction of the STI plan reflects the transition of the Group from a development phase to an 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 LTI. During the financial year ended June 30, 2013, the STI plan consisted of two separate review periods, with the first period being from July to December 2012 ("**First Half Review Period**"), and the second period from January to June 2013 ("**Second Half Review Period**"). As noted above in section D, the payment of any award under the STI programme is subject to the Group achieving 90% of budgeted performance for free operating cash flow ("**STI Gateway**"). The STI Gateway was satisfied with respect to the First Half Review Period, and any awards that are payable under the STI programme with respect to that period will be paid in the year ended June 30, 2014. The STI Gateway was not satisfied with respect to the Second Half Review Period.

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 cash remuneration paid 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. It also reflects the restructure of the Executive Chairman role into two roles: (i) Non-Executive Chairman; and (ii) CEO, as discussed in the Chair's letter to shareholders on page 19. In the case of Executives, the increase in cash received during the financial year ended June 30, 2013 in comparison to the previous financial year reflects an adjustment to the remuneration mix in connection with the introduction of a formal STI plan (as described in Section D above).Separately, changes in the share based remuneration from one year to the next reflect the impact of amortising the accounting value of Options and Performance Rights over their three year vesting period and the impact of forfeitures which can relate to both the current and prior periods in a given fiscal period. In certain periods, a negative value may be presented which results when the forfeitures recognised in a period are greater than the accounting amortisation expense for the current portion of the vesting period.

FINANCIAL YEAR ENDED	JUNE 30, 2009	JUNE 30, 2010	JUNE 30, 2011	JUNE 30, 2012	JUNE 30, 2013
Number of KMPs					
Executive Director	1	1	1	1	1
Non-Executive Directors	3	3	4	5	6
Other KMP	3	4	6	4	4
Cash Remuneration Paid ($)					
Executive Director	626,053	890,000	585,920	657,932	896,298(1)
Non-Executive Directors	254,587	225,509	461,832	680,223	2,399,338(2)
Other KMP	1,501,753	2,146,212	2,331,786	2,279,343	2,062,285(3)
Total Cash Remuneration Paid (4)	**2,382,393**	**3,261,721**	**3,379,538**	**3,617,498**	**5,357,921**
Share-based remuneration net ($)					
Executive Director	1,789,338	2,472,449	3,218,720	3,354,243	562,628(6)
Non-Executive Directors	306,001	510,933	1,337,722	1,209,861	(377,239)(7)
Other KMP	2,076,313	2,146,587	3,093,634	2,839,426	861,969(3)
Total share-based remuneration net (5)	**4,171,652**	**5,129,969**	**7,650,076**	**7,403,530**	**1,047,358**
Total other remuneration (8) ($)	**156,941**	**308,632**	**767,923**	**743,142**	**693,943**
Total Remuneration ($)	**6,710,986**	**8,700,322**	**11,797,537**	**11,764,170**	**7,099,222**
Annual average share price	$0.52	$0.55	$1.66	$1.30	$0.65
Closing share price at financial year end	$0.47	$0.55	$1.98	$0.85	$0.38
Earnings Per Share (EPS)	**($4.50)**	**($3.23)**	**($3.54)**	**($5.12)**	**($7.71)**
Diluted EPS	**($4.50)**	**($3.23)**	**($3.54)**	**($5.12)**	**($7.71)**
Loss before tax ('000)	**($29,282)**	**($43,041)**	**($57,288)**	**($97,879)**	**($141,014)**
Loss after tax ('000)	**($29,282)**	**($43,041)**	**($59,086)**	**($87,770)**	**($143,555)**

(1) Cash Remuneration paid to the CEO in his previous role as COO (until March 31, 2013) and as CEO (from March 31, 2013).

(2) Includes the cash remuneration paid to the Chairman as Chief Executive Officer and Executive Chairman (until March 31, 2013) and as Non-Executive Chairman (from March 31, 2013).

(3) Other KMP encompasses the Executives (excluding both the Executive Chairman and the COO for the period up to March 31, 2013, and excluding the CEO from March 31, 2013).

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

(5) Represents the cumulative impact of amortising the accounting value of Options and Performance Rights over their three year vesting period including the impact of forfeitures recognised during the period.

(6) Share-based remuneration (as determined in accordance with note 5 above) to the CEO in his previous role as COO and President (until March 31, 2013) and as CEO and Executive Director (from March 31, 2013).

(7) Includes the share-based remuneration (as determined in accordance with note 5 above) to the Chairman as Chief Executive Officer and Executive Chairman (until March 31, 2013) and as Non-Executive Chairman (from March 31, 2013).

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

G. NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

Remuneration of Non-Executive Directors ("NEDs") is set at a level that enables the Group to attract and retain talented and motivated people 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.

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 20, 2012, and an aggregate pool of $1,250,000 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 a fee for each committee of which they are members. The NED fees, including committee fees, include statutory superannuation contributions where appropriate.

Base Fees

Base fees for NEDs for the financial year ended June 30, 2013 were:

- Chairman $350,000 per annum
- Deputy Chairman $125,000 per annum; and
- Non-Executive Director $100,000 per annum.

As Mr Curtis was employed by the Group as Executive Chairman until March 31, 2013, he received only a pro-rata proportion of the Non-Executive Chairman fee.

Committee Fees

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

The remuneration for NEDs for the financial years ended June 30, 2013 and June 30, 2012 is set out in Section H of this report.

H. DETAILS OF REMUNERATION

YEAR ENDED JUNE 30, 2013

	SHORT-TERM BENEFITS			POST EMPLOYMENT BENEFITS			LONG-TERM BENEFITS		
NAME	CASH SALARY AND FEES	OTHER SHORT-TERM EMPLOYEE BENEFITS	NON-MONETARY BENEFITS	TERMI-NATION PAYMENTS	SUPERAN-NUATION AND OTHER PENSION PAYMENTS	TOTAL SHORT TERM AND POST-EMP BENEFITS	SHARE-BASED PAYMENTS (NET)[1]	PERFOR-MANCE RELATED % OF TOTAL	TOTAL
Executive Director									
E. Noyrez[2]	896,298	–	380,353	–	74,826[3]	1,351,477	562,628	29%	1,914,105
Non-Executive Directors									
N. Curtis[4]	837,500	–	14,155	953,516[5]	–	1,805,171	(78,620)	(5%)	1,726,551
K Conlon	127,500	–	–	–	–	127,500	–	0%	127,500
D. Davidson[6]	71,209	–	44,292	–	25,000	140,501	(92,047)	(190%)	48,454
W. Forde	153,670	–	–	–	13,830	167,500	(114,525)	(216%)	52,975
J. Klein	127,500	–	–	–	–	127,500	(92,047)	(260%)	35,453
Z. Switkowski[7]	128,443	–	–	–	11,560	140,003	–	0%	140,003
Executives									
A. Arnold	481,516	–	17,628	–	25,000	524,144	218,035	29%	742,179
G. Barr	419,728	–	13,419	–	25,000	458,147[8]	274,395	37%	732,542
L. Catanzaro	665,160	300,000[9]	16,832	–	24,840	1,006,832	369,539	27%	1,376,371
A. Jury[10]	95,881	100,000[11]	3,090	–	4,118	203,089	–	0%	203,089
Total	**4,004,405**	**400,000**	**489,769**	**953,516**	**204,174**	**6,051,864**	**1,047,358**		**7,099,222**

(1) Represents the cumulative impact of amortising the accounting value of Options and Performance Rights over their three year vesting period including the impact of forfeitures recognised during the period. At times a negative value may be presented which results when the forfeitures recognised in the period (which may relate also to earlier periods) are greater than the accounting expense for the current portion of the vesting period.

(2) Appointed as CEO, and ceased to act as COO, with effect from March 31, 2013.

(3) French Citizen Pension Payment.

(4) Ceased to be a member of the Executive and assumed role of Non-Executive Chairman with effect from March 31, 2013.

(5) This amount represents payments made to Mr Curtis pursuant to the cessation of his employment as Executive Chairman, including a termination payment in accordance with his Service Agreement, and accrued entitlements for annual leave and long service leave.

(6) Resigned with effect from August 20, 2013.

(7) Resigned with effect from August 20, 2013.

(8) The increase in cash paid to Mr Barr in the financial year ended June 30, 2103 is consistent with the Group's benchmarking analysis and remuneration policy set out in section B of this report. Mr Barr was appointed as Executive Vice President of People & Culture in April 2011. However, Mr Barr's remuneration was not adjusted to reflect this change in role until the financial year ended June 30, 2013.

(9) Represents one-off amounts fixed under the terms of Ms Catanzaro's employment contract.

(10) Appointed as Executive Vice President Corporate Affairs with effect from April 2, 2013.

(11) Represents one-off amounts fixed under the terms of Mr Jury's employment contract.

YEAR ENDED JUNE 30, 2012

	SHORT-TERM BENEFITS			POST EMPLOYMENT BENEFITS			LONG-TERM BENEFITS		
NAME	CASH SALARY AND FEES	OTHER SHORT-TERM EMPLOYEE BENEFITS	NON-MONETARY BENEFITS	TERMINATION PAYMENTS	SUPERANNUATION AND OTHER PENSION PAYMENTS	TOTAL SHORT TERM AND POST-EMP BENEFITS	SHARE-BASED PAYMENTS (NET)(1)	PERFORMANCE RELATED % OF TOTAL	TOTAL
Executive Director									
N. Curtis	657,932	–	17,622	–	4,366	679,920	3,354,243	83%	4,034,163
Non-Executive Directors									
K Conlon(2)	85,000	–	–	–	–	85,000	–	0%	85,000
D. Davidson	35,610	–	51.890	–	50,000	137,500	370,858	73%	508,358
W. Forde	303,670(3)	–	–	–	13,830	317,500	468,145	60%	785,645
J. Klein	127,500	–	–	–	–	127,500	370,858	74%	498,358
Z. Switkowski	128,443	–	–	–	11,560	140,003	–	0%	140,003
Executives									
A. Arnold	385,548	–	15,703	–	27,670	428,921	526,916	55%	955,837
G. Barr	266,644	–	15,104	–	25,000	306,748	247,159	45%	553,907
L. Catanzaro(4)	318,509	–	7,932	–	24,387	350,828	187,187	35%	538,015
E. Noyrez	564,463	450,000(5)	348,125	–	80,705(6)	1,443,293	1,018,401	41%	2,461,694
J. G. Taylor(7)	125,394	–	18,557	–	20,738	164,689	177,323	52%	342,012
M. James(8)	55,932	–	4,516	112,853	5,437	178,738	682,440	79%	861,178
Total	**3,054,645**	**450,000**	**479,449**	**112,853**	**263,693**	**4,360,640**	**7,403,530**		**11,764,170**

(1) Represents the cumulative impact of amortising the accounting value of Options and Performance Rights over their three year vesting period including the impact of forfeitures recognised during the period. At times a negative value may be presented which results when the forfeitures recognised in the period (which may relate also to earlier periods) are greater than the accounting expense for the current portion of the vesting period.

(2) Appointed Director from November 1, 2011.

(3) 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 30 June 2012.

(4) Appointed CFO from December 12, 2011.

(5) $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.

(6) French Citizen Pension Payment.

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

(8) Resigned August 31, 2011.

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
July 21, 2008	1,000,000	July 21, 2011	July 21, 2013	$ 0.98	$ 0.52
September 24, 2008	14,100,000	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	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	5,250,000	August 19, 2013	August 19, 2015	$ 1.15	$ 0.34
August 19, 2010*	604,309	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	6,450,000	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	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*	9,302	September 22, 2013	September 22, 2015	$ 0.00	$ 1.41
September 22, 2011*	4,651	September 22, 2014	September 22, 2016	$ 0.00	$ 1.41
September 22, 2011*	765,000	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
September 25, 2012	1,510,574	September 24, 2015 (1)	September 24, 2017	$ 1.02	$ 0.26
September 25, 2012*	2,526,360	September 24, 2015 *(2)	September 24, 2017	$ 0.00	$ 0.72
Total	**72,485,196**				

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

(1) Options Series T

(2) Performance Rights Series U

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 and Performance Rights issued during the year ended June 30, 2013:

	SERIES T	SERIES U
Grant date share price ($)	$0.795	$0.795
Exercise price ($)	$1.02	$0.00
Dividend yield	Nil	Nil
Expected volatility	50%	50%
Risk-free interest rate	2.63%	2.58%
Life of Option	5 years	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.

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

NAME	NUMBER OF OPTIONS AND PERFORMANCE RIGHTS	GRANT DATE	FAIR VALUE PER INSTRU-MENT AT GRANT DATE	EXERCISE PRICE PER INSTRU-MENT	EXPIRY DATE	FIRST EXERCISE DATE	LAST EXERCISE DATE
A. Arnold	1,057,402	September 25, 2012	$0.26	$1.02	September 24, 2017	September 24, 2015	September 24, 2017
G. Barr	439,806	September 25, 2012	$0.72	$0.00	September 24, 2017	September 24, 2015	September 24, 2017
L. Catanzaro	453,172	September 25, 2012	$0.26	$1.02	September 24, 2017	September 24, 2015	September 24, 2017
E. Noyrez	1,312,853	September 25, 2012	$0.72	$0.00	September 24, 2017	September 24, 2015	September 24, 2017
Total	**3,263,233**						

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.

The following tables outline the Options and Performance Rights issued for the benefit of Directors and the KMP during the 2013 and 2012 financial years and those Options which have vested at each respective year-end.

JUNE 30, 2013

	BALANCE AT BEGINNING OF PERIOD	GRANTED	GRANT DATE	OPTIONS EXERCISED/ CANCELLED/ FORFEITED/ OTHER	OPTIONS EXPIRED WITHOUT EXERCISE	NET CHANGE	BALANCE AT END OF PERIOD	AMOUNT VESTED AT JUNE 30, 2013
A. Arnold	6,835,000	1,057,402	September 25, 2012	(750,000)	–	307,402	7,142,402	4,400,000
G. Barr	2,060,000	439,806	September 25, 2012	(100,000)	(200,000)	139,806	2,199,806	450,000
L. Catanzaro	2,000,000	453,172	September 25, 2012	–	–	453,172	2,453,172	–
K. Conlon	–	–	–	–	–	–	–	–
N. Curtis(1)	30,000,000	–	–	(4,500,000)	–	(4,500,000)	25,500,000	17,000,000
D. Davidson(2)	3,100,000	–	–	(600,000)	–	(600,000)	2,500,000	1,900,000
W. Forde	4,000,000	–	–	(750,000)	–	(750,000)	3,250,000	2,500,000
A. Jury(3)	–	–	–	–	–	–	–	–
J. Klein	3,100,000	–	–	(600,000)	–	(600,000)	2,500,000	1,900,000
E. Noyrez(4)	10,000,000	1,312,853	September 25, 2012	(1,500,000)	–	(187,147)	9,812,853	5,000,000
Z. Switkowski(5)	–	–	–	–	–	–	–	–
Total	**61,095,000**	**3,263,233**		**(8,800,000)**	**(200,000)**	**(5,736,767)**	**55,358,233**	**33,150,000**

(1) Ceased to be a member of the Executive, and assumed the role of Non-Executive Chairman, with effect from March 31, 2013.
(2) Resigned with effect from August 20, 2013.
(3) Appointed as Executive Vice President Corporate Affairs with effect from April 2, 2013.
(4) Appointed as CEO and an Executive Director, and ceased to act as COO and President, with effect from March 31, 2013.
(5) Resigned with effect from August 20, 2013.

JUNE 30, 2012

	BALANCE AT BEGINNING OF PERIOD	GRANTED	GRANT DATE	OPTIONS EXERCISED/ CANCELLED/ FORFEITED/ 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 de-recognition of Options and Performance Rights of individuals no longer members of the KMP or who have resigned their employment with the Group.

(2) Appointed CFO with effect from December 12, 2011.

(3) Appointed as a Non-Executive Director with effect from 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 Mr. 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.

FUTURE DEVELOPMENT

The Group regularly reports quarterly information regarding developments in the operations of the Group. Most recently, the Group indicated that, in response to challenging Rare Earths market conditions, it has taken a number of steps to strengthen its position during this subdued period, and in turn, be ready to respond to improved market conditions. The Group has decided to optimise its production levels at LAMP at the Phase 1 capacity level of 11,000 tonnes per annum REO until market prices recover. The Group will continue with the commissioning of the Phase 2 expansion of the LAMP ahead of an expected start-up in Q3 2013. The subsequent ramp up of Phase 2 production will be determined by various factors, primarily being market conditions.

SUBSEQUENT EVENTS

On September 13, 2013 the Group entered into a deed of amendment to modify certain provisions under the Sojitz Loan Facility. Reference should be made to note 23 to the Financial Report for further details.

With the exception of the above, there have been no other events subsequent to June 30, 2013 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
Chairman

Sydney
September 13, 2013

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

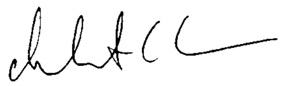
(d) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

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
Chairman

Sydney
September 13, 2013

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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 2013, 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.

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 2013 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 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Graham Ezzy
Partner
Sydney
13 September 2013

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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 2013, 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

Graham Ezzy
Partner
Sydney

13 September 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED		JUNE 30,	
IN A$'000	NOTE	2013	2012
Revenue		950	–
Cost of sales*		(950)	–
Gross profit (loss)		–	–
Other income	7	9,795	–
General and administration expenses*		(125,124)	(74,124)
Other expenses*	9	(13,082)	(15,928)
Profit (loss) from operating activities		**(128,411)**	**(90,052)**
Financial income	11	4,767	2,840
Financial expenses	11	(17,370)	(10,667)
Net financial income (expenses)		**(12,603)**	**(7,827)**
Profit (loss) before income tax		**(141,014)**	**(97,879)**
Income tax benefit (expense)	12	(2,541)	10,109
Profit (loss) for the year		**(143,555)**	**(87,770)**
Other comprehensive income (loss) for the period net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	14	37,015	(10,191)
Gain (loss) on the revaluation of available for sale financial assets	14	(865)	(4,653)
Total other comprehensive income (loss) for the year, net of income tax		**36,150**	**(14,844)**
Total comprehensive income (loss) for the year attributable to equity holders of the Company		**(107,405)**	**(102,614)**
Earnings (loss) per share			
Basic loss per share (cents per share)	26	(7.71)	(5.12)
Diluted loss per share (cents per share)	26	(7.71)	(5.12)

* For more information on expenses by nature, reference should be made to notes 8, 9, 10, 17 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

FOR THE YEAR ENDED IN A$'000	NOTE	JUNE 30, 2013	 2012
Assets			
Cash and cash equivalents	15	141,371	205,438
Trade and other receivables	16	1,765	932
Current tax receivables		49	–
Prepayments		3,946	1,538
Inventories	17	78,380	52,419
Total current assets		**225,511**	**260,327**
Inventories	17	14,555	13,272
Available for sale – financial assets	18	1,802	3,754
Property, plant and equipment	20	880,335	706,603
Deferred exploration, evaluation and development expenditure	21	47,654	26,342
Intangible assets – software		431	321
Other assets	19	17,396	13,038
Total non-current assets		**962,173**	**763,330**
Total assets		**1,187,684**	**1,023,657**
Liabilities			
Trade and other payables	22	(33,515)	(46,369)
Borrowings	23	(10,949)	–
Current tax liabilities		–	(120)
Employee benefits	24	(3,650)	(1,382)
Provisions	25	(16,520)	(3,061)
Deferred income	7	(5,420)	–
Total current liabilities		**(70,054)**	**(50,932)**
Trade and other payables	22	(782)	(1,962)
Borrowings	23	(447,068)	(403,062)
Provisions	25	(40,865)	(3,777)
Employee benefits	24	(207)	(430)
Total non-current liabilities		**(488,922)**	**(409,231)**
Total liabilities		**(558,976)**	**(460,163)**
Net assets		**628,708**	**563,494**
Equity			
Share capital	26	994,645	823,161
Retained earnings (accumulated deficit)		(430,691)	(287,136)
Reserves	26	64,754	27,469
Total equity attributable to the equity holders of the Company		**628,708**	**563,494**

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	ACCUMULATED DEFICIT	FOREIGN CURRENCY TRANSLATION RESERVE	EQUITY SETTLED EMPLOYEE BENEFITS RESERVE	INVESTMENT REVALUATION RESERVE	OTHER RESERVES	TOTAL
Balance at the beginning of the year	**823,161**	**(287,136)**	**(36,132)**	**33,993**	**865**	**28,743**	**563,494**
Other comprehensive income (loss) for the period	–	–	37,015	–	(865)	–	36,150
Total income (loss) for the period	–	(143,555)	–	–	–	–	(143,555)
Total comprehensive income (loss) for the year	823,161	(430,691)	883	33,993	–	28,743	456,089
Issue of shares, net of issue costs	171,258	–	–	–	–	–	171,258
Exercise of options, net of issue costs	226	–	–	–	–	–	226
Employee remuneration settled through share-based payments	–	–	–	1,135	–	–	1,135
Balance at June 30, 2013	**994,645**	**(430,691)**	**883**	**35,128**	**–**	**28,743**	**628,708**
Balance at the beginning of the year	**821,994**	**(199,366)**	**(25,941)**	**24,562**	**5,518**	**–**	**626,767**
Other comprehensive income (loss) for the period	–	–	(10,191)	–	(4,653)	–	(14,844)
Total income (loss) for the period	–	(87,770)	–	–	–	–	(87,770)
Total comprehensive income (loss) for the year	821,994	(287,136)	(36,132)	24,562	865	–	(524,153)
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
Balance at June 30, 2012	**823,161**	**(287,136)**	**(36,132)**	**33,993**	**865**	**28,743**	**563,494**

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		JUNE 30,	
IN A$'000	NOTE	2013	2012
Cash flows from operating activities			
Receipts from customers		597	–
Receipt of government grants		15,216	–
Payments to suppliers and employees		(121,293)	(86,847)
Royalties paid		(558)	–
Income taxes (paid) received		(204)	(66)
Net cash flows from (used in) operating activities		**(106,242)**	**(86,913)**
Cash flows from investing activities			
Payment for property, plant and equipment		(111,351)	(339,373)
Payment for deferred exploration, evaluation and development expenditure		(102)	(111)
Payment for intangible assets		(90)	(125)
Security bonds paid		(3,053)	(9,568)
Security bonds refunded		349	260
Payment for available for sale financial assets		–	(749)
Net cash from (used in) investing activities		**(114,247)**	**(349,666)**
Cash flows from financing activities			
Drawdown of loans and borrowings			
Mt Kellett convertible bonds		–	211,864
Interest received		4,984	6,027
Interest and other financing costs paid		(19,741)	(12,244)
Proceeds from the issue of share capital		175,000	–
Payment of transaction costs – Issue of shares		(5,350)	–
Proceeds from the issue of share capital resulting from the exercise of options		226	1,167
Payment of transaction costs – Issue of Mt Kellett convertible bonds		–	(625)
Net cash from (used in) financing activities		**155,119**	**206,189**
Net increase (decrease) in cash and cash equivalents		(65,370)	(230,390)
Cash and cash equivalents at the beginning of the year		205,438	433,956
Effect of exchange rate fluctuations (net) on cash held		1,303	1,872
Closing cash and cash equivalents	**15**	**141,371**	**205,438**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

FOR THE YEAR ENDED		JUNE 30,	
IN A$'000	NOTE	2013	2012
Profit (loss) for the year		(143,555)	(87,770)
Adjustments for:			
Depreciation and amortisation	17	16,567	1,349
Employee remuneration settled through share-based payments		1,135	9,431
Impairment loss on property, plant and equipment & other	9	3,950	4,770
Impairment loss on deferred exploration, evaluation and development expenditure	9	–	2,613
Impairment loss on inventories	9	9,132	8,545
Net financial (income) expenses	11	12,603	7,827
Income tax (benefit) expense	12	2,541	(10,109)
Income taxes (paid) received		(204)	(66)
Change in trade and other receivables		(997)	2,524
Change in inventories		(22,673)	(37,649)
Change in trade and other payables		(12)	9,789
Change in other assets and liabilities		(4,358)	(9,307)
Change in provisions and employee benefits		15,504	1,713
Change in deferred income		5,420	–
Foreign exchange		(1,295)	9,427
Net cash from (used in) operating activities		**(106,242)**	**(86,913)**

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

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, 2013 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 13, 2013.

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, 2013. Information for the comparative year is for the 12 month period ended June 30, 2012.

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 Reclassification of comparative information

Certain elements of the information presented for comparative purposes have been revised to conform with the current year presentation.

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) under which the acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses by the Group. 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.

(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.

(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.

(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 was 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.

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 re-measured 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 below).

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.

(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 rotable 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.

(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	30 to 99 years	Buildings	10 to 30 years
Plant and Equipment	4 to 25 years	Fixtures and fittings	3 to 15 years
Leasehold improvements	5 to 30 years	Motor vehicles	7 to 8 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.

(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 or pre-production 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. When the excess is negative, it 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.

(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	4 to 5 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 adjusted EBITDA (forecasted) 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 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) Other long-term employee benefits

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.

(d) 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.

(e) 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.

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.

(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).

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 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.

3.25 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.

3.26 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.

- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*
- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*

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.

(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, 2015	June 30, 2016
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 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 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

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 or period of initial application.

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 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.

4.3 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.

4.4 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.

4.5 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 operation, further 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 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.

		FOR THE YEAR ENDED JUNE 30, 2013			FOR THE YEAR ENDED JUNE 30, 2012		
IN A$'000	**NOTE**	**RARE EARTH OPERATIONS**	**CORPORATE/ UNALLOCATED**	**TOTAL CONTINUING OPERATIONS**	**RARE EARTH OPERATIONS**	**CORPORATE/ UNALLOCATED**	**TOTAL CONTINUING OPERATIONS**
Business segment reporting							
Revenue		950	–	950	–	–	–
Cost of sales		(950)	–	(950)	–	–	–
Gross profit		**–**	**–**	**–**	**–**	**–**	**–**
Expenses and other income		(117,479)	(10,932)	(128,411)	(87,886)	(2,166)	(90,052)
Earnings before interest and tax ("EBIT")		**(117,479)**	**(10,932)**	**(128,411)**	**(87,886)**	**(2,166)**	**(90,052)**
Financial income				4,767			2,840
Financial expenses				(17,370)			(10,667)
Profit (loss) before income tax				**(141,014)**			**(97,879)**
Income tax benefit (expense)				(2,541)			10,109
Profit (loss) for the year				**(143,555)**			**(87,770)**
EBIT		(117,479)	(10,932)	(128,411)	(87,886)	(2,166)	(90,052)
Depreciation and amortisation	17	16,226	341	16,567	1,317	32	1,349
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**(101,253)**	**(10,591)**	**(111,844)**	**(86,569)**	**(2,134)**	**(88,703)**

Reconciliation of EBITDA to Adjusted EBITDA

IN A$'000	NOTE	FOR THE YEAR ENDED JUNE 30, 2013 RARE EARTH OPERATIONS	CORPORATE/ UNALLOCATED	TOTAL CONTINUING OPERATIONS	FOR THE YEAR ENDED JUNE 30, 2012 RARE EARTH OPERATIONS	CORPORATE/ UNALLOCATED	TOTAL CONTINUING OPERATIONS
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**(101,253)**	**(10,591)**	**(111,844)**	**(86,569)**	**(2,134)**	**(88,703)**
Included in EBITDA:							
Impairment charge – property plant and equipment & other	9	3,179	771	3,950	4,770	–	4,770
Impairment charge – deferred exploration, evaluation and development expenditure	9	–	–	–	2,613	–	2,613
Impairment charge – inventory	9	9,132	–	9,132	8,545	–	8,545
Receipt of government grants	7	–	(9,795)	(9,795)	–	–	–
Non-cash employee remuneration settled through share based payments comprising:							
Share based payments expense for the period	30	–	6,627	6,627	–	9,431	9,431
Impact of options and performance rights forfeited during the period	30	–	(5,492)	(5,492)	–	–	–
Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA")		**(88,942)**	**(18,480)**	**(107,422)**	**(70,641)**	**7,297**	**(63,344)**

7. OTHER INCOME

IN A$'000	FOR THE YEAR ENDED JUNE 30, 2013	2012
Government grants	9,795	–
Total other income	**9,795**	**–**

In January 2013 the Company received a cash payment of $15.2 million from the Australian Taxation Office ("ATO") for eligible research and development (R&D) expenditure principally incurred in connection with the testing and commissioning of the Mt Weld concentration and processing plant. The eligible R&D expenditure was incurred in the prior year and was partly recognised through the profit or loss component of the statement of comprehensive income and partly capitalised to inventory. During the year ended June 30, 2013 $9.8 million of this amount has been recognised in the profit and loss component of the statement of comprehensive income to match the treatment of the underlying R&D expenditure. The remaining amount of $5.4 million has been deferred for future recognition to reflect the progressive utilisation of the Group's concentrate inventory to which certain of these costs were capitalised.

8. PERSONNEL EXPENSES

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

IN A$'000	FOR THE YEAR ENDED JUNE 30, 2013	2012
Wages and salaries	37,006	26,254
Superannuation and pension contributions	1,396	1,327
Employee remuneration settled through share-based payments	1,135	9,431
Termination costs	1,100	256
Other	1,599	791
Total personnel expenses	**42,236**	**38,059**

9. OTHER EXPENSES

IN A$'000	NOTE	FOR THE YEAR ENDED JUNE 30, 2013	2012
Impairment loss – inventory	17	9,132	8,545
Impairment loss – property, plant and equipment	20	3,361	4,770
Impairment loss – deferred exploration, evaluation and development expenditure	21	–	2,613
Impairment loss – other		589	–
Total other expenses		**13,082**	**15,928**

10. AUDITORS REMUNERATION

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

IN $A	FOR THE YEAR ENDED JUNE 30, 2013	2012
Auditor's remuneration to Ernst & Young (Australia), comprising:		
Audit fees	321,764	209,850
Tax fees(1)	384,064	25,600
Other fees	125,041	11,300
Total auditor's remuneration Ernst & Young (Australia)	**830,869**	**246,750**
Auditor's remuneration to Ernst & Young (other locations), comprising:		
Audit fees	33,297	25,286
Total auditor's remuneration Ernst & Young (other locations)	**33,297**	**25,286**

(1) Tax services represent work undertaken for the preparation of the Australian tax-consolidated group's research and development expenditure return which resulted in the Company receiving a cash payment of $15.2 million from the ATO (refer to note 7).

11. FINANCIAL INCOME AND EXPENSES

IN A$'000	FOR THE YEAR ENDED JUNE 30, 2013	2012
Interest income on cash and cash equivalents*	4,767	2,840
Financial income	**4,767**	**2,840**
Interest expense on financial liabilities measured at amortised cost*		
Mt Kellett convertible bonds	(5,614)	(974)
Amortisation of deferred transaction costs – Mt Kellett convertible bonds	(113)	(35)
Amortisation of Mt Kellett equity conversion option	(8,439)	(2,881)
Financing transaction costs and fees	(1,694)	(4,526)
Net foreign currency exchange loss	(1,510)	(2,251)
Financial expenses	**(17,370)**	**(10,667)**
Net financial income (expense)	**(12,603)**	**(7,827)**

* Interest income (expense) are shown net of amounts capitalised in respect of qualifying assets; refer to note 20 for more information.

12. INCOME TAXES

IN A$'000	FOR THE YEAR ENDED JUNE 30, 2013	2012
Current tax		
Current tax expense in respect of the current year	53	371
Adjustments recognised in the current year in relation to the current tax in prior years	–	(383)
	53	**(12)**
Deferred tax		
Deferred tax (benefit) expense recognised in the year	2,488	(10,097)
Total income tax (benefit) expense relating to the continuing operations	**2,541**	**(10,109)**

12.1 Income tax recognised in profit (loss)

IN A$'000	FOR THE YEAR ENDED JUNE 30, 2013	2012
Profit (loss) before tax for continuing operations	(141,014)	(97,879)
Income tax (benefit) expense calculated at 30% (2012: 30%)	(42,304)	(29,364)
Add (deduct):		
R&D tax offset not included in assessable income	(2,939)	–
Effect of expenses that are not deductible in determining taxable profit	21,502	11,644
Effect of foreign exchange gains and losses	(16,420)	(5,376)
Effect of unused tax losses not recognised as deferred tax assets	37,839	13,243
Effect of temporary differences not recognised as deferred tax assets	5,256	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	(57)
Foreign tax paid on profits attributable to foreign permanent establishments	58	87
Effect of (under) over provision in prior years	–	(383)
Other adjustments	(451)	97
Total current year income tax (benefit) expense	**2,541**	**(10,109)**

12.2 Income tax recognised directly in equity

IN A$'000	FOR THE YEAR ENDED JUNE 30, 2013	2012
Deferred tax		
Initial recognition of the equity component of Mt Kellett convertible bonds	–	(12,193)
Share issue costs	1,502	–
Total income tax (benefit) expense recognised directly in equity	**1,502**	**(12,193)**

12.3 Income tax recognised directly in other comprehensive income

IN A$'000	FOR THE YEAR ENDED JUNE 30, 2013	2012
Deferred tax		
Available for sale – financial assets	371	2,096
Revaluation of deferred tax assets and liabilities through foreign currency translation reserve	615	–
Total income tax (benefit) expense recognised directly in other comprehensive income	**986**	**2,096**

13. DEFERRED TAX ASSETS AND LIABILITIES

13.1 Deferred tax balances

IN A$'000	BALANCE AT JULY 1, 2012	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN EQUITY	RECOGNISED IN OCI	BALANCE AT JUNE 30, 2013
Temporary differences					
Inventory	–	(5,927)	–	–	(5,927)
Deferred exploration, evaluation and development expenditure	1,346	(3,156)	–	–	(1,810)
Property plant and equipment	430	(22,994)	–	–	(22,564)
Available for sale – financial assets	(371)	215	–	371	215
Borrowings	(5,462)	11,168	–	–	5,706
Share-based payments	(2,820)	1,927	–	–	(893)
Costs of equity and debt raisings	1,779	(885)	1,502	–	2,396
Other	408	(494)	–	615	529
	(4,690)	(20,146)	1,502	986	(22,348)
Unused tax losses and credits					
Tax losses	4,690	17,658	–	–	22,348
	–	**(2,488)**	**1,502**	**986**	**–**

IN A$'000	BALANCE AT JULY 1, 2011	RECOGNISED IN PROFIT OR LOSS	RECOGNISED IN EQUITY	RECOGNISED IN OCI	BALANCE AT JUNE 30, 2012
Temporary differences					
Deferred exploration, evaluation and development expenditure	–	1,346	–	–	1,346
Property plant and equipment	–	430	–	–	430
Available for sale – financial assets	(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**	**–**

13.2 Unrecognised deferred tax assets

IN A$'000	AS AT JUNE 30, 2013	2012
Deductible temporary differences and unused tax losses for which no deferred tax assets have been recognised are attributable to the following:		
Tax losses – revenue in nature	236,678	125,808
Tax losses – capital in nature	2,330	2,330
Deductible temporary differences	17,519	–
	256,527	**128,138**

The Group's unused tax losses of a revenue nature for which no deferred tax assets have been recognised relate to Australia (2013: $178.2 million, 2012: $125.8 million), Malaysia (2013: $56.5 million, 2012: Nil) and Malawi (2013: $1.9 million, 2012: Nil). At June 30, 2013 it was not probable that the Group would have future taxable profits in these jurisdictions against which these tax losses can be utilised. The potential tax benefit of these tax losses to the Group is $68.2 million (2012: $37.7 million).

The Group's unused tax losses of a capital nature and deductible temporary differences of $2.3 million (2012: $2.3 million) and $17.5 million (2012: Nil), respectively, for which no deferred tax assets have been recognised relate to Australia. At June 30, 2013 it was not probable that the Group would have future taxable profits in Australia against which these tax losses and deductible temporary differences can be utilised. The potential tax benefit of these tax losses and temporary differences to the Group is $6.0 million (2012: $0.7 million).

14. 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, 2013			2012		
	Pre-tax	Tax effect	Total	Pre-tax	Tax effect	Total
Exchange differences on translating foreign operations	36,400	615	37,015	(10,191)	–	(10,191)
Available for sale financial assets	(1,236)	371	(865)	(6,647)	1,994	(4,653)
Total other comprehensive income	**35,164**	**986**	**36,150**	**(16,838)**	**1,994**	**(14,844)**

15. CASH AND CASH EQUIVALENTS

	AS AT JUNE 30,	
IN A$'000	2013	2012
Cash at bank and on hand	17,665	26,040
Short-term deposits	108,000	98,337
Restricted cash	15,706	81,061
Total cash and cash equivalents	**141,371**	**205,438**

Restricted cash represents funds provided under the Sojitz loan facility (refer to note 23) which is principally available to fund the capital expenditure associated with the Phase 2 expansion of the Concentration Plant at Mount Weld and the Lynas Advanced Materials Plant ("LAMP") in Malaysia ($10.3 million). The residual restricted funds are available to fund future interest payments under the Sojitz facility ($5.4 million).

16. TRADE AND OTHER RECEIVABLES

	AS AT JUNE 30,	
IN A$'000	2013	2012
Trade receivables	1,765	932
Total current trade and other receivables	**1,765**	**932**

17. INVENTORIES

	AS AT JUNE 30,	
IN A$'000	2013	2012
Raw materials and consumables	42,235	41,823
Work in progress	50,167	23,868
Finished goods	533	–
Total inventories	**92,935**	**65,691**
Current inventories	78,380	52,419
Non-current inventories	14,555	13,272

During the year ended June 30, 2013 the Group recognised write-downs on inventories held to their net realisable value totalling $9.1 million for externally acquired raw materials ($5.1 million), work in progress ($3.8 million) and finished goods ($0.2 million). The write down was recognised as a component of other expenses in the profit and loss component of the statement of comprehensive income (refer to note 9). In the year ended 30 June 2012 the write down of $8.5 million related to externally acquired raw materials for the Malaysian operations.

The Group recognised depreciation on its property, plant and equipment and amortisation on its deferred exploration, evaluation and development expenditure and intangible assets for the years ended June 30, 2013 and 2012 respectively in the following categories:

	RECOGNISED IN GENERAL AND ADMINISTRATION EXPENSE		RECOGNISED IN INVENTORY		TOTAL	
IN A$'000	2013	2012	2013	2012	2013	2012
Property, plant and equipment	15,797	965	2,838	6,135	18,635	7,100
Deferred exploration and evaluation expenditure	530	260	–	183	530	443
Intangibles	140	124	–	26	140	150
Total	**16,467**	**1,349**	**2,838**	**6,344**	**19,305**	**7,693**

On the sale of inventory to customers, the component of the depreciation or 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. This was $0.1 million in the year ended June 30, 2013 (June 30, 2012: nil).

During the year ended June 30, 2013 the Group recognised royalties payable to the Western Australian Government totalling $0.6 million (year ended June 30, 2012: $nil). Royalties arise on the shipment of the Group's concentrate from Australia to Malaysia.

18. AVAILABLE FOR SALE – FINANCIAL ASSETS

	AS AT JUNE 30,	
IN A$'000	2013	2012
Listed equity securities		
- at cost	2,518	2,518
- impact of marked-to-market movement (gross of tax)	(716)	1,236
	1,802	**3,754**

The fair value of the available for sale asset is derived from quoted market selling prices. Refer to note 27.6 for further information.

19. OTHER NON-CURRENT ASSETS

	AS AT JUNE 30,	
IN A$'000	2013	2012
Security deposits – Local banking facilities, Malaysia	9,836	8,058
Security deposits – Local banking facilities and Mining Tenements, Australia	4,271	4,980
Security deposits – AELB, Malaysia	3,289	–
	17,396	**13,038**

Local banking facilities 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 Australia and Malaysia. The weighted average annual interest rate in Australia was 5.84% (2012: 4.48%) and the weighted average annual interest rate in Malaysia was 3% (2012: 3%).

During the year the Group transferred in total $3.3 million to the Malaysian Government's Atomic Energy Licencing Board ("AELB"). These payments form a component of a total US$50 million of instalments due in accordance with the conditions underlying the granting of the TOL to the Group for the LAMP in Malaysia. Please refer to note 32 for the residual commitment to the AELB.

20. PROPERTY, PLANT AND EQUIPMENT

IN A$'000	LEASEHOLD LAND	BUILDINGS PLANT AND EQUIPMENT	FIXTURES AND FITTINGS	MOTOR VEHICLES	ASSETS UNDER CONSTRUCTION	LEASEHOLD IMPROVEMENTS	TOTAL
As at June 30, 2013							
Cost	46,597	592,325	8,628	1,197	249,791	19,696	918,234
Accumulated impairment losses	–	(1,907)	(25)	(196)	(6,313)	–	(8,441)
Accumulated depreciation	(1,549)	(23,827)	(3,163)	(312)	–	(607)	(29,458)
Carrying amount	**45,048**	**566,591**	**5,440**	**689**	**243,478**	**19,089**	**880,335**
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**
Cost at the beginning of the year	26,962	88,060	5,956	968	598,900	249	721,095
Accumulated depreciation and impairment losses at the beginning of the year	(1,105)	(6,881)	(2,215)	(363)	(3,736)	(192)	(14,492)
Carrying amount at the beginning of the year	25,857	81,179	3,741	605	595,164	57	706,603
Additions	–	2,594	1,503	49	96,221	27	100,394
Capitalisation of borrowing costs	–	–	–	–	13,946	52	13,998
Depreciation for the year (note 17)	(279)	(16,895)	(975)	(102)	–	(384)	(18,635)
Impairment loss for the year	–	(1,195)	–	(53)	(2,113)	–	(3,361)
Transfers of assets under construction	–	450,244	1,086	–	(468,590)	17,260	–
Transfers from (to) inventory	–	409	–	–	(9,665)	–	(9,256)
Change in rehabilitation obligations (note 25)	16,263	–	–	–	–	–	16,263
Effect of movements in exchange rates	3,207	50,255	85	190	18,515	2,077	74,329
Carrying amount at June 30, 2013	**45,048**	**566,591**	**5,440**	**689**	**243,478**	**19,089**	**880,335**
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 (note 17)	(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**

On January 7, 2013 the Group announced the successful commissioning of the cracking and leaching Rare Earths extraction units of Phase 1 of the LAMP in Malaysia. During June 2013, the Group announced that the expansion of the concentration plant at Mount Weld (Phase 2) was completed and that the plant had produced at capacity. With these activities complete, assets under construction that related to Phase 1 of the LAMP and Phase 2 of the Mount Weld concentration plant were transferred to the appropriate asset category. Depreciation during the year ended June 30, 2013 commenced for Phase 1 of the Malaysian operations from January 2013 and from 30 June 2013 for Phase 2 of the Mount Weld concentration plant.

The transfer to inventory of $9.7 million relates to items categorised as spares paid for as a component of the LAMP's Phase 1 construction. The remaining balance of assets under construction relates predominately to Phase 2 of the LAMP.

During the year ended June 30, 2013 the Group recognised an asset and a provision for the future estimated cost of restoring and rehabilitating Phase 1 of the LAMP in Malaysia ($16.3 million). Refer to note 25 for further details.

During the year ended June 30, 2013, the Group recognised an impairment loss of $3.4 million in relation to its property plant and equipment in Malaysia ($3.0 million) and the Mount Weld operations ($0.4 million) which resulted from the identification of certain assets being surplus or redundant to the current operational plan.

During the year ended June 30, 2012, the Group recognised an impairment loss of $1.3 million in relation to its property, plant and equipment in Malawi (resulting from the previously reported court proceeding that arose during the period) and a $3.5 million 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).

The impairment charges in both years were recognised in the statement of comprehensive income as a component of other expenses in the profit or loss (2013: $3.4 million; 2012: $4.8 million) and reduced the carrying value of associated assets.

Restrictions on the title of property plant and equipment are outlined in note 23.

21. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

IN A$'000	EXPLORATION AND EVALUATION EXPENDITURE	DEVELOPMENT EXPENDITURE	PRE PRODUCTION STRIPPING	REHABILITATION ASSET	TOTAL
As at June 30, 2013					
Cost	20,944	17,543	4,078	24,602	67,167
Accumulated impairment losses	(14,483)	(3,641)	–	–	(18,124)
Accumulated amortisation	(1,047)	(278)	(64)	–	(1,389)
Carrying amount	**5,414**	**13,624**	**4,014**	**24,602**	**47,654**
As at June 30, 2012					
Cost	20,540	16,617	4,078	3,777	45,012
Accumulated impairment losses	(14,220)	(3,641)	–	–	(17,861)
Accumulated amortisation	(809)	–	–	–	(809)
Carrying amount	**5,511**	**12,976**	**4,078**	**3,777**	**26,342**
Cost at the beginning of the year	20,540	16,617	4,078	3,777	45,012
Accumulated amortisation and impairment losses at the beginning of the year	(15,029)	(3,641)	–	–	(18,670)
Carrying amount at the beginning of the year	5,511	12,976	4,078	3,777	26,342
Additions	91	926	–	–	1,017
Amortisation for the year (note 17)	(188)	(278)	(64)	–	(530)
Change in rehabilitation obligations	–	–	–	20,825	20,825
Carrying amount at June 30, 2013	**5,414**	**13,624**	**4,014**	**24,602**	**47,654**
Cost at the beginning of the year	20,430	16,617	4,078	3,777	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	12,976	4,078	3,777	29,287
Additions	111	–	–	–	111
Amortisation for the year (note 17)	(443)	–	–	–	(443)
Impairment loss for the year	(2,613)	–	–	–	(2,613)
Carrying amount at June 30, 2012	**5,511**	**12,976**	**4,078**	**3,777**	**26,342**

During the year the Group recognised an increase to the future estimated rehabilitation asset and provision for the restoration and rehabilitation of the Mount Weld mining operations and concentration plant. Refer to note 25 for further details.

During the year ended June 30, 2012, the Group recognised an impairment loss of $2.6 million 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 and reduced the carrying value of these assets to nil. No changes for impairment were made in the year ended June 30, 2013.

Restrictions on the title of the deferred exploration, evaluation and development expenditure are outlined in note 23.

22. TRADE AND OTHER PAYABLES

	AS AT JUNE 30,	
IN A$'000	**2013**	**2012**
Trade payables	9,393	21,521
Accrued expenses	19,622	23,170
Other payables	5,282	3,640
Total trade and other payables	**34,297**	**48,331**
Current	33,515	46,369
Non-current	782	1,962

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 (2013: $3.7 million; 2012: $29.1 million) and Phase 2 of the Rare Earth Project (2013: $13.2 million; 2012: $11.4 million).

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.

	AS AT JUNE 30,	
IN A$'000	**2013**	**2012**
Current borrowings		
Sojitz loan facility	10,949	–
Non-current borrowings		
Sojitz loan facility	235,410	221,479
Mt Kellett convertible bonds	211,658	181,583
	447,068	**403,062**
Sojitz loan facility	246,359	221,479
Unamortised transaction costs	–	–
Carrying amount	**246,359**	**221,479**
Principal value of Mt Kellett convertible bonds (1)	246,359	221,479
Unamortised equity component	(34,353)	(39,434)
Unamortised transaction costs	(348)	(462)
Total Financial Liability carrying amount	**211,658**	**181,583**

(1) The principal balance reflects the full value of the Mt Kellett convertible bond. On initial recognition, part of this value is recognised as a component of equity.

Sojitz facility

The Sojitz loan facility for US$225 million 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 Sojitz 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 capacity of Rare Earth Oxide ("REO") to 22,000 tonnes per annum from the expected Phase 1 production capacity of 11,000 tonnes per annum.

The Sojitz loan 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, under the original terms of the facility, occurred once there has been an average level of production over three consecutive months of not less than 70% of the nameplate capacity of Phase 1 of the LAMP and a cash operating margin test is met. After the Group achieves Completion of Phase 1, the securities retained by Sojitz comprise 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 semiannually. The rate of interest for each interest period is the LIBOR published semi annual rate plus a margin of 2.75%. There is also a requirement to pay withholding tax on this interest.

Under the original terms of the facility, the principal was repayable 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 semi annual interest period, a break fee may be payable by the Company.

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 imposes 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 semi annual rate plus a margin of 5.25%.

Given the delay in the receipt of the TOL in 2012, the Group entered into an Amendment Deed (the "Deed") with respect to the Sojitz loan facility on September 25, 2012. Under the terms of the Deed and as a result of the delays in first production at the LAMP, the parties 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 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 million) and a temporary higher interest rate of LIBOR published semi annual 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"). Subject to the above paragraph, 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" test which, under the original terms of the facility, required the Group to meet certain production volumes and cash operating margins over a three month period, by no later than the original Project Sunset Date of January 19, 2014.

Arising from subdued global rare earths demand and previous delays to the start up of the LAMP, the production and financial profile of Lynas will be different to that envisaged at the time of the Sojitz loan facility's establishment. Consequently, the Group entered into a deed of amendment on September 13, 2013 under which the terms and conditions of the Sojitz loan facility are restructured to better suit the new profile. Pursuant to the deed of amendment, the parties agreed to amend the Sojitz loan facility as follows:

(1) Defer until March 31, 2015 the date by which the Group is required to either (a) meet certain production volume and cash operating margins under the Completion of Phase 2 test (as described above) or (b) make an additional principal repayment of US$35 million (giving a total principal repayment of at least US$125 million by March 31, 2015);

(2) Completion of Phase 1 (as described above) for the purpose of the release of most of the Sojitz fixed securities will occur once the necessary average production and cash operating margin is achieved over a period of six consecutive months (previously three consecutive months);

(3) Amend the repayment schedule as follows:

Repayment Date:	**Instalment**
January 19, 2014	US$10 million
September 30, 2014	US$35 million
March 31, 2015	US$45 million
September 30, 2015	US$45 million
March 31, 2016	US$90 million

The previous repayment schedule was 5 equal six monthly instalments of US$45 million from March 31, 2015 to March 31, 2017.

(4) That each time that the Group conducts a debt raising (subject to an exception for a basket of "Permitted Financial Liabilities" up to US$80 million), 50% of the amount raised must be used for a partial prepayment (without penalty or break costs) of the Sojitz loan facility. This obligation ceases to apply once a total principal amount of US$125 million is repaid.

Any prepayments in addition to those specified under paragraph 3 and including those under paragraph 1(b) above are to be applied in reverse order to the repayment schedule (i.e. applied in the first instance to the March 2016 payment).

The obligations of the Company under the Sojitz loan facility are guaranteed by the Group's subsidiaries other than Lynas Africa Holdings Pty Ltd and Lynas Africa Limited ("the Guarantors"). 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 million unsecured convertible bonds issue (the "Convertible Bonds") with Mt Kellett Capital Management ("Mt Kellett"), a US-based investment firm. Initially funding for the Convertible Bonds was received on January 25, 2012 (US$50 million) with the final payment of US$175 million being received on February 28, 2012. None of the Convertible Bonds had been converted into shares as at the end of the financial year.

The proceeds from the Convertible Bond issue have been 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 A$1.25 per share (at a set US$ to A$ exchange rate). Conversion may occur at any time between July 25, 2012 and July 25, 2016. The conversion price may be adjusted as a result of certain equity related transactions such as the issue of shares, payment of dividends, rights issues or redemptions. Following the ISP and SPP placement in November and December 2012 (refer to note 26), the conversion price was adjusted to A$1.15 per share.

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, a cross default by the Group in relation to certain other financial indebtedness (including the Sojitz loan facility), 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 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 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 Phase 1 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.

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 shown above.

Terms and debt repayment schedule

	CURRENCY	NOMINAL INTEREST RATE	YEAR OF MATURITY	AS AT JUNE 30, 2013		AS AT JUNE 30, 2012	
				FACE VALUE (USD '000)	CARRYING AMOUNT (AUD '000)	FACE VALUE (USD '000)	CARRYING AMOUNT (AUD '000)
Sojitz loan facility	USD	LIBOR + 2.75% +2.50% from 25 September 2012	2016	225,000	246,359	225,000	221,479
Mt Kellett convertible bonds*	USD	2.75%	2016	225,000	211,658	225,000	181,583
				450,000	**458,017**	**450,000**	**403,062**

* The carrying amount of the Mt Kellet note reflects the current value of the debt component of the instrument.

Nominal interest rates

	AVERAGE FOR THE YEAR ENDED JUNE 30, 2013			AVERAGE FOR THE YEAR ENDED JUNE 30, 2012		
	BASE RATE	MARGIN	TOTAL RATE	BASE RATE	MARGIN	TOTAL RATE
Sojitz loan facility	0.61%	4.62%	5.86%	0.57%	2.75%	3.32%
Mt Kellett convertible bonds	2.75%	–	2.75%	2.75%	–	2.75%

24. EMPLOYEE BENEFITS

IN A$'000	AS AT JUNE 30, 2013	2012
Provision for annual leave	1,611	1,382
Provision for long service leave	375	430
Other	1,871	–
Total employee benefits	**3,857**	**1,812**
Current	3,650	1,382
Non-current	207	430

25. PROVISIONS

IN A$'000	RESTORATION AND REHABILI-TATION	ONEROUS CONTRACTS	TOTAL
Balance at the beginning of the year	3,777	3,061	6,838
Provisions made during the year	37,088	20,694	57,782
Provision utilised during the year	–	(7,235)	(7,235)
Effect of discounting	–	–	–
Balance at June 30, 2013	**40,865**	**16,520**	**57,385**
Current	–	16,520	16,520
Non-current	40,865	–	40,865
Total provisions at June 30, 2013	**40,865**	**16,520**	**57,385**
Current	–	3,061	3,061
Non-current	3,777	–	3,777
Total provisions at June 30, 2012	**3,777**	**3,061**	**6,838**

Restoration and Rehabilitation

The activities of the Group give rise to obligations for asset and site restoration and rehabilitation at the LAMP in Malaysia and the Mount Weld concentration plant. The key areas of uncertainty in estimating the provisions for these obligations are set out in note 4.6.

An initial provision of $16.3 million was made during 2013 in respect of the Group's future costs to decommission, restore and rehabilitate the LAMP in Malaysia. These costs arise from the ongoing construction and operation of Phase 1 of the LAMP. The provision was recognised following the successful commissioning of the Phase 1 operations at the LAMP during June 2013. Upon cessation of operations, the site including the processing assets, ancillary facilities, utilities and the onsite storage facility will be decommissioned and any materials removed from the location. The Group has used third party specialists to assist in estimating these costs and will review these estimates periodically over time as the operations continue to develop.

The provision for the restoration and rehabilitation of the Mount Weld mining operations and concentration plant site increased from $3.8 million at June 30, 2012 to $24.6 million at June 30, 2013 following a reassessment of the future costs to decommission and restore the site to pastoral use. These costs arise from the operation of the mining and concentration processing facilities at Mt Weld and take into account the areas of disturbance at the balance date and the actions required upon cessation of operations to decommission and remove the processing plant from the location. The Group has used current guidance as provided by the Department of Minerals and Petroleum in Western Australia along with internal specialists with the relevant industry experience to develop and revise these cost estimates. These estimates will be periodically reviewed over time as the operations continue to develop.

For both the provision at the LAMP and the Mount Weld concentration plant, a corresponding increase in either property plant and equipment or deferred exploration and evaluation expenditure assets respectively has been recognised on the Group's balance sheet. Reference should be made to notes 20 and 21 respectively for details on the corresponding assets at the LAMP and Mount Weld. The unwinding of the effect of discounting of the provision is recognised as a finance cost.

Onerous contracts

The provision for onerous contracts represents the expected value of obligations arising under 'take or pay' clauses of non-cancellable supply agreements that the Group is currently contracted to. The provision at June 30, 2013 represents management's current forecasted estimate of the value of materials that the Group will be unable to take under these contracts over the life of the agreement as well as the value of materials not delivered under the agreement through to June 30, 2013.

26. EQUITY AND RESERVES

26.1 Share capital

	AS AT JUNE 30,			
	2013		2012	
	NUMBER OF SHARES '000	A$'000	NUMBER OF SHARES '000	A$'000
Balance at the beginning of the year	1,715,029	823,161	1,713,647	821,994
Issue of shares pursuant to Institutional Share Placement ("ISP")	200,000	150,000	–	–
Issue of shares pursuant to Share Purchase Plan ("SPP")	44,642	25,000	–	–
Issue of shares pursuant to option conversion	1,130	226	1,382	1,167
Equity raising costs	–	(5,244)	–	–
Deferred tax on equity raising costs	–	1,502	–	–
Balance at June 30	**1,960,801**	**994,645**	**1,715,029**	**823,161**

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.

26.2 Reserves

IN A$'000	AS AT JUNE 30, 2013	2012
Equity settled employee benefits	35,128	33,993
Foreign currency translation	883	(36,132)
Investment revaluation	–	865
Other	28,743	28,743
Balance at June 30	**64,754**	**27,469**

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 18). As at June 30, 2013, the cumulative revaluation losses of $0.9 million were transferred to the profit or loss component of the statement of comprehensive income. This was on the basis that the revaluation losses on the available for sale financial assets was considered to represent a significant and prolonged decline in value.

The other reserve represents the equity component of the US$225 million unsecured Mt Kellett convertible bonds issued in the prior year, net of the associated deferred 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:

IN A$'000	AS AT JUNE 30, 2013	2012
Net loss attributed to ordinary shareholders (in A$'000)	(143,555)	(87,770)
Loss used in calculating basic and diluted loss per share (in A'$000)	**(143,555)**	**(87,770)**
Number of shares (No'000)		
Weighted average number of ordinary shares used in calculating basic loss per share:	1,861,087	1,714,094
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	72,485	83,029
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.	186,515	171,594
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share	**1,861,087**	**1,714,094**
Basic loss per share (cents per share)	(7.71)	(5.12)
Diluted loss per share (cents per share)	(7.71)	(5.12)

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.

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.

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 recognised primarily in the other comprehensive income component of the Group's statement of 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 million Mt Kellett convertible bonds.

Exposure to foreign exchange risk

The Group is exposed to foreign exchange risk on financial assets and financial liabilities that are denominated in foreign currencies (i.e. currencies other than the functional currency of each of the Group's operating entities). The Group's exposure on financial assets and liabilities by currency which have the potential of impacting the profit or loss component of the statement of comprehensive income is detailed below.

IN A$'000	AUD	USD	TOTAL
June 30, 2013			
Cash and cash equivalents	5,342	571	5,913
Trade and other receivables	24	1,834	1,858
Trade and other payables	(42)	(13,680)	(13,722)
Total exposure	**5,324**	**(11,275)**	**(5,951)**
June 30, 2012			
Cash and cash equivalents	60,379	3,997	64,376
Trade and other receivables	4,088	–	4,088
Trade and other payables	–	(6,783)	(6,783)
Total exposure	**64,467**	**(2,786)**	**61,681**

In addition, the Group is exposed to foreign exchange risk on the translation of its operations that are denominated in currencies other than AUD. The Group's net assets denominated in currencies other than the AUD which have the potential of impacting the other comprehensive income component of the statement of comprehensive income are:

IN '000	MYR	USD
June 30, 2013		
Net asset exposure – local currency	2,147,429	975,255
June 30, 2012		
Net asset exposure – local currency	1,945,580	586,268

Significant exchange rates

The following significant exchange rates applied to the translation of net assets of Group entities which are denominated in currencies other than AUD during the period:

	AVERAGE RATE FOR THE YEAR ENDED JUNE 30,		CLOSING RATE AS AT JUNE 30,	
	2013	2012	2013	2012
USD	1.0212	1.0367	0.9133	1.0159
MYR	3.1375	3.1968	2.8826	3.2431

Sensitivity analysis

A change in exchange rates would impact future payments and receipts on the Group's financial 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 year 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	INCREASE/(DECREASE) IN PROFIT AFTER TAX FOR THE YEAR ENDED JUNE 30, 2013		INCREASE/(DECREASE) IN PROFIT AFTER TAX FOR THE YEAR ENDED JUNE 30, 2012	
	10% STRENGTHENING	10% WEAKENING	10% STRENGTHENING	10% WEAKENING
USD	(1,128)	1,128	(278)	278
AUD	532	(532)	6,447	(6,447)

A change in exchange rates would also impact the translation of net assets of Group operations whose functional currencies are denominated in currencies other than AUD, which is the Group's presentation currency. A 10% strengthening or weakening of these currencies against the Group's presentation currency, at the reporting date, would have increased (decreased) the reported net asset position with a corresponding change to the foreign currency translation reserve ('FCTR') for the year by the amounts shown. This analysis assumes that all other variables remain constant. The same basis has been applied for all periods presented.

IN A$'000	INCREASE/(DECREASE) IN FCTR FOR THE YEAR ENDED JUNE 30, 2013		INCREASE/(DECREASE) IN FCTR FOR THE YEAR ENDED JUNE 30, 2012	
	10% STRENGTHENING	10% WEAKENING	10% STRENGTHENING	10% WEAKENING
USD	59,092	(59,092)	31,825	(31,825)
MYR	74,496	(74,496)	59,992	(59,992)

(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.

The following table sets out the Group's interest rate risk re-pricing 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
June 30, 2013						
Fixed rate instruments						
Loans and borrowings						
Mt Kellett convertible bonds	(212,006)	–	–	–	(212,006)	–
Total fixed rate instruments	**(212,006)**	**–**	**–**	**–**	**(212,006)**	**–**
Floating rate instruments						
Cash and cash equivalents	141,371	141,371	–	–	–	–
Other non-current assets	14,107	14,107				
Loans and borrowings						
Sojitz loan facility	(246,359)	(246,359)	–	–	–	–
Total variable rate instruments	**(90,881)**	**(90,881)**	**–**	**–**	**–**	**–**
Total	**(302,887)**	**(90,881)**	**–**	**–**	**(212,006)**	**–**
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	–	–	–	–
Other non-current assets	13,038	13,038	–	–	–	–
Loans and borrowings						
Sojitz loan facility	(221,479)	(221,479)	–	–	–	–
Total variable rate instruments	**(3,003)**	**(3,003)**	**–**	**–**	**–**	**–**
Total	**(185,048)**	**(3,003)**	**–**	**–**	**(182,045)**	**–**

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 or the statement of financial position.

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 both the statement of financial position and profit or loss through the statement of comprehensive income 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 JUNE 30, 2013	2012
50 basis point parallel increase in interest rates	(454)	(15)
50 basis point parallel decrease in interest rates	454	15

(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 material 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 on-going 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
June 30, 2013							
Non-derivative financial liabilities							
Trade and other payables	n/a	34,297	34,297	–	–	–	–
Loans and borrowings							
Sojitz loan facility	4.79%	275,681	–	7,016	17,810	250,855	–
Mt Kellett convertible bonds	*	268,716	–	1,863	5,589	261,264	–
Total		**578,694**	**34,297**	**8,879**	**23,399**	**512,119**	**–**
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	*	260,913	713	1,425	6,413	252,362	–
Total		**561,799**	**49,687**	**2,712**	**14,972**	**494,428**	**–**

* The cash coupon on the instrument of 2.75% is payable on the $US225 million 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.

27.5 Classification and fair values

IN A$'000	AVAILABLE FOR SALE	CASH, LOANS AND RECEIVABLES	OTHER LIABILITIES	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
June 30, 2013					
Assets					
Cash and cash equivalents	–	141,371	–	141,371	141,371
Trade and other receivables	–	1,765	–	1,765	1,765
Current tax receivable	–	49	–	49	49
Prepayments	–	3,946	–	3,946	3,946
Available for sale financial assets	1,802	–	–	1,802	1,802
Other assets	–	17,396	–	17,396	17,396
Total assets	**1,802**	**164,527**	**–**	**166,329**	**166,329**
Liabilities					
Trade and other payables	–	–	(34,297)	(34,297)	(34,297)
Loans and borrowings:					
Sojitz loan facility	–	–	(246,359)	(246,359)	(246,359)
Mt Kellett convertible bonds	–	–	(211,658)	(211,658)	(211,658)
Total liabilities	**–**	**–**	**(492,314)**	**(492,314)**	**(492,314)**
June 30, 2012					
Assets					
Cash and cash equivalents	–	205,438	–	205,438	205,438
Trade and other receivables	–	1,538	–	1,538	1,538
Prepayments	–	932	–	932	932
Available for sale financial assets	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)
Total liabilities	**–**	**–**	**(451,513)**	**(451,513)**	**(451,513)**

The Group did not have any financial assets or financial liabilities classified as fair value through profit or loss at June 30, 2013 (June 30, 2012: none).

The methods used in determining fair values of financial instruments are discussed in note 5.

27.6 Fair value measurements recognised in the statement of comprehensive income

Subsequent to initial recognition, the Group measures financial instruments at fair value grouped into the following 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).

As at June 30, 2013, the Group had available for sale financial assets comprising listed shares of $1.8 million (June 30, 2012: $3.8 million) that were classified as Level 1 financial instruments. The Group did not hold any level 2 or level 3 financial instruments as at June 30, 2013 (June 30, 2012: none).

28. RELATED PARTIES

28.1 Key management personnel compensation

The aggregate compensation made to the Directors and other members of KMP of the Group is set out below:

	FOR THE YEAR ENDED JUNE 30,	
IN A$'000	**2013**	**2012**
Short-term employee benefits	4,894,174	3,984,094
Other long-term benefits	1,157,690	376,546
Share-based payments	1,047,358	7,403,530
Total compensation paid to key management personnel	**7,099,222**	**11,764,170**

The compensation of each member of the KMP of the Group for the current and prior year is set out within the Remuneration Report.

28.2 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 2013 and 2012 financial years:

JUNE 30, 2013	BALANCE AT JULY 1, 2012	RECEIVED ON EXERCISE OF OPTIONS	NET OTHER CHANGE	BALANCE AT JUNE 30, 2013
A. Arnold	3,000	–	4,464	7,464
G. Barr	2,828	–	–	2,828
L. Catanzaro	–	–	–	–
K. Conlon(1)	18,154	–	111,361	129,515
N. Curtis(2)	16,045,758	–	–	16,045,758
D. Davidson(3)	700,828	–	26,785	727,613
W. Forde	1,001,656	–	26,785	1,028,441
A. Jury(4)	20,828	–	79,172	100,000
J. Klein	2,082,236	–	–	2,082,236
E. Noyrez(5)	–	–	–	–
Z. Switkowski(6)	700,828	–	26,785	727,613
Total	**20,576,116**	**–**	**275,352**	**20,851,468**

(1) Shares held by spouse.
(2) Ceased to be a member of the Executive and assumed role of Non-Executive Chairman from March 31, 2013.
(3) Resigned with effect from August 20, 2013.
(4) Appointed as Executive Vice President Corporate Affairs with effect from April 2, 2013.
(5) Appointed as CEO and an Executive Director, and ceased to act as COO and President, with effect from March 31, 2013.
(6) Resigned with effect from August 20, 2013.

JUNE 30, 2012	BALANCE AT JULY 1, 2011	RECEIVED ON EXERCISE OF OPTIONS	NET OTHER CHANGE	BALANCE AT JUNE 30, 2012
A. Arnold	1,000	–	2,000	3,000
G. Barr	2,828	–	–	2,828
L. Catanzaro[(1)]	–	–	–	–
K. Conlon[(2)]	–	–	18,154	18,154
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
J. 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 CFO from December 12, 2012.
(2) Appointed Director from November 1, 2012. Shares in the Company held by spouse.
(3) Ceased as a member of the KMP on December 12, 2012.
(4) During the period J. 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, 2012.
(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.

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 2013 and 2012 financial years and those options which have vested at each respective year-end.

JUNE 30, 2013	BALANCE AT BEGINNING OF PERIOD	GRANTED	GRANT DATE	OPTIONS EXERCISED/ CANCELLED/ OTHER	OPTIONS EXPIRED WITHOUT EXERCISE	NET CHANGE	BALANCE AT END OF PERIOD	AMOUNT VESTED AT JUNE 30, 2013
A. Arnold	6,835,000	1,057,402	September 25, 2012	(750,000)	–	307,402	7,142,402	4,400,000
G. Barr	2,060,000	439,806	September 25, 2012	(100,000)	(200,000)	139,806	2,199,806	450,000
L. Catanzaro	2,000,000	453,172	September 25, 2012	–	–	453,172	2,453,172	–
K. Conlon	–	–	–	–	–	–	–	–
N. Curtis[(1)]	30,000,000	–	–	(4,500,000)	–	(4,500,000)	25,500,000	17,000,000
D. Davidson[(2)]	3,100,000	–	–	(600,000)	–	(600,000)	2,500,000	1,900,000
W. Forde	4,000,000	–	–	(750,000)	–	(750,000)	3,250,000	2,500,000
A. Jury[(3)]	–	–	–	–	–	–	–	–
J. Klein	3,100,000	–	–	(600,000)	–	(600,000)	2,500,000	1,900,000
E. Noyrez[(4)]	10,000,000	1,312,853	September 25, 2012	(1,500,000)	–	(187,147)	9,812,853	5,000,000
Z. Switkowski[(5)]	–	–	–	–	–	–	–	–
Total	**61,095,000**	**3,263,233**		**(8,800,000)**	**(200,000)**	**(5,736,767)**	**55,358,233**	**33,150,000**

(1) Ceased to be a member of the Executive and assumed role of Non-Executive Chairman from March 31, 2013.
(2) Resigned with effect from August 20, 2013.
(3) Appointed as Executive Vice President Corporate Affairs with effect from April 2, 2013.
(4) Appointed as CEO and an Executive Director, and ceased to act as COO and President, with effect from March 31, 2013.
(5) Resigned with effect from August 20, 2013.

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 de-recognition of Options and Performance Rights of individuals no longer members of the KMP or who have resigned their employment with the Group.

(2) Appointed CFO from December 12, 2011.

(3) Appointed as a Non-Executive Director from 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.

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 2013 financial year are contained in note 30.

Other than those noted above, there were no transactions entered into by the Group with the KMP during the 2013 and 2012 financial years.

28.3 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, 2013	2012
Lynas Malaysia Sdn Bdh	Operation and continued 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

The Group has established an employee share plan whereby, at the discretion of Directors, options and performance rights may be granted over the ordinary shares of the Company for the benefit of Directors, Executives and certain employees of the Group. The options and performance rights which are issued are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. Each option or performance right 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 for the options is not less than the VWAP for the five days preceding the date the option is granted. The options or performance rights hold no voting or dividend rights and are not transferable.

Options and performance rights are provided to Key Management Personnel ("KMP") and other selected employees to provide greater alignment to our strategic business objectives. KMP are 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. The Executive include The Executive Chairman (until March 31, 2013), the Chief Executive Officer ("CEO") (from March 31, 2013), the President and Chief Operating Officer ("COO") (until March 31, 2013), 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 Corporate Affairs (from April 2, 2013).

30.1 Movements in share options and performance rights during the year

	FOR THE YEAR ENDED JUNE 30, 2013		FOR THE YEAR ENDED JUNE 30, 2012	
	NUMBER OF OPTIONS ('000)	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER OF OPTIONS ('000)	WEIGHTED AVERAGE EXERCISE PRICE ($)
Balance at beginning of year	83,029	0.92	82,329	0.84
Granted during the year	4,122	0.37	12,170	1.53
Expired during the year	(665)	–	(1,320)	1.31
Exercised during the year	(1,130)	0.20	(1,382)	0.89
Forfeited during the year	(12,871)	1.09	(8,768)	1.00
Balance at end of year	**72,485**	**0.87**	**83,029**	**0.92**
Exercisable at end of year	42,800	0.68	19,850	0.70

During the year ended June 30, 2013 the Group recognised a net expense of $1.1 million within the profit and loss component of the statement of comprehensive income (2012: net expense $9.4 million). The net expense during the year ended June 30, 2013 included the reversal of prior period expenses totalling $5.5 million associated with the forfeitures of 50% of the outstanding options and performance rights issued on August 19, 2010 and 50% of specific performance rights issued on September 22, 2011 resulting from the Group not achieving a specified net operating cash flow target (non-market vesting condition).

30.2 Options and performance rights exercised during the year

The following share options were exercised during the year ended June 30, 2013:

EXERCISE DATE	NUMBER EXERCISED	SHARE PRICE AT EXERCISE DATE ($)	EXERCISE PRICE ($)
September 6, 2012	1,000,000	0.84	0.16
September 6, 2012	100,000	0.84	0.66
September 27, 2012	30,232	0.80	0.00
	1,130,232		

30.3 Options and performance rights outstanding at the end of the year

The share options outstanding at the end of the year had a weighted average exercise price of $0.87 (2012: $0.92 and a weighted average remaining contractual life of 607 days (2012: 943 days).

30.4 Options and performance rights issued in the period

The following table summarises the performance conditions attached to Options and Performance Rights issued during the financial year ended June 30, 2013 with respect to the performance of the Group's employees during the financial year ended June 30, 2012:

	VESTING SCHEDULE	FOR GRANTS MADE IN FY2013 (RELATED TO FY12 PERFORMANCE)
TSR hurdle (50%)	50% of the TSR portion will vest for:	51st percentile performance
(performance against ASX 100 companies)	100% of the TSR portion will vest for:	76th percentile performance
	Pro-rata vesting will occur between each of the above points	
REO capacity hurdle (50%)	n/a	The Lynas Kuantan plant must have demonstrated the capacity to produce at a rate equivalent to 22,000 tonnes per annum of REO before the end of calendar year 2013

In addition to these requirements, the employee is required to be still employed by the Group at the end of a three year vesting period unless the condition is waived by the Company.

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.

The weighted average fair value of the share options granted during the financial year is $427,550 (2012:$1,041,087). Options were priced using a Black Scholes 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.

	OPTION SERIES T	OPTION SERIES U
Grant date share price ($)	0.795	0.795
Exercise price ($)	1.02	0.00
Expected volatility	50%	50%
Option life	5 years	5 years
Dividend yield	Nil	Nil
Risk-free interest rate	2.63%	2.58%

30.5 Options and performance rights still to vest or yet to expire

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	July 21, 2008	1,000,000	July 21, 2011	July 21, 2013	$ 0.98	$ 0.52
B	September 24, 2008	14,100,000	September 24, 2011	September 24, 2013	$ 0.66	$ 0.33
C	September 24, 2008	2,700,000	September 24, 2011	September 24, 2013	$ 0.81	$ 0.34
D	January 5, 2009	100,000	January 5, 2012	January 5, 2014	$ 0.16	$ 0.16
E	July 10, 2009	200,000	September 24, 2011	September 24, 2013	$ 0.66	$ 0.08
F	October 8, 2009	24,500,000	October 8, 2012	October 8, 2014	$ 0.66	$ 0.23
G	July 1, 2010	1,000,000	July 1, 2013	July 1, 2015	$ 0.66	$ 0.24
H	August 19, 2010	5,250,000	August 19, 2013	August 19, 2015	$ 1.15	$ 0.34
I	August 19, 2010*	604,309	August 19, 2013	August 19, 2015	$ 0.00	$ 0.96
J	October 1, 2010	1,000,000	October 1, 2013	October 1, 2015	$ 1.60	$ 0.48
K	August 19, 2010	6,450,000	August 19, 2013	August 19, 2015	$ 1.15	$ 0.66
L	May 18, 2011	200,000	October 1, 2011	December 31, 2015	$ 2.36	$ 1.12
M	June 6, 2011*	420,000	June 6, 2014	June 6, 2016	$ 0.00	$ 2.30
N	November 30, 2011	4,000,000	September 22, 2014(1)	September 22, 2016	$ 1.69	$ 0.40
O	September 23, 2011	4,145,000	September 22, 2014	September 22, 2016	$ 1.69	$ 0.55
P	September 22, 2011*	9,302	September 22, 2013	September 22, 2015	$ 0.00	$ 1.41
Q	September 22, 2011*	4,651	September 22, 2014	September 22, 2016	$ 0.00	$ 1.41
R	September 22, 2011*	765,000	September 22, 2014	September 22, 2016	$0.00	$1.34
S	December 12, 2011	2,000,000	December 12, 2014	December 12, 2016	$ 1.57	$ 0.51
T	September 25, 2012	1,510,574	September 24, 2015	September 24, 2017	$ 1.02	$ 0.26
U	September 25, 2012*	2,526,360	September 24, 2015	September 24, 2017	$ 0.00	$ 0.72
	Total	**72,485,196**				

(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.

31. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

IN A$'000	AS AT JUNE 30, 2013	2012
Less than one year	5,230	4,698
Between one and five years	12,271	8,133
More than five years	6,918	–
Total	**24,419**	**12,831**

During the year ended June 30, 2013 $4.6 million was recognised as an expense in the statement of comprehensive income as a component of the profit or loss in respect of operating leases (2012: $3.9 million).

The Group has contracts for several operating leases for business premises located in Sydney, Perth, Laverton, Beijing, Kuala Lumpur 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, 2013 other than:

Exploration commitments

	AS AT JUNE 30,	
IN A$'000	**2013**	**2012**
Less than one year	304	270
Between one and five years	1,229	1,034
More than five years	3,366	3,076
Total	**4,899**	**4,380**

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

	AS AT JUNE 30,	
IN A$'000	**2013**	**2012**
Less than one year	2,388	68,021
Total	**2,388**	**68,021**

At June 30, 2013 capital commitments relate to on-going capital project costs in Malaysia. All Phase 1 and Phase 2 costs in Malaysia and Mt Weld are fully accrued at year-end.

Other commitments

	AS AT JUNE 30,	
IN A$'000	**2013**	**2012**
Less than one year	13,084	–
Between one and five years	38,322	–
More than five years	–	–
Total	**51,406**	**–**

Lynas is required to pay in instalments, a total of US$50 million to the Malaysian AELB in accordance with the conditions underlying the granting of Lynas' TOL for the LAMP in Gebeng Malaysia. During the year Lynas has transferred $3.3 million to the Malaysian government's AELB, refer to note 19.

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 Director's reports.

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, 2013	2012
Assets		
Cash and cash equivalents	139,677	181,221
Trade and other receivables	1,687	2,086
Inventories	37,463	31,882
Total current assets	**178,827**	**215,189**
Inventories	11,856	13,272
Property, plant and equipment	123,632	98,270
Deferred exploration, evaluation and development expenditure	47,654	26,342
Intangible assets – software	337	261
Available for sale financial assets	1,802	3,754
Investments in subsidiaries	375,080	375,080
Other assets	565,759	365,341
Total non-current assets	**1,126,120**	**882,320**
Total assets	**1,304,947**	**1,097,509**
Liabilities		
Trade and other payables	(11,094)	(8,000)
Borrowings	(10,949)	–
Deferred income	(5,420)	–
Employee benefits	(1,720)	(1,337)
Total current liabilities	**(29,183)**	**(9,337)**
Provisions	(24,472)	(3,777)
Employee benefits	(204)	(414)
Borrowings	(447,068)	(403,062)
Total non-current liabilities	**(471,744)**	**(407,253)**
Total liabilities	**(500,927)**	**(416,590)**
Net assets	**804,020**	**680,919**
Equity		
Share capital	994,645	823,161
Retained earnings (accumulated deficit)	(272,662)	(210,387)
Reserves	82,037	68,145
Total equity	**804,020**	**680,919**

Statement of Comprehensive Income

IN A$'000	FOR THE YEAR ENDED JUNE 30, 2013	2012
Revenue	10,863	–
Cost of sales	(9,146)	–
Gross Profit	**1,717**	**–**
Other income	9,795	11,222
Impairment reversal (impairment) of intercompany balances	(2,592)	125,432
General and administration expenses	(60,689)	(60,232)
Other expenses	(1,327)	–
Profit (loss) from operating activities	**(53,096)**	**76,422**
Financial income	4,914	4,073
Financial expenses	(11,546)	(30,040)
Net financial income (expenses)	**(6,632)**	**(25,967)**
Profit (loss) before income tax	**(59,728)**	**50,455**
Income tax benefit (expense)	(2,547)	10,394
Profit (loss) for the year from continuing operations	**(62,275)**	**60,849**
Other comprehensive income, net of income tax		
Exchange differences on translating foreign operations	13,307	4,858
Gain (loss) on available for sale financial assets	(865)	(4,653)
Total other comprehensive profit (loss) for the year, net of income tax	**12,442**	**205**
Total comprehensive income (loss) for the year	**(49,833)**	**61,054**

34. COMPANY ENTITY INFORMATION

IN A$'000	AS AT JUNE 30, 2013	2012
Current assets	24,427	179,800
Total assets	**1,445,777**	**1,192,163**
Current liabilities	(14,631)	(2,927)
Total liabilities	**(461,701)**	**(419,815)**
Net assets	**984,076**	**772,348**
Share capital	994,645	823,161
Retained earnings (accumulated deficit)	(152,356)	(143,074)
Reserves	141,787	92,261
Total shareholders' equity	**984,076**	**772,348**

IN A$'000	FOR THE YEAR ENDED JUNE 30, 2013	2012
Profit (loss) of the Company	(9,282)	81,889
Total comprehensive income (loss) of the parent Company	**(10,147)**	**82,094**

35. CONTINGENCIES

Litigation and legal proceedings

As a 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. SUBSEQUENT EVENTS

On September 13, 2013 the Group entered into a deed of amendment to modify certain provisions under the Sojitz Loan Facility. Reference should be made to note 23 to the Financial Report for further details.

With the exception of the above, there have been no other events subsequent to June 30, 2013 that would require accrual or disclosure in this 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, 2013.

(a) Distribution of ordinary shares

The number of shareholders, by size of holding, of ordinary shares is:

Ordinary shares

HOLDINGS RANGES	HOLDERS	NUMBER OF HOLDERS	NUMBER OF SHARES
1-1,000	4,938	3,199,909	0.163
1,001-5,000	11,894	35,623,213	1.817
5,001-10,000	7,104	56,685,961	2.891
10,001-100,000	12,593	393,574,260	20.072
100,001-99,999,999,999	1,485	1,471,717,949	75.057
Totals	**38,014**	**1,960,801,292**	**100.000**
The number of shareholders holding less than a marketable parcel of shares		5,503	3,840,481

(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	39
100,001 and over	27
Total	**66**

(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. JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	225,720,956	11.512
2. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	203,825,522	10.395
3. NATIONAL NOMINEES LIMITED	150,202,637	7.660
4. CITICORP NOMINEES PTY LIMITED	121,807,146	6.212
5. J P MORGAN NOMINEES AUSTRALIA LIMITED	107,993,268	5.508
6. BNP PARIBAS NOMS PTY LTD <DRP>	50,800,421	2.591
7. CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	21,698,970	1.107
8. DYNAMIC SUPPLIES INVESTMENTS PTY LTD	20,500,000	1.045
9. 3RD WAVE INVESTORS LTD	15,000,000	0.765
10. UOB KAY HIAN PRIVATE LIMITED <CLIENTS A/C>	13,573,600	0.692
11. JAPAN AUSTRALIA RARE EARTHS BV	10,972,275	0.560
12. MR CONGLIN YUE	10,600,000	0.541
13. UCA GROWTH FUND LIMITED	10,000,000	0.510
14. DMG & PARTNERS SECURITIES PTE LTD <CLIENTS A/C>	9,312,063	0.475
15. LANDO PTY LTD	9,050,000	0.462
16. MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	8,956,870	0.457
17. AMP LIFE LIMITED	6,763,680	0.345
18. SILMAR PTY LIMITED <SUPER FUND ACCOUNT>	6,003,234	0.306
19. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	5,988,097	0.305
20. ALIANA PTY LTD <MARK SUHR SUPER FUND A/C>	5,767,519	0.294
Total	**1,014,536,288**	**51.742**

(d) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporation Act 2001* are: Nil.

(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
Mt Weld	E38/2224	100
Mt Weld	E38/2359	100
Mt Weld	E38/2558	100
Mt Weld	L38/224	100
Mt Weld	L38/98	100
Kangankunde Rare Earths Project		
Kangankunde, Malawi	ML 0122/2003	100

CORPORATE INFORMATION

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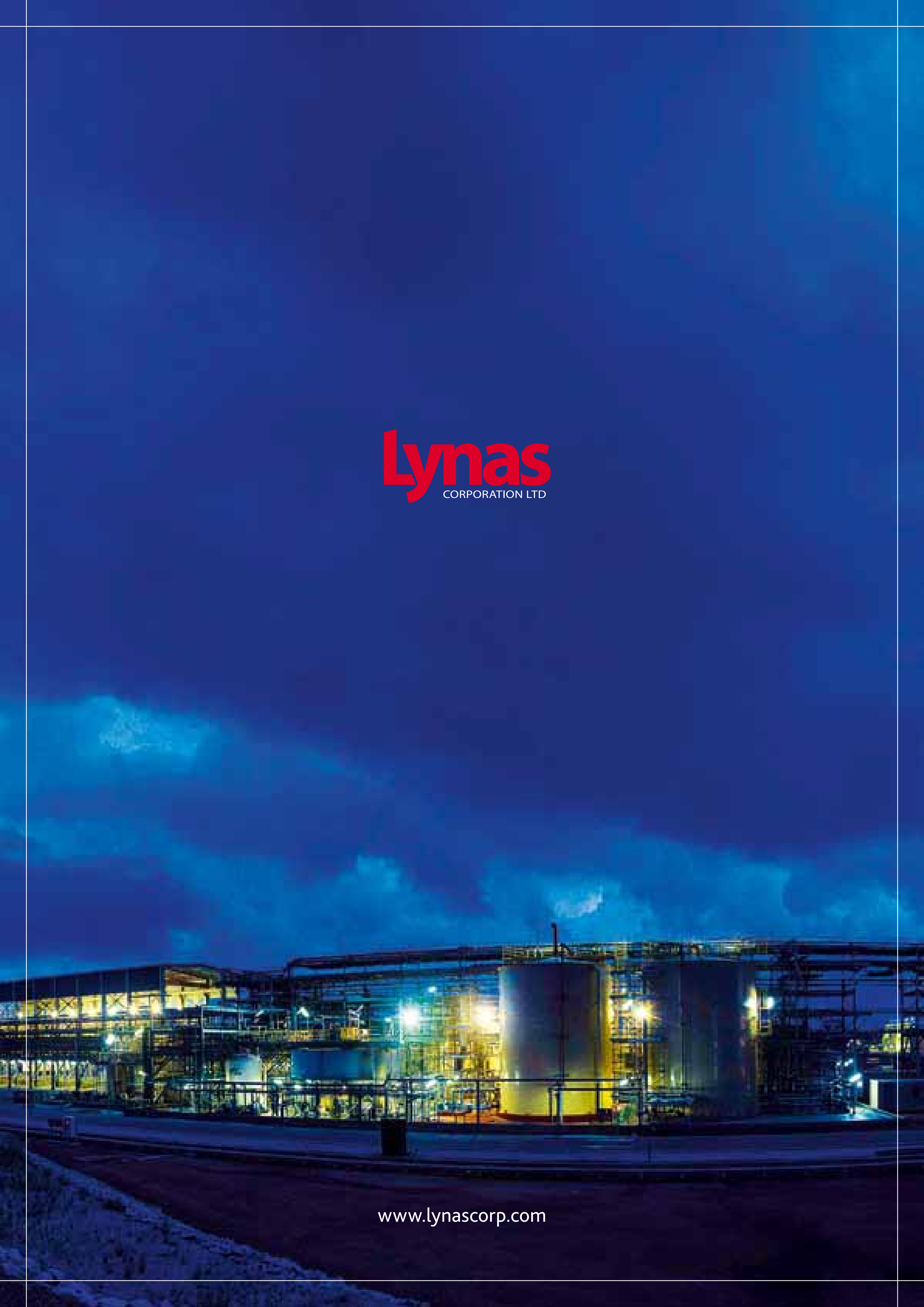
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