Lynas
CORPORATION LTD

FROM MINE TO MARKET

LYNAS CORPORATION **ANNUAL REPORT 2014**

LETTER FROM THE CHAIRMAN

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 2014.

Our position as an integrated source of Rare Earths from mine to customer has always held great potential. Rare Earths are essential inputs to high technology, high growth, future-facing industries and Lynas is uniquely placed to succeed in this market.

It is important to emphasise that Lynas is still on the development path. Significant progress has been made in improving production, however, there is still work to be done in all areas of the business, particularly development of sales opportunities.

Lynas production of Rare Earths Oxides (REO) for the year was 3,965 tonnes, while shipments to customers during the year totalled 3,008 tonnes. While these are not the targets that we set for ourselves, it is nonetheless very pleasing to see the steady and sustained build-up of production and sales through four successive quarters. These achievements are a testament to the perseverance and effort of each Lynas employee.

In June, we made a significant leadership change, appointing Amanda Lacaze to CEO & MD. In a short period of time, Amanda has made a remarkable positive impact on the company and has led the management team to achieve rapid improvements in performance, company-wide transformation initiatives, and a restructure of the Lynas Senior Loan Facility. These are each essential as we move along the development path and build a stable platform for growth.

We close the year with a complete and strategic investment in a portfolio of integrated, high quality Rare Earths assets. The Mt. Weld Mine and Concentration Plant are operating effectively and safely at target rates and the commissioning of the Lynas Advanced Materials Plant (**LAMP**) in Malaysia is complete with production capability on track.

We remain committed to the principle that our activities are directed to benefitting all constituencies with which we engage. Securing a Full Operating Stage Licence in early September reflects our ability to operate LAMP to the appropriately high safety and environmental standards of the Malaysian authorities. This important achievement is in line with our belief that seeking beneficial returns for our shareholders cannot be done without also benefiting our communities, employees, customers and suppliers. We believe that our key stakeholders, including the communities in which we operate, can expect a high level of engagement and transparency regarding our commitment to a sustainable and mutually beneficial future.

The business transformation from a start-up to a stable operating business is well underway with three key conditions for a sustainable business now satisfied.

- We have achieved a low-cost funding platform with the restructure of the JARE debt facility.
- The Full Operating Stage Licence (**FOSL**) for the LAMP was granted on 2 September 2014 creating operating stability.

- A new management structure with the right experience and skill set to optimise the value of the assets and deliver the full potential of the business is now in place.

Our key performance indicators continued to improve through the year with production volume, revenue, and cost savings all posting improving results in the last quarter of the year. Importantly, the recent difficult operating period has led to the creation of a leaner, smarter approach. We have simplified our operating structure and reduced input costs, resulting in annualised A$26 million in cost savings.

We are pleased to have secured a new financing arrangement that provides Lynas with stable funding for further growth. The Entitlement Offer and the Placement we undertook through September and October 2014 are part of a transformational recapitalisation initiative that will see approximately A$83.0 million (before transaction costs) raised in new equity alongside an amendment to the repayment schedule for Lynas' Senior Loan Facility.

While the changes we have undertaken are pivotal to our future success, they came at a heavy cost to our team and I am saddened that a number of our team left the business as a result of those changes. I am proud of the tenacity and commitment each member of the team has shown throughout this year to get Lynas to this point as a stable, environmentally responsible, producing operation.

I would like to take this opportunity to thank my Board colleagues, the Lynas management team, and our employees and contractors for their hard work throughout the 2014 financial year. We have completed our first full year of production and though it has not been without its hurdles and turbulence, we are now in a strong position to achieve our vision of being "the global leader in Rare Earths for a sustainable future."

We have previously established a Board renewal program and with Amanda Lacaze's appointment as an executive of Lynas, we recognise the need for further Board renewal, and a search is underway for new Board members.

I would like to thank our customers who have continued to support and encourage the company, our employees and contractors, our suppliers and business partners, and the communities in Western Australia and Pahang who have accepted us as part of their communities.

Lastly, I would like to thank each of you, our shareholders, for your continued support of Lynas. I recognise that the value of your investment in Lynas has significantly deteriorated in the past year, and I regret that. I now believe we are strongly positioned for the future and your Board is confident of our current position and of the opportunities ahead to increase shareholder value.

Yours sincerely

Nicholas Curtis AM

Chairman

CEO's REVIEW

I provide this review of 2014 with the fresh perspective of a CEO who has only been with the company a short time.

It is an exciting time to take the leadership of Lynas as the company completes its first full year of production and makes the transition from development to stable operating business.

Production and sales increased steadily through the four quarters of 2014 with the June quarterly production representing 48% of full year production and the June 2014 quarterly shipment volumes at 54% of the full year total.

At the close of the 2014 financial year Lynas had assembled an impressive portfolio of assets that positions the Company as an integrated source of Rare Earths from mine to customer.

Lynas derives significant value from each of the assets within the portfolio and additional value from the combination of those assets. Initial value accrues from the nature of the resource deposit which is acknowledged as the highest grade Rare Earths mine in the world. In addition, each of the processing facilities (Mt. Weld and LAMP) is industry leading and built to exacting safety and environmental standards. Additional value accrues from the combination of these assets as Lynas is able to control quality and environmental processes throughout production. Importantly, the use of a single feed source (Mt. Weld) allows the company to optimise processes at the LAMP.

The development of these assets has been the primary focus of Lynas' strategy to date. Achievements have included:

- the start-up of the Mt. Weld concentration plant which is now operating efficiently and safely at target rates;
- the commissioning and operation of the LAMP. Identified bottlenecks have been resolved and current performance indicates that further improvements in volume, quality and yield will be delivered as planned;
- the establishment of key channels to market and direct relationships with key customers; and
- the development and implementation of safety and environmental standards and practices to ensure that Lynas is safe for its staff, safe for the environment and safe for its communities.

The focus of the business strategy is to fully realise the value resident within this asset portfolio.

Importantly, the key end use markets for which Rare Earths products are important inputs, are growing strongly offering substantial opportunities for growth in the Lynas business. Further, the nature of the Rare Earths market offers Lynas significant opportunity to establish leadership positions in the Rare Earths market based on technical, product and service differentiation.

Core elements of the strategy include:

(a) Continued improvement in the performance of the Mt. Weld and LAMP production facilities with increased throughput at lower costs, increased focus on quality performance and improved Rare Earths Oxide (**REO**) recovery rates at all stages of the process.

(b) Investment in process technology and applications development for the higher value elements Nd and Pr and SEG. These elements constitute approximately 30% of the Rare Earths composition of Mt. Weld concentrate but their unique properties and relative scarcity means they represent approximately 90% of Lynas' sales revenue. Specific initiatives include:

(i) improving product purity by developing novel technologies to remove natural impurities such as other metals;

(ii) developing techniques to deliver to customer-defined quality specification; and

(iii) partnering with customers to develop new applications and reduce cost through the value chain.

(c) Executing a "go to market" strategy focused on supplying key customers in high value target segments. For example:

(i) partnering with Sojitz to capture a high share of the Japanese market;

(ii) expanding reach to new geographic markets;

(iii) developing new offers including preferred supply arrangements;

(iv) engaging directly with end use customers to find new and better ways to utilise Rare Earths products and to ensure the Rare Earths product is adding value to the finished product; and

(v) realising price premiums for additional customer value add.

(d) Continuing to enhance Safety and Environmental practices. For example:

(i) investing in ongoing safety management tools including training and equipment;

(ii) investing in environmental protection equipment and processes to maintain environmentally sustainable manufacturing practices;

(iii) investing in new waste water and tailings management in WA to improve water re-use and tailings management; and

(iv) investing in waste management strategies in Malaysia including the use of waste product in commercial applications.

(e) Continuing to improve the quality of community engagement in each location in which Lynas operates.

We believe that executing this strategy will allow Lynas to create sustainable competitive advantage built on supply reliability, quality differentiation, leading technology, and environmental leadership.

Safety for our people and for the communities in which we operate is at front of mind in everything we do. We are committed to zero harm and excellence in health and safety.

Importantly, as we move forward and at every stage of Lynas' business, the leadership team and I have clarity on the key areas where we all need to focus our efforts:

- Respect the community – This means acting in a way that ensures we are welcome in the communities in which we operate and have a positive effect on those communities
- Respect the resource – This means focusing our efforts, not only on production volume, but on improving Finished Product Quality and REO yield to achieve the highest possible return for our Mt Weld Rare Earths resource
- Respect the funds – This means we are all focused on ensuring that we spend the money entrusted to use by our shareholders wisely.

As we look to 2015, Lynas is dedicated to creating long-term value for its shareholders, customers, employees and communities by maintaining a strong focus on safety; consistently delivering high quality product to customer specifications; investing in applications development in partnership with customers to find new and better ways to utilize its Rare Earths resources; and maintaining a sustainable supply chain built on strong environmental credentials.

Amanda Lacaze

CEO & Managing Director

Lynas Corporation Limited
ACN 009 066 648

Financial Report for the year ended

June 30, 2014

Contents

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, 2014. 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 Executive Chairman of Rutila Resources Limited (formerly named Forge Resources Limited) and Chairman of the private corporate advisory firm, Riverstone Advisory. Mr Curtis serves as a Director of the Asia Society Australia and as a Governor of the Mining and Metals Industry Partnership Group and 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, Aristocrat Leisure 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 a past president of the NSW Branch of the Australia China Business Council and previously served on the NSW Asia Business Council.

Amanda Lacaze BA, MAICD - Managing Director

Ms Lacaze was appointed Managing Director and Chief Executive Officer of the Company on June 25, 2014 following her appointment as a Non-Executive Director of the Company on January 1, 2014.

Ms Lacaze is a highly credentialed manager who brings more than 25 years of senior operational experience to Lynas, including as Chief Executive Officer of Commander Communications, Executive Chairman of Orion Telecommunications and Chief Executive Officer of AOL\7. Prior to that, Ms Lacaze was Managing Director of Marketing at Telstra and held various business management roles at ICI Australia (now Orica and Incitec Pivot). Ms Lacaze's early experience was in consumer goods with Nestle.

Ms Lacaze is currently a Non-Executive Director of ING Bank Australia Ltd and McPherson's Ltd, is on the Advisory Board of CMOS research group at UTS and is a member of Chief Executive Women and the Australian Institute of Company Directors. Ms Lacaze holds a Bachelor of Arts Degree from the University of Queensland and postgraduate Diploma in Marketing from the Australian Graduate School of Management.

Eric Noyrez - Executive Director (ceased to be an Executive Director with effect from June 25, 2014)

Mr Noyrez ceased to be an Executive Director with effect from June 25, 2014.

Details of Mr Noyrez's relevant experience are set out in the Director's report for the year ended June 30, 2013.

David Davidson - Non-Executive Director (resigned with effect from August 20, 2013)

Mr Davidson resigned as a Director of Lynas with effect from August 20, 2013.

Details of Mr Davidson's relevant experience are set out in the Director's report for the year ended June 30, 2013.

Zygmunt (Ziggy) Switkowski PhD, FAICD, FTSE - Non-Executive Director (resigned with effect from August 20, 2013)

Dr Switkowski resigned as a Director of Lynas with effect from August 20, 2013.

Details of Mr Switkowski's relevant experience are set out in the Director's report for the year ended June 30, 2013.

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. Ms McDonald resigned as a Company Secretary of Lynas with effect from July 31, 2014.

Directors' shareholdings

As at the date of this report, the interests of the Directors who held office during the 2014 financial year in the shares and options of the Group were:

	Ordinary shares	Options over ordinary shares
N. Curtis	3,378,501	18,500,000
W. Forde	1,161,184	2,150,000
K. Conlon (1)	262,258	-
D. Davidson (2)	727,613	1,700,000
J. Klein	2,082,236	1,700,000
A. Lacaze (3)	82,500	-
E. Noyrez (4)	532,743	6,500,000
Z. Switkowski (2)	-	-
Total	**8,227,035**	**30,550,000**

(1) Shares held by spouse.
(2) Resigned with effect from August 20, 2013.
(3) Appointed as CEO and an Executive Director with effect from June 25, 2014 (previously, Non-Executive Director from January 1, 2014). As announced on June 25, 2014, subject to shareholder approval, Ms Lacaze is entitled to a sign-on bonus of performance rights to the value of $100,000.
(4) Ceased as CEO and Executive Director with effect from June 25, 2014.

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

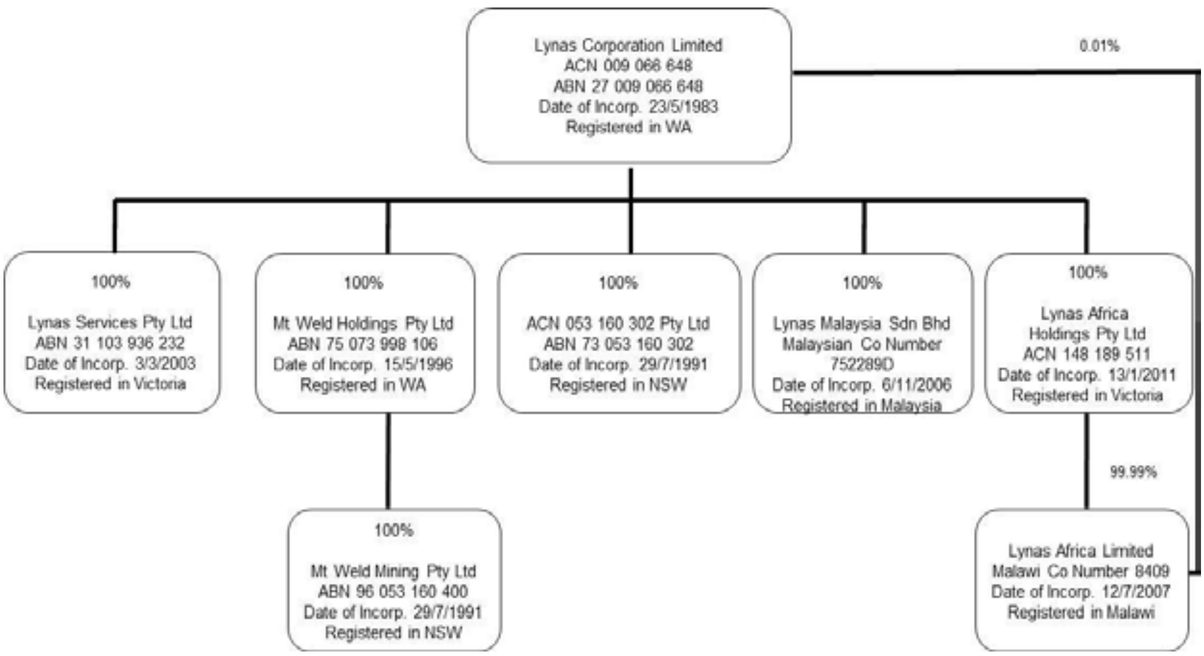
The following table outlines the options and performance rights issued for the benefit of Directors and other key management personnel during the financial year ended June 30, 2014.

Granted options	Options granted	Performance rights granted	Grant Date
A. Lacaze[1]	-	-	-
A. Arnold	-	1,026,177	September 23, 2013
G. Barr	-	1,026,177	September 23, 2013
L. Catanzaro	-	462,546	September 23, 2013
A. Jury	-	256,544	September 23, 2013
E. Noyrez [2]	-	2,802,840	November 23, 2013
J. Steinmetz	-	-	-
	-	**5,574,284**	

(1) A. Lacaze was appointed as CEO and an Executive Director with effect from June 25, 2014 (previously, Non-Executive Director from January 1, 2014). As announced on June 25, 2014, subject to shareholder approval, Ms Lacaze is entitled to a sign-on bonus of performance rights to the value of $100,000.
(2) E. Noyrez ceased as a Director with effect from June 25, 2014 and forfeits the performance rights

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

Basis of preparation of financial statements

Note 2.2 Going Concern, and the Emphasis of Matter paragraph in the Independent Auditor's Report, contain additional information relating to the preparation of the financial statements using the going concern assumption.

Review of operations

Highlights

- LAMP (Lynas Advanced Materials Plant) Full Operating Stage Licence secured on 2 September 2014
- Four successive quarters of strong increases in production and sales from LAMP
- Simplified company structure, reduced contract labour and restructured executive leadership team
- Targeted improvements in productivity, procurement, yield management and delivery of product quality to customer specification

Review of operations

FY 2014 marked Lynas' first full year of production and the company increased production and sales each quarter.

Lynas is still on the development path. Significant progress has been made in improving production, however, there is still work to be done in all areas of the business, particularly development of sales opportunities.

Rare Earth Oxide (REO) production for the 12 months to 30 June 2014 was 3,965 tonnes, while shipments during the year totalled 3,008 tonnes. Production and sales increased steadily through four successive quarters. Production in the June 2014 quarter was 73% higher than in the March 2014 quarter and represented 48% of full year production, while shipment volume in the June 2014 quarter was more than double March 2014 quarter and represented 54% of the full year total. The average selling price during the financial year was US$20.10/kg REO (revenue basis).

Importantly, sales revenue generated in the March and June 2014 quarters represented 83% of annual revenue, reflecting the growing momentum in saleable LAMP volume. Lynas products are sold to customer involved in high technology, high growth future facing industries in Japan, China, Vietnam, Europe and North America.

The Company's Western Australian and Malaysian operations maintained certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards during the year. The 12-month rolling Lost Time Injury Frequency Rate as at 30 June 2014 was 1.5 per million hours worked.

In Western Australia, the Concentration Plant performed in line with expectations during the year. Until concentrate stocks run down, the Plant continues to be operated on a campaign basis, synchronised to demand from the LAMP. At 30 June 2014, 10,828 dry tonnes of concentrate containing 4,144 tonnes REO were bagged in WA ready for export. In line with the ramp up of production at the LAMP, concentrate stocks reduced by 31% during the year.

At the LAMP, and as expected for a plant of its size and complexity, there have been a number of bottlenecks and challenges as production rates have increased. In some cases these have significantly affected the rate at which production has ramped up and the plant is yet to deliver a full quarter performance at target, design rates. However, each of the major stages of the Phase 1 plant – Cracking & Leaching, Solvent Extraction and Product Finishing – have operated at target capacity during the 2014 financial year indicating significant progress.

Identified bottlenecks have been resolved and current performance indicates that further significant improvements in volume, quality and yield during the 2015 financial year will be delivered. The improvements will be aided by changes in plant organisation and operating procedures based on knowledge gained during 2014 and by investment in additional facilities such as in-process storage to minimise the overall impact of intra-process issues. These initiatives will facilitate better anticipation and planning, and ensure better plant operating performance.

The Phase 2 Cracking & Leaching and Product Finishing assets were successfully commissioned in FY14. Commissioning of the Phase 2 Solvent Extraction assets was commenced subsequent to the end of the financial year.

The Group continues its commercialisation program of synthetic gypsum and aggregate co-products. The Company is preparing to make the first commercial export of NUF (produced from neutralisation of acid in the LAMP) to a customer. Negotiations are ongoing for further commercial shipments. The Company is preparing to construct a demonstration road using road base material developed from WLP (produced from water leaching residue).

In June 2014, Amanda Lacaze was appointed as CEO & MD and has driven a number of changes to improve organisational efficiency and a reduction in overall costs.

This includes a simplification of the Company's structure by co-locating management personnel and resources with production and sales facilities in Western Australia and Malaysia. This will result in the Company's Head Office relocating from Sydney to Kuantan, and an expected reduction of about 50% in corporate overheads. Other initiatives to reduce costs include reducing workforce numbers (mostly by reducing contractor positions), improving asset utilisation, renegotiating supplier contracts and seeking improvement in procurement practices.

Financial performance

For the year ended

In A$ Million	June 30, 2014	2013
Revenue	64.6	0.9
Cost of sales	(77.7)	(0.9)
Gross profit (loss)	**(13.1)**	**-**
Other income	20.4	9.8
General and administration expenses	(125.1)	(125.1)
Restructuring expenses	(3.8)	-
Impairment expenses	(196.4)	(13.1)
Profit (loss) from operating activities	**(318.0)**	**(128.4)**
Financial income	2.0	4.8
Financial expenses	(29.4)	(17.4)
Net financial income (expenses)	**(27.4)**	**(12.6)**
Profit (loss) before income tax	**(345.4)**	**(141.0)**

The gross loss for the year of $13.1M, reflects lower than anticipated recovery rates impacting cost of production, together with generally lower average selling prices.

Other income increased by $10.6M, to $20.4M for the year ended June 30, 2014, and comprises of amounts received from the Australian Tax Office for eligible research and development expenditure incurred during the respective years ended June 30, 2012 and 2013. These were in relation to the development costs of the Mt Weld concentration and processing plant, and have been recognised in the profit and loss component of the statement of comprehensive income to match the treatment of the underlying research and development expenditure. By June 30, 2014 all amounts due have been recognised through the profit and loss component of the statement of comprehensive income. Also contributing to other income was a gain of $0.9M on the disposal of a financial asset, available for sale.

General and administration expenses for the year ended June 30, 2014 at $125.1M remain consistent with prior year. General and administration expenses predominantly comprise of employee costs, unrecovered production costs and depreciation (net of recovery). These costs represent 82% of total general and administration expenses. Other items include legal and insurance, R&D, IT and consulting costs which make up the balance. Consistent with the Company's ramp up of the LAMP in Malaysia, employee costs increased by $3.3M, and depreciation and amortisation recognised in the statement of comprehensive income increased by $6.0M year on year. Production costs net of costs recovered to inventory decreased by $2.7M. Further offsetting were lower consulting costs of $3.3M and all other costs by $3.9M, which were driven by cost reduction policies introduced in the year ended June 30, 2014.

Impairment expenses increase significantly year on year. A review of the carrying value of LAMP assets was completed at year end. The cost and performance of the Phase 2 assets were used to assess whether the carrying value ascribed to the Phase 1 assets represented fair value. As a result the LAMP Phase 1 assets have been written down by $190.0M to the assessed replacement cost, which the Board and Management judges to be a more accurate reflection of fair value. The write off is recorded at year end as a non cash item. The remaining balance of $6.4M relates to impairment of inventory items and non LAMP Phase 1 assets.

Net financial expenses increased by $14.8M to $27.4M for the year ended June 30, 2014. During the year the Group recognised a decrease in interest income of $2.8M attributable to lower cash balances compared with prior year. The reduction in interest income occurred concurrently with increased interest, foreign exchange and financing costs of $12.0M and a reduction in the proportion of interest capitalised to property plant and equipment, given the completion of the construction and commissioning of the LAMP Phase 2 assets.

Cash flow for the year ended

In A$ Million	June 30, 2014	2013
Net Operating Cash flow	(103.2)	(106.2)
Net Investing Cash flow	(8.6)	(114.2)
Net Financing Cash flow	8.2	155.0
Net cash flow	**(103.6)**	**(65.4)**

Operating cash flows

Net operating cash outflows decreased by $3.0M, to $103.2 million for the year ended June 30, 2014. The decrease in the net cash outflow period-on-period is in line with the Group's operational ramp-up activities and was principally driven by increased sales receipts of $58.6M offset by increased payments to suppliers and employees of $52.2M and lower receipts of government grants from the ATO of $1.1M offset by higher royalty payments of $2.3M to the Western Australia's Department of Mines. The government grants were received from the ATO in relation to eligible research and development activities undertaken for the commissioning of the Mount Weld processing facilities.

Investing cash flows

Net investing cash outflows decreased by $105.6M to $8.6M for the year ended June 30, 2014. The decrease in the net outflow for the year principally reflects the operational status of both the concentration plant in Mt Weld and the LAMP in Malaysia; where both Phase 1 and Phase 2 of the Group's capital program were predominantly completed by June 30, 2013. The outflow in the year ended June 30, 2014 primarily relates to retention payments in relation to the Group's Phase 2 construction of the LAMP in Malaysia, and ongoing stay in business capital expenditure.

Financing cash flows

Net financing cash flows decreased by $146.8M to a net cash inflow of $8.2M for the year ended June 30, 2014. The reduction in net cash inflows mainly comprises of the $129.7M difference in proceeds received from the Group's equity raisings (net of transaction costs), with a net $40.0M raised in the year ended June 30, 2014 compared with $169.7M raised in the year ended June 30, 2013. Further in the year ended June 30, 2014 the Group made a $11.3M (US$10.0M) repayment of the Group's Sojitz facility, in line with the previously announced repayment schedule (refer to note 24).

Financial position

As at

	June 30,	
In A$ Million	**2014**	**2013**
Assets		
Cash and cash equivalents	38.1	141.4
Inventories	73.4	92.9
Property, plant and equipment	669.1	880.3
Deferred exploration, evaluation and development expenditure	46.9	47.7
Available for sale financial assets	-	1.8
Other assets	24.8	23.6
Total assets	**852.3**	**1,187.7**
Liabilities		
Borrowings	(443.6)	(458.0)
Other liabilities	(106.7)	(101.0)
Total liabilities	**(550.3)**	**(559.0)**
Net assets	**302.0**	**628.7**
Equity		
Share capital	1,034.6	994.6
Retained earnings (accumulated deficit)	(776.2)	(430.7)
Reserves	43.6	64.8
Total equity	**302.0**	**628.7**

The overall net assets of the Group decreased by $326.7M from $628.7M as at June 30, 2013 to $302.0M as at June 30, 2014 and reflects continued operating losses experienced by the Group as it ramped up performance levels at the LAMP in Malaysia, as well as the $190.0M write down of the LAMP Phase 1 assets to their fair value.

Cash and cash equivalents at June 30, 2014 comprise $33.3M of unrestricted cash and $4.8M of restricted cash. Restricted cash is available to fund future interest payments under the Sojitz facility.

Inventory decreased by $19.5M, or 21%, to $73.4M at June 30, 2014, compared to $92.9M at June 30, 2013. The net decrease in inventory reflects the production ramp-up at the LAMP, and was also impacted by the reclassification of organics from WIP Inventory to PP&E, which more correctly reflects the nature of the asset. Organics are the acids, phosphates and solvents that are required in the production process to convert rare earth concentrate and other raw materials to Finished Goods. Organics are necessary to permit the production process to occur and cannot be physically separated from other inventory in WIP until such time as the plant ceases to operate. They are only consumed in minute quantities over an extended period of time. As at June 30, 2014 the Group continues to hold 5,994t REO of processed concentrate and unprocessed ore of 289,560 tonnes at its Mount Weld operations; which are expected to be used for production purposes over the next 6 to 18 month periods respectively.

Property plant and equipment decreased by $211.2M, to $669.1M at June 30, 2014 compared to $880.3M at June 30, 2013. The decrease is predominantly related to the impairment of LAMP Phase 1 assets of $190.0M. Also impacting are depreciation for the year of $37.4M which is offset by additions of $14.0M mostly in relation to Phase 2 construction of the LAMP, increase and recognition of the rehabilitation provision of Phase 1 and 2 of the LAMP site in Malaysia respectively ($10.5M). The remainder of the movement relate mainly to the reduction in value of the Malaysian Ringgit denominated assets resulting from foreign exchange movements and the transfer of spares and organics from inventory ($23.2M).

Borrowings of $443.6M represent the US$215.0 million Sojitz loan facility revalued at the June 30, 2014 exchange rate, and the liability component of the convertible bonds issued to funds managed or selected by Mt Kellett Capital Management. In January 2014 the Group made an $11.3M (US$10.0M) repayment of the Sojitz facility, in line with the previously announced repayment schedule (refer to note 24).

The increase in share capital of $40.0M is wholly attributable to the net proceeds from the equity rising which was completed in May 2014.

The movement in reserves of $21.2M during the current period reflects movements in the equity settled employee benefits and foreign currency translation reserves.

Capital structure

At the start of the year the Group had 1,960,801,292 ordinary shares on issue. During the year an additional 372,860,274 shares were issued as follows:

	Number
Shares on issue June 30, 2013	1,960,801,292
Issue of shares pursuant to equity raising	372,375,972
Issue of shares pursuant to option conversion	484,302
Shares on issue June 30, 2014	**2,333,661,566**

In addition to the ordinary shares on issue there were 49,035,695 unlisted options and performance rights and 225,000,000 unlisted convertible bonds on issue with a conversion price of A$0.98 (based on a US$: A$ exchange rate of 0.9533).

Earnings per share

	June 30,	
Earnings (loss) per share	**2014**	**2013**
Basic loss per share (cents per share)	(17.34)	(5.13)
Diluted loss per share (cents per share)	(17.34)	(5.13)

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.

Corporate Governance Statement

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

In accordance with the ASX Corporate Governance Council's (the "Council's") Principles and Recommendations (2nd edition), 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, 2014, and complied with all of the Council's Principles and Recommendations except as noted below in relation to Recommendation 2.2.

Details of the Group's corporate governance practices in place throughout the financial year ended June 30, 2014 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, 2014, 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, K. Conlon and, until June 25, 2014, A. Lacaze, 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 ceased as Chief Executive Officer of the Group and as a Director with effect from June 25, 2014. Mr Noyrez was not an independent Director of the Group in accordance with the definition above.

A. Lacaze's appointment as Chief Executive Officer of the Group was effective from June 25, 2014 (previously, a Non-Executive Director from January 1, 2014). As the Chief Executive Officer of the Group, Ms Lacaze 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 [0.14] % 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

N. Curtis is the Chairman of the Group. During the financial year ended June 30, 2014, the role of Chief Executive Officer was performed by E. Noyrez, and subsequently by A. Lacaze.

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*.

During the year, the Nomination and Remuneration Committee consisted only of Non-Executive Directors, the majority of whom are independent. During the year, the members of the Nomination and Remuneration Committee were Ms Conlon, Mr Forde and, from August 20, 2013, Mr Curtis. Messrs Davidson and Switkowski were members of the Committee up until their resignation on August 20, 2013. 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, 2014 is as follows:

Name	Term in office
N. Curtis	12 years
J. Klein	9 years
W. Forde	6 years 5 months
K. Conlon	2 year 8 months
A. Lacaze	6 months

(3) The reasons why Messrs Klein and Forde and Ms Conlon are considered to be independent Directors are disclosed in relation to Recommendation 2.1.

(4) There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Group's expense.

(5) Details of the names of members of the Nomination and Remuneration Committee 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 as well as a Harassment & Discrimination Policy 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 June 26, 2014 (prior year: August 28, 2013):

(1) Proportion of women employees in the whole organisation: 16.8% (2013 – 17.8%). Proportion of women employees in Australia: 34.3% (2013 – 27.5%).

(2) Proportion of women employees in senior management positions in the whole organisation: 35.3% (2013 – 23.5%). Proportion of women in senior management positions in Australia: 38.5% (2013 – 21.4%).

(3) Proportion of women on the Board: 40% (2013 – 20%).

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 and Klein 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 three 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) Five 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

During the year, the Nomination and Remuneration Committee consisted only of Non-Executive Directors, the majority of whom are independent. The members of the Nomination and Remuneration Committee during the financial year were Ms Conlon and Messrs. Forde and Curtis. Further details are provided in the Directors Meetings section of the Directors' Report.

The Nomination and Remuneration Committee is chaired by Ms Kathleen Conlon. Ms Conlon is an independent Director and is not Chair of the Board.

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

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

(1) Fixed remuneration, superannuation payments and termination payments.

(2) Share options issued for the benefit of the relevant individuals pursuant to the Group's employee incentive plans.

(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, 2014 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 Non-Executive Directors, the majority of whom are independent. The members of the Nomination and Remuneration Committee during the financial year were Ms Conlon and Messrs. Forde and Curtis. 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
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*	229,309	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*	140,000	June 6, 2014	June 6, 2016	$ 0.00	$ 2.30
N	November 30, 2011	2,000,000	September 22, 2014	September 22, 2016	$ 1.69	$ 0.40
O	September 23, 2011	1,072,500	September 22, 2014	September 22, 2016	$ 1.69	$ 0.55
Q	September 22, 2011*	4,651	September 22, 2014	September 22, 2016	$ 0.00	$ 1.41
R	September 22, 2011*	382,500	September 22, 2014	September 22, 2016	$ 0.00	$ 1.34
S	December 12, 2011	1,000,000	December 12, 2014	December 12, 2016	$ 1.57	$ 0.51
T	September 25, 2012	755,287	September 24, 2015	September 24, 2017	$ 1.02	$ 0.26
U	September 25, 2012*	551,143	September 24, 2015	September 24, 2017	$ 0.00	$ 0.72
V	September 23, 2013*	793,038	September 23, 2016	September 23, 2018	$ 0.00	$ 0.41
W	September 23, 2013*	2,022,146	September 23, 2016	September 23, 2018	$ 0.00	$ 0.41
X	September 23, 2013*	1,685,121	September 23, 2016	September 23, 2018	$ 0.00	$ 0.31
	Total	**49,035,695**				

* 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 484,302 options were exercised as set out in note 31 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 $324,956.40. This amount is not included as part of the Directors remuneration in note 29 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 11 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, a Risk Management, Safety, Health and Environment Committee, and a Community 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	Community (1)
W. Forde (c)	K. Conlon (c)	W. Forde (c)	N. Curtis (c)
K. Conlon	N. Curtis	K. Conlon	K. Conlon
J. Klein	W. Forde	J. Klein (2)	A. Lacaze
		A. Lacaze (3)	E. Noyrez (4)

(c) Designates the Chair of the Committee as at June 30, 2014.
(1) The Community Committee was established on April 1, 2014.
(2) J. Klein resigned as a member of the Risk Management, Safety, Health & Environment Committee with effect from April 1, 2014.
(3) A. Lacaze was appointed as a member of the Risk Management, Safety, Health & Environment Committee with effect from April 1, 2014.
(4) E. Noyrez ceased as a Director with effect from June 25, 2014.

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				
	Directors' Meetings	Audit	Nomination and remuneration	Risk management, safety, health and environment	Community (1)
Number of meetings held:	**11**	**5**	**3**	**4**	**2**
Number of meetings attended:					
N. Curtis	11	-	3	-	2
W. Forde	10	5	3	4	-
K. Conlon	11	5	3	4	2
D. Davidson (2)	-	-	-	-	-
J. Klein	10	5	-	3 (3)	
A. Lacaze	7 (4)	-	-	1 (5)	2
E. Noyrez	10 (6)	-	-	-	2
Z. Switkowski (7)	-	-	-	-	-

(1) The Community Committee was established on April 1, 2014.
(2) D. Davidson resigned as a director with effect from August 20, 2013.
(3) J. Klein resigned as a member of the Risk Management, Safety, Health and Environment Committee with effect from April 1, 2014.
(4) A. Lacaze became an Executive Director with effect from June 25, 2014 (previously, a Non-Executive Director from January 1, 2014).
(5) A. Lacaze was appointed as a member of the Risk Management, Safety, Health and Environment Committee with effect from April 1, 2014.
(6) E. Noyrez ceased as a Director with effect from June 25, 2014.
(7) Z. Switkowski resigned as a director 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 (1)	Nomination, Remuneration and Community (2)
W. Forde (c)	K. Conlon (c)
K. Conlon	N. Curtis
J. Klein	W. Forde

(c) Designates the Chair of the Committee.
(1) With effect from July 1, 2014, the Board resolved to merge the Audit Committee and the Risk Management, Safety, Health & Environment Committee into one committee.
(2) With effect from July 1, 2014, the Board resolved to merge Nomination & Remuneration Committee and the Community Committee into one committee.

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.

Dear Shareholder,

I am pleased to present our Remuneration Report for 2014. 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 2014, we built upon the remuneration framework changes that we made in 2013 and introduced a number of other changes that are in line with market practice. They include the following:

- We reviewed the process for selecting a comparator peer group for remuneration benchmarking purposes. In addition to benchmarking remuneration against a selected industry group based on market capitalisation, target revenue and asset comparisons, we now have regard to a peer group consisting of a broader base of ASX listed companies ranked 50^{th} to 150^{th} (by market capitalisation) in order to reflect a robust market view.

- We introduced a formal cap on LTI as 100% of fixed remuneration.

- We introduced a Deferred Short Term Incentive ("DSTI") plan. Under the DSTI plan, a portion of STI is awarded in the form of equity. If certain performance conditions are satisfied, Performance Rights are awarded with a vesting period of up to 2 years to encourage employee retention and alignment with shareholder goals. Under the DSTI plan, 50% of the STI will vest 12 months after the date of the award, and the other 50% will vest after 24 months after the date of the award.

- We revised our Option and Performance Rights Plans to provide that new Options and Performance Rights will not vest automatically upon a "Change of Control Event". Upon the occurrence of a Change of Control Event, the Board will retain discretion to decide that some or all Options/ Performance Rights will vest, if that is reasonable in the circumstances.

The 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.
- The LTI grant for the Executives includes relative TSR and operating milestone performance hurdles.
- In 2014, the only remuneration paid to Non-Executive Directors was fees (i.e. no options or similar benefits were issued).

Our remuneration report for 2014 reflects key events that occurred during the year, including the following:

- The Group adopted a policy of no salary increases for the financial year ended June 30, 2014.

- Effective June 25, 2014, Amanda Lacaze became Chief Executive Officer and Executive Director, and Eric Noyrez's employment as Chief Executive Officer ceased. Details of Ms Lacaze's remuneration are reflected in the table in Section H of this report.

- Our remuneration outcomes in the financial year ended June 30, 2014 reflect an alignment between pay and performance. STI payments were not made in respect of the year ended June 30, 2014.The STI payments shown in table H related to year end 2013 and were paid in the current financial year. In addition, the operational performance hurdle for some Long Term Incentive ("LTI") awards made in the financial year ended June 30, 2012 and the financial year ended June 30, 2013 was not satisfied, and the TSR hurdle for some LTI awards made in the financial year ended June 30, 2012 was not satisfied. As a consequence 5,827,787 options and 1,617,342 performance rights were cancelled. This has resulted in a reversal of current and prior period share based payments expense of $3,197,574 of which $2,847,955 related to KMP.

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,

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	At as June 30, 2014 year end, the Chief Executive Officer and Executive Director ("CEO"), the Chief Operating Officer ("COO") (from August 1, 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.
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 and DSTI.
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, 2014 were as follows:

Non-Executive Directors:

N. Curtis	Chairman, and Chairman of the Community Committee (from April 1, 2014 to July 1, 2014)
W. Forde	Deputy Chairman, Non-Executive Director, Chairman of the Audit Committee, and Chairman of the Risk Management, Safety, Health and Environment Committee (appointed with effect from August 20, 2013)
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:

A. Lacaze	CEO and Executive Director (appointed as CEO and Executive Director with effect from June 25, 2014, previously Non-Executive Director from January 1, 2014)
L. Catanzaro	CFO
J. Steinmetz	Chief Operating Officer (from August 1, 2013)
A. Arnold	General Counsel and Company Secretary
G. Barr	Executive Vice President People and Culture

A. Jury	Executive Vice President Corporate Affairs
E. Noyrez	Executive Director (ceased as CEO and Director with effect from June 25, 2014)

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 groups used to benchmark remuneration consisted of: (a) one group 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; and (b) a broader base of ASX listed companies ranked 50th to 150th (by market capitalisation). When benchmarking remuneration, Lynas also considers the broader base of ASX listed companies so as to reflect a robust market view. The peer groups are 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 did not receive any remuneration recommendations (as defined in the *Corporations Act 2001*).
- During the year, the Committee did not receive any advice from Mercer in setting the appropriate levels of total remuneration for Executives. Nil fees were paid during the year to Mercer (2013: $23,463).
- 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 of a majority of independent Non-Executive Directors and is chaired by an independent chair;
- 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.

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 (50^{th} 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, Performance Rights 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 (Cash and Deferred) + 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	25 %

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, 2014, the measures were drafted with reference to the following goals:

- **Corporate**: Operating Cashflow, Operating Margin, Care
- **Team**: Responsible Care, Cost, Raw Water Consumption, On-Spec Production and Community Engagement
- **Individual**: Performance Rating

The payment of any award under the STI programme is subject to the Group achieving operating cashflow that is at or better than budgeted operating cashflow ("**STI Gateway**"). The STI Gateway was not satisfied during the financial year ended June 30, 2014. The below table shows which of the individual STI goals were achieved during the financial year ended June 30, 2014:

STI FY 2013/14 - Corporate	
STI test	***Status***
Gateway (Operating Cash Flow)	Fail
(At or better than budgeted Operating Cash Flow)	
Company goals:	
(1) Operating Cash Flow	Fail
(At or better than budgeted Operating Cash Flow)	
(2) Operating Margin	Fail
(At or better than budgeted Operating Margin)	
(3) Health & Safety LTI	Pass
(Reduction in 'Lost Time Injury' when compared to last performance year)	
Overall STI pay-out based on goals and achieved performance:	**NIL**

Deferred STIs

During 2014, the Group introduced a Deferred STI ("DSTI") plan. Under the DSTI plan, a portion of STI is awarded in the form of equity. If the goals and measures applicable to the STI plan are satisfied, Performance Rights are awarded with a vesting period of up to 2 years to encourage employee retention and alignment with shareholder goals. Under the DSTI plan, 50% of the STI will vest 12 months after the date of the award, and the other 50% will vest after 24 months after the date of the award.

The payment of any award under the DSTI programme is also subject to the Group achieving positive operating cashflow.

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, 2014 (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 satisfaction of the following operational hurdle:

Consistency of Production – Right First Time (RFT): During the calendar year 2015, the percentage of first time conforming produced tonnes over total produced tonnes for Mt Weld and the LAMP must be at least 85% in accordance with the following sliding scale:

(a) If the RFT is 85% or more, and less than 90%, then 50% of the RFT portion will vest.

(b) If the RFT is 90% or more, and less than 92%, then 100% of the RFT portion will vest.

(c) If the RFT is 92% or more, then an additional 20% of the RFT portion will vest, giving a total vested portion equal to 120% of the RFT portion.

(ii) 50% will be conditional on the company's Total Shareholder Return (TSR) being at least at the 51st percentile of ASX 200 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:	Ms Lacaze must give three months' written notice of an intention to resign.
Notice by Group:	The Group may terminate the agreement by giving six months' written notice. The Group may terminate Ms Lacaze's employment at any time without notice if serious misconduct has occurred.
Treatment of incentives on termination:	On resignation, any unvested Options and Performance Rights may be forfeited subject to the discretion of the Board. Upon termination of Ms Lacaze's employment by the Group other than as a result of misconduct, Ms Lacaze will be entitled to retain a pro – rata portion of any unvested Options and Performance Rights held by her on the date of termination. For example, where 50% of the vesting period has been served, Ms Lacaze will be entitled to retain 50% of the unvested Options or Performance Rights. Ms Lacaze will also be entitled to retain any Options or Performance Rights that have vested prior to the date of termination.
Termination benefits:	In accordance with the *Corporations Act 2001*, the maximum termination payment payable to Ms Lacaze is equal to her base salary for one year (i.e. excluding any LTI component).

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 (other than as a result of misconduct), unvested incentives will be treated in the same manner set out above in respect of Ms Lacaze; 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 a TSR hurdle and to project milestone hurdles related to REO capacity. Those hurdles were not satisfied.
- In the financial year ended June 30, 2013, LTI grants were also subject to a TSR hurdle and to project milestone hurdles related to REO capacity. The project milestone hurdles were not satisfied. The reference period for the TSR hurdle has not yet expired.
- In the financial year ended June 30, 2014, LTI grants were also subject to a TSR hurdle and to project milestone hurdles related to consistency of production – Right First Time, 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 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, 2014, the STI plan consisted of one single 12-month review period, commencing on July 1, 2013. As noted above in section D, the payment of any award under the STI programme is subject to the Group achieving positive operating cash flow ("**STI Gateway**"). The STI Gateway was not satisfied.

During the financial year ended June 30, 2014, the DSTI also consisted of one single 12-month review period, commencing on July 1, 2013. As noted above in section D, the payment of any award under the STI programme is also subject to the STI Gateway. The STI Gateway was not satisfied.

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.

For further context the following table provides reported financial information on which remuneration has been based. As noted elsewhere the group has moved from a development phase and is now transitioning into its operational phase, as evident in the revenue metrics noted below.

	June 30, 2010	June 30, 2011	June 30, 2012	June 30, 2013	June 30, 2014
Revenue ($ '000)	-	-	-	950	64,570
Loss before tax ($'000)	(43,041)	(57,288)	(97,879)	(141,014)	(345,431)
Loss after tax ($'000)	(43,041)	(59,086)	(87,770)	(143,555)	(345,488)
Shareholder funds ($' 000)	719,857	821,994	823,161	994,645	1,034,634
Annual average share price	$0.55	$1.66	$1.30	$0.65	$0.29
Closing share price at financial year end	$0.55	$1.98	$0.85	$0.38	$0.13
Earnings Per Share (EPS) (CPS)	(3.23)	(3.54)	(5.12)	(5.13)	(17.34)
Diluted (EPS) (CPS)	(3.23)	(3.54)	(5.12)	(5.13)	(17.34)

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, 2014 were:

- Chairman $350,000 per annum;
- Deputy Chairman $155,000 per annum; and
- Non-Executive Director $100,000 per annum.

Committee Fees

Board Committee	Chair $	Member $
Audit Committee	30,000	15,000
Risk Management, Safety, Health and Environment Committee	25,000	12,500
Nomination and Remuneration Committee	25,000	12,500
Community Committee	25,000	12,500

The remuneration for NEDs for the financial years ended June 30, 2013 and June 30, 2014 is set out in Section H of this report.

H.Details of Remuneration

Year Ended June 30, 2014

	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	Long service leave	Share-based payments (net) [1]	Performance related % of Total	Total
Executive Director										
A. Lacaze [2]	131,997		-	-	5,362	137,359	-	-	0%	137,359
E. Noyrez [3]	1,415,482	121,156 [8]	361,374	1,239,189 [4]	71,707	3,208,908	-	141,523	8%	3,350,431
Non-Executive Directors										
K.Conlon	149,375	-	-	-	-	149,375	-	-	0%	149,375
N.Curtis	350,000	252,409 [8]	15,575	-	-	617,984	-	(32,835)	38%	585,149
D. Davidson [5]	11,493	-	5,175	-	4,166	20,834	-	16,508	44%	37,342
W. Forde	186,765	-	-	-	16,985	203,750	-	20,634	9%	224,384
J. Klein	124,375	-	-	-	-	124,375	-	16,508	12%	140,883
Z. Switkowski [6]	23,264	-	-	-	2,152	25,416	-	-	0%	25,416
Executives										
A. Arnold	482,779	76,177 [8]	17,287	-	25,196	601,439	7,100	50,772	19%	659,311
G. Barr	428,097	68,150 [8]	-	-	25,123	521,370	6,352	26,023	17%	553,745
L. Catanzaro	713,900	12,620 [8]	17,886	-	25,000	769,406	-	(45,939)	(5%)	723,467
A. Jury	383,352	-	12,410	-	17,775	413,537	-	23,809	5%	437,346
J. Steinmetz [7]	387,489	-	-	-	111,427	498,916	-	-	0%	498,916
Total	**4,788,368**	**530,512**	**429,707**	**1,239,189**	**304,893**	**7,292,669**	**13,452**	**217,003**		**7,523,124**

(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 Executive Director with effect from June 25, 2014, previously Non-Executive Director from January 1, 2014. Entitled to a sign on bonus of $100,000 under the terms of Ms Lacaze's employment contract. This is subject to Lynas shareholder approval.
(3) Ceased as CEO and Director with effect from June 25, 2014.
(4) This amount represents the termination payment which is payable to Eric Noyrez pursuant to the cessation of Mr Noyrez's employment as CEO, in accordance with his Service Agreement. The amount is payable in instalments to Mr Noyrez during the course of the financial year ending June 30, 2015. In addition to this amount, Mr Noyrez has forfeited options and performance rights with a value of $60,872
(5) Resigned with effect from August 20, 2013.
(6) Resigned with effect from August 20, 2013.
(7) Appointed as COO with effect from August 1, 2013.
(8) Represents an STI award paid in the financial year ended June 30, 2014 relating to the First Half Review Period STI Performance Gateway being satisfied for the prior year ended June 30, 2013 and approved for payment by the Board on September 13, 2013.

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	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									
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 and CEO, 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.

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
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*	229,309	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*	140,000	June 6, 2014	June 6, 2016	$ 0.00	$ 2.30
November 30, 2011	2,000,000	September 22, 2014	September 22, 2016	$ 1.69	$ 0.40
September 23, 2011	1,072,500	September 22, 2014	September 22, 2016	$ 1.69	$ 0.55
September 22, 2011*	4,651	September 22, 2014	September 22, 2016	$ 0.00	$ 1.41
September 22, 2011*	382,500	September 22, 2014	September 22, 2016	$ 0.00	$ 1.34
December 12, 2011	1,000,000	December 12, 2014	December 12, 2016	$ 1.57	$ 0.51
September 25, 2012	755,287	September 24, 2015	September 24, 2017	$ 1.02	$ 0.26
September 25, 2012*	551,143	September 24, 2015	September 24, 2017	$ 0.00	$ 0.72
September 23, 2013*	793,038	September 23, 2016 (1)	September 23, 2018	$ 0.00	$ 0.41
September 23, 2013*	2,022,146	September 23, 2016 (1)	September 23, 2018	$ 0.00	$ 0.41
September 23, 2013*	1,685,121	September 23, 2016 (1)	September 23, 2018	$ 0.00	$ 0.31
Total	**49,035,695**				

* Denotes Performance Rights which are issued on the same terms as Options, except there is no consideration payable on exercise.
(1) Performance Rights Series V, W, X and Y

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, 2014:

	Series V	Series W	Series X	Series Y
Grant date share price ($)	$0.41	$0.41	$0.41	$0.31
Exercise price ($)	$0.00	$0.00	$0.00	$0.00
Dividend yield	Nil	Nil	Nil	Nil
Expected volatility	64.6%	64.6%	64.6%	64.6%
Risk-free interest rate	3.18%	3.18%	3.18%	3.18%
Life of Option	5 years	5 years	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 Instrument at grant date	Exercise price per Instrument	First exercise date	Last exercise or Expiry date
A. Arnold	559,733	September 23, 2013	$0.41	$0.00	September 23, 2016	September 23, 2018
A. Arnold	466,444	September 23, 2013	$0.31	$0.00	September 23, 2016	September 23, 2018
G. Barr	559,733	September 23, 2013	$0.41	$0.00	September 23, 2016	September 23, 2018
G. Barr	466,444	September 23, 2013	$0.31	$0.00	September 23, 2016	September 23, 2018
L. Catanzaro	252,298	September 23, 2013	$0.41	$0.00	September 23, 2016	September 23, 2018
L. Catanzaro	210,248	September 23, 2013	$0.31	$0.00	September 23, 2016	September 23, 2018
A. Jury	139,933	September 23, 2013	$0.41	$0.00	September 23, 2016	September 23, 2018
A. Jury	116,611	September 23, 2013	$0.31	$0.00	September 23, 2016	September 23, 2018
E. Noyrez *	2,802,840[1]	November 29, 2013	$0.31	$0.00	September 23, 2016	September 23, 2018
Total	**5,574,284**					

(1) The performance rights issued to E. Noyrez were approved by the Board on September 23, 2013 subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 29, 2013. E. Noyrez ceased as a Director with effect from June 25, 2014.

* These were forfeited when ceased to be CEO and Executive Director on June 25, 2014.

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 2014 and 2013 financial years and those Options which have vested at each respective year-end.

June 30, 2014	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, 2014
A. Arnold	7,142,402	1,026,177	23 September 2013	(996,201)	(2,000,000)	(1,970,024)	5,172,378	3,150,000
G. Barr	2,199,806	1,026,177	23 September 2013	(924,903)	(450,000)	(348,726)	1,851,080	-
L. Catanzaro	2,453,172	462,546	23 September 2013	(1,226,586)	-	(764,040)	1,689,132	-
K. Conlon	-	-	-	-	-	-	-	-
N. Curtis	25,500,000	-	-	(2,000,000)	(5,000,000)	(7,000,000)	18,500,000	16,500,000
D. Davidson [1]	2,500,000	-	-	-	(800,000)	(800,000)	1,700,000	1,700,000
W. Forde	3,250,000	-	-	-	(1,100,000)	(1,100,000)	2,150,000	2,150,000
A. Jury	-	256,544	23 September 2013	-	-	256,544	256,544	-
J. Klein	2,500,000	-	-	-	(800,000)	(800,000)	1,700,000	1,700,000
A. Lacaze [2]	-	-	-	-	-	-	-	-
E. Noyrez [3]	9,812,853	2,802,840	29 November 2013 [4]	(6,115,693)	-	(3,312,853)	6,500,000	6,500,000
J. Steinmetz [5]	-	-	-	-	-	-	-	-
Z. Switkowski [6]	-	-	-	-	-	-	-	-
Total	**55,358,233**	**5,574,284**		**(11,263,383)**	**(10,150,000)**	**(15,839,099)**	**39,519,134**	**31,700,000**

(1) Resigned as a Director with effect from August 20, 2013.
(2).Appointed as CEO and an Executive Director with effect from June 25, 2014, previously Non-Executive Director from January 1, 2014. As announced on June 25, 2014, subject to shareholder approval, A. Lacaze is entitled to a sign-on bonus of performance rights of $100,000.
(3) E. Noyrez ceased as CEO and a Director with effect from June 25, 2014.
(4) The performance rights issued to E. Noyrez were approved by the Board on September 23, 2013 subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 29, 2013.
(5) Appointed as COO with effect from August 1 2013.
(6) Resigned as a Director with effect from August 20, 2013.

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 (3)	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.

Future development

Subsequent events

On September 2, 2014 the Atomic Energy Licensing Board issued Lynas with a Full Operating Stage License (FOSL) for the Lynas Advanced Materials Plant (LAMP), renewable on September 2, 2016.

Full details of the Group's material debt facilities are set out in note 24 of this financial report and include both the Sojitz debt facility as well as the Mt Kellett convertible bonds.

As set out in that note on September 24, 2014 the parties to the Sojitz debt facility have amended the loan by signing a binding Term Sheet which takes effect from September 30, 2014.

The key amendments to the Sojitz debt facility under the binding Term Sheet are set out in that note and include an amended principal repayment schedule.

In conjunction with these new agreed Sojitz debt facility terms, the Group plans to complete an equity raising, by way of placement and a rights issue, to be underwritten primarily by investors who specialise in the energy and industrial sectors, for a total of approximately $83 million (before cash transaction costs).

The Group requires this additional equity to meet the amended principal repayments due under the Sojitz debt facility, particularly the next payment for US$10 million which is due under the binding Term Sheet no later than October 15, 2014, as well as to ensure it has the funding required to allow the Group to restructure its cost base and for general liquidity headroom purposes.

The directors and management, having obtained a signed underwriting agreement, are confident that there are reasonable grounds to believe that the additional equity funding will be obtained in a timely manner over the course of October 2014 to satisfy both the Group's cash requirements and meet the next US$10 million Sojitz principal repayment due no later than October 15, 2014.

With the exception of the above, there have been no other events subsequent to June 30, 2014 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 29, 2014

Directors' declaration

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached financial report is in compliance with International Financial Reporting Standards, as stated in note 2.1 to the financial report;

(c) in the Directors' opinion, the attached financial report and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and

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

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

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 34 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 29, 2014

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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 2014, 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.

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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 2014 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2.2 in the financial report which describes the principal conditions relating to additional funding being required by the consolidated entity. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Graham Ezzy

Graham Ezzy
Partner
Sydney
29 September 2014

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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 2014, 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
29 September 2014

Consolidated Statement of Comprehensive Income

For the year ended		June 30,	
In A$'000	Note	2014	2013
Revenue		64,570	950
Cost of sales*		(77,679)	(950)
Gross loss		**(13,109)**	**-**
Other income	7	20,398	9,795
General and administration expenses*		(125,102)	(125,124)
Restructuring expenses	9	(3,823)	-
Impairment expenses	10	(196,384)	(13,082)
Loss from operating activities		**(318,020)**	**(128,411)**
Financial income	12	1,966	4,767
Financial expenses	12	(29,377)	(17,370)
Net financial expenses		**(27,411)**	**(12,603)**
Loss before income tax		**(345,431)**	**(141,014)**
Income tax expense	13	(57)	(2,541)
Loss for the year		**(345,488)**	**(143,555)**
Other comprehensive (loss) income for the period net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	15	(20,315)	37,015
(Loss) gain on the revaluation of available for sale financial assets	15	-	(865)
Total other comprehensive (loss) income for the year, net of income tax		**(20,315)**	**36,150**
Total comprehensive loss for the year attributable to equity holders of the Company		**(365,803)**	**(107,405)**
Loss per share			
Basic loss per share (cents per share)	27	(17.34)	(5.13)
Diluted loss per share (cents per share)	27	(17.34)	(5.13)

* For more information on expenses by nature, reference should be made to notes 8, 18 and 32.

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

Consolidated Statement of Financial Position

As at

		June 30,	
In A$'000	Note	2014	2013
Assets			
Cash and cash equivalents	16	38,144	141,371
Trade and other receivables	17	9,586	1,765
Current tax receivables		24	49
Prepayments		3,865	3,946
Inventories	18	64,427	78,380
Total current assets		**116,046**	**225,511**
Inventories	18	8,976	14,555
Available for sale – financial assets	19	-	1,802
Property, plant and equipment	21	669,075	880,335
Deferred exploration, evaluation and development expenditure	22	46,857	47,654
Intangible assets – software		350	431
Other assets	20	11,042	17,396
Total non-current assets		**736,300**	**962,173**
Total assets		**852,346**	**1,187,684**
Liabilities			
Trade and other payables	23	(31,953)	(33,515)
Borrowings	24	(122,094)	(10,949)
Employee benefits	25	(2,733)	(3,650)
Provisions	26	(10,210)	(16,520)
Other provisions	9	(3,823)	-
Deferred income		-	(5,420)
Total current liabilities		**(170,813)**	**(70,054)**
Finance Lease Liabilities		(1,381)	(782)
Borrowings	24	(321,477)	(447,068)
Provisions	26	(56,340)	(40,865)
Employee benefits	25	(295)	(207)
Total non-current liabilities		**(379,493)**	**(488,922)**
Total liabilities		**(550,306)**	**(558,976)**
Net assets		**302,040**	**628,708**
Equity			
Share capital	27	1,034,634	994,645
Retained earnings (accumulated deficit)		(776,179)	(430,691)
Reserves	27	43,585	64,754
Total equity attributable to the equity holders of the Company		**302,040**	**628,708**

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	**994,645**	**(430,691)**	**883**	**35,128**	**-**	**28,743**	**628,708**
Other comprehensive income (loss) for the period	-	-	(20,315)	-	-	-	**(20,315)**
Total income (loss) for the period	-	(345,488)	-	-	-	-	**(345,488)**
Total comprehensive income (loss) for the year	**994,645**	**(776,179)**	**(19,432)**	**35,128**	**-**	**28,743**	**262,905**
Exercise of options, net of issue costs	16	-	-	-	-	-	**16**
Issue of shares, net of issue costs	39,973	-	-	-	-	-	**39,973**
Employee remuneration settled through share-based payments	-	-	-	(854)	-	-	**(854)**
Balance at June 30, 2014	**1,034,634**	**(776,179)**	**(19,432)**	**34,274**	**-**	**28,743**	**302,040**
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**
Exercise of options, net of issue costs	226	-	-	-	-	-	**226**
Issue of shares, net of issue costs	171,258	-	-	-	-	-	**171,258**
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**

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

Consolidated Statement of Cash Flows

For the year ended

In A$'000	Note	June 30, 2014	June 30, 2013
Cash flows from operating activities			
Receipts from customers		58,598	597
Receipt of government grants		14,082	15,216
Payments to suppliers and employees		(173,484)	(121,293)
Royalties paid		(2,269)	(558)
Income taxes (paid) received		(135)	(204)
Net cash flows from (used in) operating activities		**(103,208)**	**(106,242)**
Cash flows from investing activities			
Payment for property, plant and equipment		(17,241)	(111,351)
Payment for deferred exploration, evaluation and development expenditure		-	(102)
Payment for intangible assets		(135)	(90)
Security bonds paid		(6,845)	(3,053)
Security bonds refunded		12,819	349
Receipt from sale of available for sale financial assets		2,703	-
Proceeds from sale of property, plant and equipment		105	-
Net cash from (used in) investing activities		**(8,594)**	**(114,247)**
Cash flows from financing activities			
Interest received		2,457	4,984
Interest and other financing costs paid		(22,960)	(19,741)
Proceeds from the issue of share capital		42,079	175,000
Payment of transaction costs – Issue of shares		(2,106)	(5,350)
Proceeds from the issue of share capital resulting from the exercise of options		16	226
Repayment of Long-term borrowing (Sojitz facility)		(11,270)	-
Net cash from (used in) financing activities		**8,216**	**155,119**
Net increase (decrease) in cash and cash equivalents		(103,586)	(65,370)
Cash and cash equivalents at the beginning of the year		141,371	205,438
Effect of exchange rate fluctuations (net) on cash held		359	1,303
Closing cash and cash equivalents	16	**38,144**	**141,371**

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

Consolidated Statement of Cash Flows (continued)

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

For the year ended

		June 30,	
In A$'000	Note	2014	2013
Profit (loss) for the year		(345,488)	(143,555)
Adjustments for:			
Depreciation and amortisation	18	37,030	16,567
Employee remuneration settled through share-based payments		(854)	1,135
Impairment loss on property, plant and equipment and other	10	193,223	3,950
Impairment loss on inventories	10	3,161	9,132
Net financial (income) expenses	12	27,411	12,603
Gain on disposal of available for sale - financial assets	7	(901)	-
Income tax (benefit) expense	13	57	2,541
Other Provisions	9	2,584	-
Income taxes (paid) received		166	(204)
Change in trade and other receivables		(9,830)	(997)
Change in inventories		(4,991)	(22,673)
Change in trade and other payables		9,878	(12)
Change in other assets and liabilities		-	(4,358)
Change in provisions and employee benefits		(9,745)	15,504
Change in deferred income		(5,415)	5,420
Foreign exchange		506	(1,295)
Net cash from (used in) operating activities		**(103,208)**	**(106,242)**

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

Notes to the financial statements
For the year ended June 30, 2014

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, 2014 comprises the Company and its subsidiaries (together referred to as the "Group").

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 29, 2014.

2.2 Going concern

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

Sojitz debt facility and liquidity headroom

Full details of the Group's material debt facilities are set out in note 24 of this financial report and include both the Sojitz debt facility as well as the Mt Kellett convertible bonds.

As set out in that note on September 24, 2014 the parties to the Sojitz debt facility have amended the loan by signing a binding Term Sheet which takes effect from September 30, 2014.

The key amendments to the Sojitz debt facility under the binding Term Sheet are set out in that note and include an amended principal repayment schedule.

In conjunction with these new agreed Sojitz debt facility terms, the Group plans to complete an equity raising by way of placement and a rights issue, to be underwritten primarily by investors who specialise in the energy and industrial sectors, for a total of approximately $83 million (before cash transaction costs).

The Group requires this additional equity to meet the amended principal repayments due under the Sojitz debt facility, particularly the next payment for US$10 million which is due under the binding Term Sheet no later than October 15, 2014, as well as to ensure it has the funding required to allow the Group to restructure its cost base and for general liquidity headroom purposes.

The directors and management, having obtained a signed underwriting agreement, are confident that there are reasonable grounds to believe that the additional equity funding will be obtained in a timely manner over the course of October 2014 to satisfy both the Group's cash requirements and meet the next US$10 million Sojitz principal repayment due no later than October 15, 2014.

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, 2014. Information for the comparative year is for the 12 month period ended June 30, 2013.

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 is achieved when the Company or Group has power over the investee, is exposed, or has the rights to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. 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. As per note 30 all entities within the Group are 100% owned and controlled.

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) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Interests in joint 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.

(c) 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.

(d) 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.

(e) 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 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).

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/technology4 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 measureable 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.

(d) Onerous Contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

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 31.

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 sales commissions, 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 35 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 2011-4 *Amendments to Australian Accounting Standards – To Remove Individual Key Management Personnel Disclosure Requirements.* In the current year the individual key management personnel disclosure previously required by AASB 124 (note 28.1 and 28.2 in the 30 June 2014 financial statements) is now disclosed in the remuneration report due to an amendment to Corporations Regulations 2001 issued in June 2013.
- AASB 2012-2 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'.* The amendments have been applied retrospectively. As the Group does not have any offsetting arrangements in place, the application of the amendments does not have any material impact on these consolidated financial statements.
- AASB 10 *Consolidated Financial Statements* and *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards – A*ASB 10 changed the definition of control, however, the adoption of this standard has had no impact on the Group's structure and has not had any material impact on these consolidated financial statements.
- AASB 11 *Joint Arrangements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards* – As the Group is not currently involved in any joint arrangements, the adoption of this standard has not had any material impact on these consolidated financial statements.
- AASB 12 *Disclosure of Interests in Other Entities* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* – AASB 12 is a new disclosure standard, the adoption of this standard has resulted in more extensive disclosures in the Group's consolidated financial statements.
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from* AASB 13 – The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The application of this standard has not had any material impact on these consolidated financial statements.
- AASB 119 *Employee Benefits (2011)* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from* AASB 119 (2011) – AASB 119 as revised primarily changes the way to account for defined benefits. The Group does not have any defined benefit plans in place and other changes brought about by this standard have not had a material impact on these consolidated financial statements. The revised standard also changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. The application of this standard has not had any material impact on these consolidated financial statements.
- Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*, and AASB 2011-12 *Amendments to Accounting Standards arising from* Interpretation 20 - applies to stripping costs incurred during the production phase of a surface mine. The adoption of these amending standards has not had any material impact on these consolidated financial statements.
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* - makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including repeat application of AASB 1 is permitted; and, clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 *Presentation of Financial Statements*). The adoption of these amending standards has not had any material impact on these consolidated financial statements.
- AASB 1053 *Application of Tiers of Australian Accounting Standards* – This standard establishes two tiers of reporting requirements for preparing general purpose financial statements (GPFRs). The second tier (Tier 2) allows eligible entities to disclose substantially less information in GPFRs. Entities eligible to apply Tier 2 include for profit entities that do not have public accountability, not for profit entities and certain public sector entities. The adoption of these amending standards has not had any material impact on these consolidated financial statements.
- AASB 2012-9 *Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039* - AASB 2012-9 amends AASB 1048 *Interpretation of Standards* to evidence the withdrawal of Australian Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia*. The adoption of these amending standards has not had any material impact on these consolidated financial statements.

The adoption of the aforementioned standards and amendments 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
AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities.*	July 1, 2014	June 30, 2015
Interpretation 21 *Levies*	July 1, 2014	June 30, 2015
IFRS 9 *Financial Instruments*	July 1, 2018	June 30, 2019
AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*	July 1, 2014	June 30, 2015
AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*	July 1, 2014	June 30, 2015
AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities [AASB 1, 3, 7, 10, 12, 107, 112, 124, 127, 132, 134 and 139]*	July 1, 2014	June 30, 2015
AASB 2013-7 *Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policy Holders [AASB 1038]*	July 1, 2014	June 30, 2015
AASB 1031 *Materiality*	July 1, 2014	June 30, 2015
Annual Improvements 2010-2012 Cycle	July 1, 2014	June 30, 2015
Annual Improvements 2011-2013 Cycle	July 1, 2014	June 30, 2015
AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*	Part A: July 1, 2014 Part B: July 1, 2015	Part A: June 30, 2015 Part B: June 30, 2016
Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*	July 1, 2016	June 30, 2017
IFRS 14 Interim standard on regulatory deferral accounts	January 1, 2016	June 30, 2016
IFRS 15 *Revenue from Contracts with Customers*	July 1, 2017	June 30, 2018

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 non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a 25 year discounted cash flow (DCF) model. The cash flows are derived from the five year budget and forecast model that is extrapolated over 25 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. 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. We consider these inputs to be level 2 fair value measurements as described in Note28.6

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.

At year end, 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 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.

Revenues by geographical location, based on invoicing as a percentage of total revenues comprise; Japan 58%, China 22.1%, France 10.1% and all others 9.8%. The majority of the Group’s non current assets are located in Malaysia.

In A$'000	Note	For the year ended June 2014			For the year ended June 30, 2013		
		Rare Earth operations	**Corporate/ Unallocated**	**Total Continuing Operations**	**Rare Earth operations**	**Corporate/ Unallocated**	**Total Continuing Operations**
Business segment reporting							
Revenue		64,570	-	64,570	950	-	950
Cost of sales		(77,679)	-	(77,679)	(950)	-	(950)
Gross profit		**(13,109)**	**-**	**(13,109)**	**-**	**-**	**-**
Expenses and other income		(127,131)	5,495	(121,636)	(105,168)	(10,161)	(115,329)
Impairments		(196,384)	-	(196,384)	(12,311)	(771)	(13,082)
Earnings before interest and tax ("EBIT")		**(323,515)**	**5,495**	**(318,020)**	**(117,479)**	**(10,932)**	**(128,411)**
Financial income				**1,966**			**4,767**
Financial expenses				**(29,377)**			**(17,370)**
Profit (loss) before income tax				**(345,431)**			**(141,014)**
Income tax benefit (expense)				**(57)**			**(2,541)**
Profit (loss) for the year				**(345,488)**			**(143,555)**
EBIT		(323,515)	5,495	(318,020)	(117,479)	(10,932)	(128,411)
Depreciation and amortisation	18	36,607	403	37,010	16,226	341	16,567
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**(286,908)**	**5,898**	**(281,010)**	**(101,253)**	**(10,591)**	**(111,844)**
Reconciliation of EBITDA to Adjusted EBITDA							
Included in EBITDA:							
Impairment charge – property plant and equipment & other	10	193,223	-	193,223	3,179	771	3,950
Impairment charge – inventory	10	3,161	-	3,161	9,132	-	9,132
Other income	7	-	(20,398)	(20,398)	-	(9,795)	(9,795)
Restructuring provision	9	-	3,823	3,823	-	-	-
Non-cash employee remuneration settled through share based payments comprising:							
Share based payments expense for the period	31.1	-	2,400	2,400	-	6,627	6,627
Impact of options and performance rights forfeited during the period	31.1	-	(3,254)	(3,254)	-	(5,492)	(5,492)
Adjusted EBITDA		**(90,524)**	**(11,531)**	**(102,055)**	**(88,942)**	**(18,480)**	**(107,422)**

7. Other income

In A$'000	For the year ended June 30, 2014	2013
Government grants	19,497	9,795
Gain on disposal of Available for Sale – Financial Assets	901	-
Total other income	**20,398**	**9,795**

In January 2013 and November 2013 the Company received cash payments of $15.2 million and $14.1 million respectively from the Australian Taxation Office (ATO). These payments related to eligible research and development (R&D) expenditure during the years ended June 30, 2012 and June 30, 2013 respectively, principally on the development of the Mt Weld concentration and processing plant. In the prior year, the eligible R&D expenditure was partly recognised through the profit or loss component of the statement of comprehensive income and partly capitalised to inventory. As at June 30, 2014, all cash payments received have been recognised in the profit and loss component of the statement of comprehensive income to match the treatment of the underlying R&D expenditure.

8. Personnel expenses

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

In A$'000	For the year ended June 30, 2014	2013
Wages and salaries	41,172	37,006
Superannuation and pension contributions	1,467	1,396
Employee remuneration settled through share-based payments (note 31)	(854)	1,135
Termination costs	-	1,100
Other	1,867	1,599
Total personnel expenses	**43,652**	**42,236**

9. Restructuring expenses

In A$'000	For the year ended June 30, 2014	2013
Employee costs	1,970	-
Asset costs	676	-
Premises break out costs	932	-
Other	245	-
Total restructuring expenses	**3,823**	**-**

The restructuring expenses relate to the provision in the accounts associated with the Head office relocation and Group-wide redundancies as per the ASX announcement dated 2nd July 2014.

10. Impairment

In A$'000	Note	For the year ended June 30, 2014	2013
Impairment loss - inventory	18	3,161	9,132
Impairment loss - property, plant and equipment	21	193,223	3,361
Impairment loss - other		-	589
Total other expenses		**196,384**	**13,082**

A review of the carrying value of LAMP assets was completed at year end. The cost and performance of the Phase 2 assets were used to assess whether the carrying value ascribed to the Phase 1 assets represented fair value. As a result the LAMP Phase 1 assets have been written down by $190.0 million to the assessed replacement cost, which the Board and Management judges to be a more accurate reflection of fair value. The write off is recorded at year end as a non cash item. The remaining balance of $6.4M relates to impairment of inventory items and non Phase 1 assets.

11. Auditors remuneration

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

	For the year ended June 30,	
In $A	2014	2013
Auditor's remuneration to Ernst & Young (Australia), comprising:		
Audit fees	317,437	321,764
Tax fees	275,191	384,064
Other fees	10,900	125,041
Total auditor's remuneration Ernst & Young (Australia)	**603,528**	**830,869**
Auditor's remuneration to Ernst & Young (other locations), comprising:		
Audit fees	68,000	33,297
Other fees	10,000	-
Total auditor's remuneration Ernst & Young (other locations)	**78,000**	**33,297**

12. Financial income and expenses

	For the year ended June 30,	
In A$'000	2014	2013
Interest income on cash and cash equivalents*	1,966	4,767
Total financial income	**1,966**	**4,767**
Interest expense on Sojitz Facility*	(8,003)	-
Interest expense on financial liabilities measured at amortised cost*		
Mt Kellett convertible bonds	(7,459)	(5,614)
Amortisation of deferred transaction costs - Mt Kellett convertible bonds	(132)	(113)
Amortisation of Mt Kellett equity conversion option	(10,308)	(8,439)
Financing transaction costs and fees	(1,992)	(1,694)
Net foreign currency exchange loss	(1,483)	(1,510)
Total financial expenses	**(29,377)**	**(17,370)**
Net financial income (expense)	**(27,411)**	**(12,603)**

*Interest income (expense) are shown net of amounts capitalised in respect of qualifying assets; In relation to the construction of the Lynas Advanced Materials Plant (LAMP) Phase 2, interest on borrowings have been capitalised while the LAMP Phase 2 was undergoing construction and pre-commissioning activities. Interest ceased to be capitalised from January 1, 2014, when the LAMP was determined to be substantially ready for its intended use; refer to note 24 for more information. For year ending June 30, 2014, $6.8M was capitalised at an interest capitalisation rate of 5.70%.

13. Income taxes

	For the year ended June 30,	
In A$'000	2014	2013
Current tax		
Current tax expense in respect of the current year	55	53
Adjustments recognised in the current year in relation to the current tax in prior years	2	-
	57	**53**
Deferred tax		
Deferred tax (benefit) expense recognised in the year	-	2,488
Total income tax (benefit) expense relating to the continuing operations	**57**	**2,541**

13.1 Income tax recognised in profit (loss)

In A$'000	For the year ended June 30, 2014	2013
Loss before tax for continuing operations	(345,431)	(141,014)
Income tax benefit calculated at 30% (2013: 30%)	(103,629)	(42,304)
Add (deduct):		
R&D tax offset not included in assessable income	(5,849)	(2,939)
Effect of pioneer status (tax holiday) in Malaysia	39,543	-
Effect of expenses that are not deductible in determining taxable profit	10,402	21,502
Effect of foreign exchange gains and losses	4,795	(16,420)
Effect of unused tax losses not recognised as deferred tax assets	41,508	37,839
Effect of temporary differences not recognised as deferred tax assets	13,797	5,256
Foreign tax paid on profits attributable to foreign permanent establishments	57	58
Other adjustments	(567)	(451)
Total current year income tax (benefit) expense	**57**	**2,541**

13.2 Income tax recognised directly in equity

In A$'000	For the year ended June 30, 2014	2013
Deferred tax		
Share issue costs	-	1,502
Total income tax (benefit) expense recognised directly in equity	**-**	**1,502**

13.3 Income tax recognised directly in other comprehensive income

In A$'000	For the year ended June 30, 2014	2013
Deferred tax		
Available for sale – financial assets	-	371
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**

14. Deferred tax assets and liabilities

14.1 Deferred tax balances

In A$'000	Balance at July 1, 2013	Recognised in Profit or loss	Recognised in equity	Recognised in OCI	Balance at June 30, 2014
Temporary differences					
Inventory	(5,927)	3,786	-	-	(2,141)
Deferred exploration, evaluation and development expenditure	(1,810)	239	-	-	(1,571)
Property plant and equipment	(22,564)	23,038	-	-	474
Available for sale – financial assets	215	(215)	-	-	-
Borrowings	5,706	(5,575)	-	-	131
Share-based payments	(893)	805	-	-	(88)
Costs of equity and debt raisings	2,396	(374)	-	-	2,022
Other	529	644	-	-	1,173
	(22,348)	**22,348**	**-**	**-**	**-**
Unused tax losses and credits					
Tax losses	22,348	(22,348)	-	-	-
	-	-	-	-	-

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**	**-**

14.2 Unrecognised deferred tax assets

In A$'000	As at June 30, 2014	As at June 30, 2013
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	345,104	236,678
Tax losses – capital in nature	2,330	2,330
Deductible temporary differences	63,510	17,519
	410,944	**256,527**

The Group's unused tax losses of a revenue nature for which no deferred tax assets have been recognised relate to Australia (2014: $149.9 million, 2013: $178.2 million), Malaysia (2014: $194.0 million, 2013: $56.5 million) and Malawi (2014: $1.2 million, 2013: $1.9 million). At June 30, 2014 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 $93.8 million (2013: $68.2 million).

The Group's unused tax losses of a capital nature for which no deferred tax assets have been recognised relate to Australia (2014: $2.3 million, 2013: $2.3 million). At June 30, 2014 it was not probable that the Group would have future taxable profits in Australia against which these tax losses can be utilised. The potential tax benefit of these tax losses and temporary differences to the Group is $0.7 million (2013: $0.7 million).

The Group's deductible temporary differences for which no deferred tax assets have been recognised relate to Australia (2014: $30.7 million, 2013: $17.5 million) and Malaysia (2014: $32.8 million, 2013: $Nil). At June 30, 2014 it was not probable that the Group would have future taxable profits in these jurisdictions against which these deductible temporary differences can be utilised. The potential tax benefit of these deductible temporary differences to the Group is $17.4 million (2013: $5.2 million).

15. 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:

	For the year ended June 30,					
In A$'000	2014			2013		
	Pre-tax	Tax effect	Total	Pre-tax	Tax effect	Total
Exchange differences on translating foreign operations	(20,315)	-	(20,315)	36,400	615	37,015
Available for sale financial assets	-	-	-	(1,236)	371	(865)
Total other comprehensive income	**(20,315)**	**-**	**(20,315)**	**35,164**	**986**	**36,150**

16. Cash and cash equivalents

In A$'000	As at June 30, 2014	2013
Cash at bank and on hand	33,289	17,665
Short-term deposits	-	108,000
Restricted cash	4,855	15,706
Total cash and cash equivalents	**38,144**	**141,371**

Restricted cash represents funds provided under the Sojitz loan facility (refer to note 24) which is available to fund the next semi-annual interest payment due to Sojitz in September 2014.

17. Trade and other receivables

In A$'000	As at June 30, 2014	2013
Trade receivables	7,795	430
Other receivables	1,791	1,335
Total current trade and other receivables	**9,586**	**1,765**

The Group's exposure to credit risk is primarily in its trade receivables. Credit risk is assessed on a customer by customer basis and includes a credit analysis of each customer, negotiated payment terms, and payment history. As at June 30, 2014, no trade receivables were past due or impaired (none past due or impaired as at June 30, 2013).

18. Inventories

In A$'000	As at June 30, 2014	2013
Raw materials and consumables	33,081	42,235
Work in progress	33,392	50,167
Finished goods	6,930	533
Total inventories	**73,403**	**92,935**
Current inventories	64,427	78,380
Non-current inventories	8,976	14,555
Total inventories	**73,403**	**92,935**

As per IAS 16 Property, Plant and Equipment (PP&E), "organics" valued at $22.0m as at June 30, 2014, that were classified as work in progress in the prior year (June 30, 2013: $9.6m), have been transferred to PP&E. Organics comprise acids, phosphates and solvents required in the production process to convert rare earth concentrate and other raw materials to finished goods. They cannot be physically separated until the plant ceases to operate, and are consumed in minute quantities over an extended period of time. Organics will be depreciated to their residual value over the life of the plant.

During the year ended June 30, 2014 the Group recognised write-downs on inventories held to their net realisable value totalling $3.2m (June 30, 2013: $9.1 million).

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, 2014 and 2013 respectively in the following categories:

	Recognised in General and Administration Expense		Recognised in Inventory		Total	
In A$'000	2014	2013	2014	2013	2014	2013
Property, plant and equipment	21,428	15,797	16,011	2,838	37,439	18,635
Deferred exploration and evaluation expenditure	797	530	-	-	797	530
Intangibles	185	140	-	-	185	140
Total	**22,410**	**16,467**	**16,011**	**2,838**	**38,421**	**19,305**

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 $14.6 million in the year ended June 30, 2014 (June 30, 2013: $0.1 million).

During the year ended June 30, 2014 the Group recognised royalties payable to the Western Australian Government totalling $3.1 million (year ended June 30, 2013: $0.6 million). Royalties arise on the shipment of the Group's concentrate from Australia to Malaysia.

19. Available for sale – financial assets

	As at June 30,	
In A$'000	**2014**	**2013**
Listed equity securities		
- at cost	-	2,518
- impact of marked-to-market movement (gross of tax)	-	(716)
	-	**1,802**

20. Other non-current assets

	As at June 30,	
In A$'000	**2014**	**2013**
Security deposits – banking facilities and other, Malaysia	3,951	9,836
Security deposits – banking facilities and other, Australia	786	4,271
Security deposits – AELB, Malaysia	6,305	3,289
	11,042	**17,396**

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 3.95% (2013: 5.84%) and the weighted average annual interest rate in Malaysia was 3.25% (2013: 3%).

During the year the Group transferred in total $3.0 million (2013: $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 33 for the residual commitment to the AELB.

21. 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, 2014							
Cost	55,658	832,344	8,803	958	8,604	20,129	**926,496**
Accumulated impairment losses	-	(187,726)	(30)	(174)	(191)	(7,404)	**(195,525)**
Accumulated depreciation	(2,475)	(53,351)	(4,278)	(409)	-	(1,383)	**(61,896)**
Carrying amount	**53,183**	**591,267**	**4,495**	**375**	**8,413**	**11,342**	**669,075**
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**
Cost at the beginning of the year	46,597	592,325	8,628	1,197	249,791	19,696	**918,234**
Accumulated depreciation and impairment losses at the beginning of the year	(1,549)	(25,734)	(3,188)	(508)	(6,313)	(607)	**(37,899)**
Carrying amount at the beginning of the year	**45,048**	**566,591**	**5,440**	**689**	**243,478**	**19,089**	**880,335**
Additions	-	5,730	102	-	8,125	-	**13,957**
Capitalisation of borrowing costs	-	-	-	-	6,771	-	**6,771**
Depreciation for the year (note 18)	(1,021)	(34,351)	(1,118)	(106)	-	(843)	**(37,439)**
Impairment loss for the year	-	(185,819)	-	-	-	(7,404)	**(193,223)**
Transfers of assets under construction	-	235,388	-	-	(236,699)	1,311	**-**
Transfers from (to) inventory	-	23,192	-	-	-	-	**23,192**
Change in rehabilitation obligations (note 26)	10,468	-	-	-	-	-	**10,468**
Effect of movements in exchange rates	(1,312)	(19,464)	71	(208)	(13,262)	(811)	**(34,986)**
Carrying amount at June 30, 2014	**53,183**	**591,267**	**4,495**	**375**	**8,413**	**11,342**	**669,075**
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 18)	(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 26)	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**

The first stage of commissioning of the cracking and leaching Rare Earths extraction units of Phase 2 of the LAMP in Malaysia commenced in January 2014. As the various stages are successfully commissioned, assets under construction relating to the LAMP are transferred to the appropriate asset category. Depreciation during the year ended June 30, 2014 commenced for a number elements of Phase 2 of the Malaysian operations from March, 2014.

The transfers from inventory of $23.2 million relate to items categorised as spares ($1.2 million) paid for as a component of the LAMP Phase 2 construction; and "organics" ($22.0 million). In accordance with IAS 16 Property, Plant and Equipment (PP&E), "organics", previously classified in Inventory, have been transferred to PP&E. Organics comprise acids, phosphates and solvents required in the production process to convert rare earth concentrate and other raw materials to finished goods. They cannot be physically separated until the plant ceases to operate, and are consumed in minute quantities over an extended period of time. Organics will be depreciated to their residual value over the life of the plant.

During the year ended June 30, 2014 the Group recognised an asset and a provision for the future estimated cost of restoring and rehabilitating Phase 2 of the LAMP in Malaysia and also increased provision for the future estimated cost of restoring and rehabilitating Phase 1 of the LAMP in Malaysia ($11.3 million). Refer to note 26 for further details.

A review of the carrying value of LAMP assets was completed at year end. The cost and performance of the Phase 2 assets were used to assess whether the carrying value ascribed to the Phase 1 assets represented fair value. As a result the LAMP Phase 1 assets have been written down by $190 million to the assessed replacement cost, which the Board and Management judges to be a more accurate reflection of fair value. The write off is recorded at year end as a non cash item. The remaining balance of $3.2 million relates to impairment of non LAMP Phase 1 assets.

Restrictions on the title of property plant and equipment are outlined in note 24.

22. 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, 2014					
Cost	20,944	17,543	4,078	24,602	**67,167**
Accumulated impairment losses	(14,483)	(3,641)	-	-	**(18,124)**
Accumulated amortisation	(1,234)	(509)	(117)	(326)	**(2,186)**
Carrying amount	**5,227**	**13,393**	**3,961**	**24,276**	**46,857**
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**
Cost at the beginning of the year	20,944	17,543	4,078	24,602	**67,167**
Accumulated amortisation and impairment losses at the beginning of the year	(15,530)	(3,919)	(64)	-	**(19,513)**
Carrying amount at the beginning of the year	5,414	13,624	4,014	24,602	**47,654**
Additions	-	-	-	-	**-**
Amortisation for the year (note 18)	(187)	(231)	(53)	(326)	**(797)**
Change in rehabilitation obligations	-	-	-	-	**-**
Carrying amount at June 30, 2014	**5,227**	**13,393**	**3,961**	**24,276**	**46,857**
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 18)	(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**

Restrictions on the title of the deferred exploration, evaluation and development expenditure are outlined in note 24.

23. Trade and other payables

	As at June 30,	
In A$'000	**2014**	**2013**
Trade payables	14,216	9,393
Accrued expenses	12,023	19,622
Other payables	5,714	4,500
Total trade and other payables	**31,953**	**33,515**
Current	31,953	33,515
Total trade and other payables	**31,953**	**33,515**

Trade and other payables are non-interest bearing and are normally settled on 60 day terms. Trade and other payables include amounts in relation to Phase 2 of the Rare Earth Project (2014: $2.7 million; 2013: $13.2 million).

24. 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 28.

	As at June 30,	
In A$'000	2014	2013
Current borrowings		
Sojitz loan facility	122,094	10,949
Non-current borrowings		
Sojitz loan facility	106,168	235,410
Mt Kellett convertible bonds	215,309	211,658
Total borrowings	**443,571**	**458,017**
Sojitz loan facility	228,262	246,359
Total Sojitz loan facility carrying amount	**228,262**	**246,359**
Principal value of Mt Kellett convertible bonds (1)	238,879	246,359
Unamortised equity component	(23,335)	(34,353)
Unamortised transaction costs	(235)	(348)
Total financial liability carrying amount	**215,309**	**211,658**

(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 were used 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 installments 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:	Installment
January 19, 2014	US$10 million (already repaid)
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 installments 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.

During the current year, the principal repayment due on January 19, 2014 was paid by its due date.

On September 24, 2014 the parties to the Sojitz debt facility executed a binding term sheet setting out agreed amendments to the Senior Loan Facility to take effect from September 30, 2014. The key amendments in the term sheet are as follows:

Rare Earths Supply

Lynas confirms its commitment to supporting Japanese industries diversifying their Rare Earths supply sources, in accordance with the agreements that were announced on March 30, 2011. In addition, Lynas will provide additional assurances regarding Nd/Pr (neodymium/praseodymium) supply from the LAMP to the Japanese market.

Interest Rate

The Interest Rate is fixed at 7.00% per annum.

Repayment Schedule

The repayment schedule is amended to the following:

Repayment Date:	Instalment
19 January 2014	US$10 million (already paid)
30 September 2014	US$10 million
31 March 2015	US$15 million
30 June 2015	US$15 million
30 September 2015	US$30 million
21 December 2015	US$20 million
31 March 2016	US$20 million
30 June 2016	US$105 million

The repayment of US$10 million that is due on September 30, 2014 may be made up to 15 calendar days after September 30, 2014. Lynas will apply the proceeds of the Placement to make that repayment. In addition, if, by March 31, 2016 the Lynas Group has not met certain production volume and cash operating margins under a "Completion of Phase 2 Test", the Lynas Group is required to make an additional principal repayment of US$35 million (with a corresponding reduction in the June 30, 2016 repayment).

First Ranking Securities

The Senior Lender's first ranking securities will remain in place throughout the term of the Senior Facility.

In conjunction with these new agreed terms, Lynas agrees to commit to its ongoing business improvement plans.

Cash sweep

The parties agree that a cash sweep mechanism will be put in place (the terms of which are to be agreed).

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 placements in November and December 2012 and in May 2014 (refer to note 27), the conversion price was adjusted to A$0.98 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

				As at June 30, 2014		As at June 30, 2013	
	Currency	Nominal interest rate	Year of maturity	Face value (USD '000)	Carrying amount (AUD '000)	Face value (USD '000)	Carrying amount (AUD '000)
Sojitz loan facility	USD	LIBOR + 5.25%	2014-2016	215,000	228,262	225,000	246,359
Mt Kellett convertible bonds*	USD	2.75%	2016	225,000	215,309	225,000	211,658
				440,000	**443,571**	**450,000**	**458,017**

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

Nominal interest rates

	Average for the year ended June 30, 2014			Average for the year ended June 30, 2013		
	Base rate	Margin	Total rate	Base rate	Margin	Total rate
Sojitz loan facility	0.38%	5.25%	5.63%	0.61%	4.62%	5.23%
Mt Kellett convertible bonds	2.75%	-	2.75%	2.75%	-	2.75%

25. Employee benefits

	As at June 30,	
In A$'000	2014	2013
Provision for annual leave	1,731	1,611
Provision for long service leave	592	375
Other	705	1,871
Total employee benefits	**3,028**	**3,857**
Current	2,733	3,650
Non-current	295	207
Total employee benefits	**3,028**	**3,857**

26. Provisions

In A$'000	Restoration and rehabilitation	Onerous contracts	Total
Balance at the beginning of the year	40,865	16,520	57,385
Provisions made during the year	10,468	13,667	24,135
Provision utilised during the year	-	(15,803)	(15,803)
Effect of discounting	833	-	833
Balance at June 30, 2014	**52,166**	**14,384**	**66,550**
Current	-	10,210	10,210
Non-current	52,166	4,174	56,340
Total provisions at June 30, 2014	**52,166**	**14,384**	**66,550**
Current	-	16,520	16,520
Non-current	40,865	-	40,865
Total provisions at June 30, 2013	**40,865**	**16,520**	**57,385**

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 established 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. Subsequent to the commencement of commissioning of Phase 2 of the LAMP in Malaysia in the June 2014 financial year, an independent assessment of site rehabilitation and restoration was performed which resulted in the Group increasing this provision to $27.5 million. 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 remains unchanged from June 30, 2013.

For the provision at the LAMP, a corresponding increase in property plant and equipment has been recognised on the Group's balance sheet. Reference should be made to notes 21 and 22 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, 2014 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 unpaid value of materials not delivered under the agreement through to June 30, 2014.

27. Equity and reserves

27.1 Share capital

	As at June 30,			
	2014		2013	
	Number of shares '000	A$'000	Number of shares '000	A$'000
Balance at the beginning of the year	1,960,801	994,645	1,715,029	823,161
Issue of shares pursuant to Institutional Share Placement ("ISP")	106,195	12,000	200,000	150,000
Issue of shares pursuant to Share Purchase Plan ("SPP")	266,181	30,079	44,642	25,000
Issue of shares pursuant to option conversion	484	16	1,130	226
Equity raising costs	-	(2,106)	-	(5,244)
Deferred tax on equity raising costs	-	-	-	1,502
Balance at June 30	**2,333,661**	**1,034,634**	**1,960,801**	**994,645**

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 31.

27.2 Reserves

In A$'000	As at June 30, 2014	2013
Equity settled employee benefits	34,274	35,128
Foreign currency translation	(19,432)	883
Other	28,743	28,743
Balance at June 30	**43,585**	**64,754**

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 31.

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 other reserve represents the equity component of the US$225 million unsecured Mt Kellett convertible bonds issued in 2012, net of the associated deferred tax (see note 24).

27.3 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$'000	As at June 30, 2014	2013
Net loss attributed to ordinary shareholders (in A$'000)	(345,488)	(143,555)
Loss used in calculating basic and diluted loss per share (in A'$000)	**(345,488)**	**(143,555)**
Number of shares (No'000)		
Weighted average number of ordinary shares used in calculating basic loss per share:	1,992,714	2,799,865
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	53,495	72,485
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.	218,870	186,515
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share	**1,992,714**	**2,799,865**
Basic loss per share (cents per share)	(17.34)	(5.13)
Diluted loss per share (cents per share)	(17.34)	(5.13)

2013 EPS has been restated to take account the extra shares issued arising from 2014 equity raisings.

27.4 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.

28. Financial risk management

28.1 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.

28.2 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, 2014			
Cash and cash equivalents	428	1,123	**1,551**
Trade and other receivables	-	7,554	**7,554**
Trade and other payables	-	(4,264)	**(4,264)**
Total exposure	**428**	**4,413**	**4,841**
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)**

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, 2014		
Net asset exposure – local currency	1,616,364	931,287
June 30, 2013		
Net asset exposure – local currency	2,147,429	975,255

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,	
	2014	2013	2014	2013
USD	0.9119	1.0212	0.9419	0.9133
MYR	2.9514	3.1375	3.0247	2.8826

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, 2014		Increase/(Decrease) in Profit After Tax For the year ended June 30, 2013	
	10 % Strengthening	10% Weakening	10% Strengthening	10% Weakening
USD	815	(815)	(1,128)	1,128
AUD	279	(279)	532	(532)

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, 2014		Increase/(Decrease) in FCTR For the year ended June 30, 2013	
	10 % Strengthening	10% Weakening	10% Strengthening	10% Weakening
USD	60,283	(60,283)	59,092	(59,092)
MYR	53,349	(53,349)	74,496	(74,496)

(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, 2014						
Fixed rate instruments						
Loans and borrowings	-	-	-	-	-	-
Mt Kellett convertible bonds	(238,879)	-	-	-	(238,879)	-
Total fixed rate instruments	**(238,879)**	**-**	**-**	**-**	**(238,879)**	**-**
Floating rate instruments						
Cash and cash equivalents	38,144	38,144	-	-	-	-
Other non-current assets	4,737	4,737	-	-	-	-
Sojitz loan facility	(228,262)	(228,262)	-	-	-	-
Total variable rate instruments	**(185,381)**	**(185,381)**	**-**	**-**	**-**	**-**
Total	**(424,260)**	**(185,381)**	**-**	**-**	**(238,879)**	**-**
June 30, 2013						
Fixed rate instruments						
Loans and borrowings						
Mt Kellett convertible bonds	(246,359)	-	-	-	(246,359)	-
Total fixed rate instruments	**(246,359)**	**-**	**-**	**-**	**(246,359)**	**-**
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	**(337,240)**	**(90,881)**	**-**	**-**	**(246,359)**	**-**

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.

	For the year ended 30 June	
In A$'000	**2014**	**2013**
50 basis point parallel increase in interest rates	(927)	(454)
50 basis point parallel decrease in interest rates	927	454

(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.

28.3 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 trade and other receivables and is influenced mainly by the individual characteristics of each customer. Demographically there are no material concentrations of credit risk.

28.4 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, 2014							
Non-derivative financial liabilities							
Trade and other payables	N/A	(32,888)	(32,888)	-	-	-	
Loans and borrowings							
Sojitz loan facility	5.58%	244,560	-	43,536	127,424	73,600	-
Mt Kellett convertible bonds	(1)	253,330	-	1,806	5,419	246,105	-
Total		**465,002**	**(32,888)**	**45,342**	**132,843**	**319,705**	**-**
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	(1)	268,716	-	1,863	5,589	261,264	-
Total		**578,694**	**34,297**	**8,879**	**23,399**	**512,119**	**-**

(1) 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.

Refer to notes 2.2, 24 and 37 with respect to the events subsequent to June 30, 2014 which address the Group's year end liquidity requirements.

28.5 Classification and fair values

In A$'000	**Fair value through the profit and loss**	**Available for sale**	**Cash, loans & receivables**	**Other liabilities**	**Total carrying amount**	**Total fair value**
June 30, 2014						
Assets						
Cash and cash equivalents	-	-	38,144	-	38,144	38,144
Trade and other receivables	-	-	13,479	-	13,479	13,479
Current tax receivable	-	-	(15)	-	(15)	(15)
Investments	-	-		-		
Other assets	-	-	11,042	-	11,042	11,042
Total assets	-	-	62,650	-	62,650	62,650
Liabilities						
Trade and other payables	-	-	-	(34,573)	(34,573)	(34,573)
Loans and borrowings:	-	-	-	-	-	-
Sojitz loan facility	-	-	-	(228,262)	(228,262)	(228,262)
Mt Kellett convertible bonds	-	-	-	(215,309)	(215,309)	(215,309)
Total liabilities	-	-	-	(478,144)	(478,144)	(478,144)
June 30, 2013						
Assets						
Cash and cash equivalents	-	-	141,371	-	141,371	141,371
Trade and other receivables	-		5,711		49	49
Current tax receivable	-	-	49	-	5,711	5,711
Investments	-	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)
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)**

The Group did not have any financial assets or financial liabilities classified as fair value through profit or loss at June 30, 2014 (June 30, 2013: none).

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

28.6 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, 2014, the Group did not hold any available for sale financial assets (June 30, 2013: $1.8 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, 2014 (June 30, 2013: none).

29. Related parties

29.1 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 30 June	
In A$	2014	2013
Short-term employee benefits	5,748,587	4,894,174
Post-employment benefits	304,893	204,174
Other long-term benefits	13,452	-
Termination benefits	1,239,189	953,516
Share-based payments	217,003	1,047,358
Total compensation paid to key management personnel	**7,523,124**	**7,099,222**

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

The Share-based payments amount 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 from 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.

29.2 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.

30. Group entities

Name of Group entity	Principal activity	Country of incorporation	Ownership interest as at June 30, 2014	2013
Lynas Malaysia Sdn Bdh	Operation and 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 34. Entity is also a member of the tax-consolidated group.

31. 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 transferrable.

Options and performance rights are granted for the benefit of 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 Executive Director of the Group and the Executive. At year end, the Executive includes, the Chief Executive Officer ("CEO"), the Chief Operating Officer ("COO"), the Chief Financial Officer ("CFO"), the Group's General Counsel and Company Secretary, the Executive Vice President People and Culture, and the Executive Vice President Corporate Affairs.

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.

31.1 Movements in share options and performance rights during the year

	For the year ended June 30, 2014		For the year ended June 30, 2013	
	Number of options ('000)	Weighted average exercise price ($)	Number of options ('000)	Weighted average exercise price ($)
Balance at beginning of year	72,485	0.87	83,029	0.92
Granted during the year	7,439	0.00	4,122	0.37
Expired during the year	(18,000)	0.70	(665)	-
Exercised during the year	(484)	0.03	(1,130)	0.20
Forfeited during the year	(12,404)	1.56	(12,871)	1.09
Balance at end of year	**49,035**	**0.81**	**72,485**	**0.87**
Exercisable at end of year	38,769	0.83	42,800	0.68

During the year ended June 30, 2014 the Group recognised a net benefit of $0.9 million within the profit and loss component of the statement of comprehensive income (2013: net expense $1.1 million). The net benefit during the year ended June 30, 2014 included the reversal of expenses totalling $3.1 million associated with the forfeitures of 50% of the outstanding options and performance rights issued on September 23 and 25, 2011 and December 12, 2011 as well as 50% of the specific performance rights issued on June 6, 2011 and September 22 and 25, 2011. These forfeitures were resulting from the Group not achieving specified production targets (non-market vesting condition).

31.2 Options and performance rights exercised during the year

The following share options were exercised during year ended June 30, 2014:

Exercise date	Number exercised	Share price at exercise date ($)	Exercise price ($)
17.09.13	100,000	0.42	-
17.09.13	50,000	0.42	-
17.09.13	75,000	0.42	-
17.09.13	25,000	0.42	-
26.09.13	9,302	0.41	-
6.11.13	100,000	0.37	0.16
24.03.14	25,000	0.21	-
16.05.14	100,000	0.12	-
	484,302		

31.3 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 $0.78 (2013: $0.87) and a weighted average remaining contractual life of 497 days (2013: 607 days).

31.4 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, 2014 with respect to the performance of the Group's employees during the financial year ended June 30, 2013:

	Vesting schedule	For grants made in FY2014 (related to FY13 performance)
TSR hurdle (50%) (performance against ASX 200 companies)	50% of the TSR portion will vest for:	51st percentile performance
	100% of the TSR portion will vest for:	76th percentile performance
	Pro-rata vesting will occur between each of the above points	
RFT hurdle (50%) (consistency of production measured in calendar year 2015)	**Vesting schedule**	**For grants made in FY2014 (related to FY13 performance)**
	50% of the RFT portion will vest for:	If the RFT is 85% or more, and less than 90%
	100% of the RFT portion will vest for:	If the RFT is 90% or more, and less than 92%
	Additional 20% of the RFT portion, giving a total of 120% of the RFT portion:	If the RFT is 92% or more

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 $394,676 (2013:$427,550). Options were priced using a Monte Carlo 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 V	Option Series W	Option Series X	Option Series Y
Grant date share price ($)	$0.41	$0.41	$0.41	$0.41
Exercise Price ($)	-	-	-	-
Dividend yield	Nil	Nil	Nil	Nil
Expected volatility	64.6%	64.6%	64.6%	64.6%
Risk-free interest rate	3.18%	3.18%	3.18%	3.18%
Life of Option	5 years	5 years	5 years	5 years

31.5 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
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*	229,309	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*	140,000	June 6, 2014	June 6, 2016	$ 0.00	$ 2.30
N	November 30, 2011	2,000,000	September 22, 2014	September 22, 2016	$ 1.69	$ 0.40
O	September 23, 2011	1,072,500	September 22, 2014	September 22, 2016	$ 1.69	$ 0.55
Q	September 22, 2011*	4,651	September 22, 2014	September 22, 2016	$ 0.00	$ 1.41
R	September 22, 2011*	382,500	September 22, 2014	September 22, 2016	$ 0.00	$ 1.34
S	December 12, 2011	1,000,000	December 12, 2014	December 12, 2016	$ 1.57	$ 0.51
T	September 25, 2012	755,287	September 24, 2015	September 24, 2017	$ 1.02	$ 0.26
U	September 25, 2012*	551,143	September 24, 2015	September 24, 2017	$ 0.00	$ 0.72
V	September 23, 2013*	793,038	September 23, 2016	September 23, 2018	$ 0.00	$ 0.41
W	September 23, 2013*	2,022,146	September 23, 2016	September 23, 2018	$ 0.00	$ 0.41
X	September 23, 2013*	1,685,121	September 23, 2016	September 23, 2018	$ 0.00	$ 0.31
	Total	**49,035,695**				

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

32. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	As at June 30,	
In A$'000	2014	2013
Less than one year	3,503	5,230
Between one and five years	9,517	12,271
More than five years	7,125	6,918
Total	**20,145**	**24,419**

During the year ended June 30, 2014, $5.0 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 (2013: $4.6 million).

The Group has contracts for several operating leases for business premises located in Sydney, Perth, Laverton, Kuala Lumpur and Kuantan. The Group also has several operating leases for motor vehicles and mobile plant and equipment.

33. Capital commitments

There were no outstanding commitments which are not disclosed in the consolidated financial report of the Group as at June 30, 2014 other than:

Exploration commitments

	As at June 30,	
In A$'000	2014	2013
Less than one year	311	304
Between one and five years	1,203	1,229
More than five years	3,039	3,366
Total	**4,553**	**4,899**

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	2014	2013
Less than one year	436	2,388
Total	**436**	**2,388**

At June 30, 2014 capital commitments relate to on-going capital project costs in Malaysia. All remaining Phase 1 and Phase 2 retention costs in Malaysia and Mt Weld are fully accrued at year-end.

Other commitments

	As at June 30,	
In A$'000	2014	2013
Less than one year	8,822	13,084
Between one and five years	34,769	38,322
More than five years	-	-
Total	**43,591**	**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 $3.0 million (2013: $3.3 million) to the Malaysian government's AELB, refer to note 20.

34. 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 30.

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, 2014	2013
Assets		
Cash and cash equivalents	33,328	139,677
Trade and other receivables	7,849	1,687
Inventories	30,126	37,463
Total current assets	**71,303**	**178,827**
Inventories	8,976	11,856
Property, plant and equipment	114,339	123,632
Deferred exploration, evaluation and development expenditure	46,857	47,654
Intangible assets – software	286	337
Available for sale financial assets	-	1,802
Investments in subsidiaries	375,094	375,080
Other assets	672,103	565,759
Total non-current assets	**1,217,655**	**1,126,120**
Total assets	**1,288,958**	**1,304,947**
Liabilities		
Trade and other payables	(12,658)	(11,094)
Borrowings	(122,094)	(10,949)
Deferred income	-	(5,420)
Employee benefits	(4,992)	(1,720)
Total current liabilities	**(139,744)**	**(29,183)**
Trade and other payables	(52)	-
Provisions	(24,681)	(24,472)
Employee benefits	(295)	(204)
Borrowings	(321,477)	(447,068)
Total non-current liabilities	**(346,505)**	**(471,744)**
Total liabilities	**(486,249)**	**(500,927)**
Net assets	**802,709**	**804,020**
Equity		
Share capital	1,034,634	994,645
Retained earnings (accumulated deficit)	(307,763)	(272,662)
Reserves	75,838	82,037
Total equity	**802,709**	**804,020**

Statement of comprehensive income

In A$'000	For the year ended June 30, 2014	2013
Revenue	57,175	10,863
Cost of sales	(46,976)	(9,146)
Gross Profit	**10,199**	**1,717**
Other income	20,398	9,795
Impairment reversal (impairment) of intercompany balances	(9)	(2,592)
General and administration expenses	(33,084)	(60,689)
Other expenses	(123)	(1,327)
Profit (loss) from operating activities	**(2,619)**	**(53,096)**
Financial income	1,799	4,914
Financial expenses	(33,918)	(11,546)
Net financial income (expenses)	**(32,119)**	**(6,632)**
Profit (loss) before income tax	**(34,738)**	**(59,728)**
Income tax benefit (expense)	(363)	(2,547)
Profit (loss) for the year from continuing operations	**(35,101)**	**(62,275)**
Other comprehensive income, net of income tax		
Exchange differences on translating foreign operations	5,344	13,307
Gain (loss) on available for sale financial assets	-	(865)
Total other comprehensive profit (loss) for the year, net of income tax	5,344	12,442
Total comprehensive income (loss) for the year	**(29,757)**	**(49,833)**

35. Company entity information

In A$'000	As at June 30, 2014	2013
Current assets	5,432	24,427
Total assets	**1,415,298**	**1,445,777**
Current liabilities	(88,154)	(14,631)
Total liabilities	**(446,790)**	**(461,701)**
Net assets	**968,508**	**984,076**
Share capital	1,034,634	994,645
Retained earnings (accumulated deficit)	(189,560)	(152,356)
Reserves	123,434	141,787
Total shareholders' equity	**968,508**	**984,076**

In A$'000	For the year ended June 30, 2014	2013
Profit (loss) of the Company	(37,204)	(9,282)
Total comprehensive income (loss) of the parent Company	**(37,204)**	**(10,147)**

36. 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 24.

37. Subsequent events

On September 2, 2014 the Atomic Energy Licensing Board issued Lynas with a Full Operating Stage License (FOSL) for the Lynas Advanced Materials Plant (LAMP), renewable on September 2, 2016.

Full details of the Group's material debt facilities are set out in note 24 of this financial report and include both the Sojitz debt facility as well as the Mt Kellett convertible bonds.

As set out in that note on September 24, 2014 the parties to the Sojitz debt facility have amended the loan by signing a binding Term Sheet which takes effect from September 30, 2014.

The key amendments to the Sojitz debt facility under the binding Term Sheet are set out in that note and include an amended principal repayment schedule.

In conjunction with these new agreed Sojitz debt facility terms, the Group plans to complete an equity raising, by way of placement and a rights issue, to be underwritten primarily by investors who specialise in the energy and industrial sectors, for a total of approximately $83 million (before cash transaction costs).

The Group requires this additional equity to meet the amended principal repayments due under the Sojitz debt facility, particularly the next payment for US$10 million which is due under the binding Term Sheet no later than October 15, 2014, as well as to ensure it has the funding required to allow the Group to restructure its cost base and for general liquidity headroom purposes.

The directors and management, having obtained a signed underwriting agreement, are confident that there are reasonable grounds to believe that the additional equity funding will be obtained in a timely manner over the course of October 2014 to satisfy both the Group's cash requirements and meet the next US$10 million Sojitz principal repayment due no later than October 15, 2014.

With the exception of the above, there have been no other events subsequent to June 30, 2014 that would require accrual or disclosure in this financial report.

MINERAL RESOURCES AND ORE RESERVES AS AT 30 JUNE 2014

1. CENTRAL LANTHANIDE DEPOSIT ORE RESERVES

The ore reserve estimation for the Central Lanthanide Deposit is shown in Table 1

TABLE 1: CLASSIFICATION OF ORE RESERVES FOR THE CENTRAL LANTHANIDE DEPOSIT

ORE RESERVES WITHIN DESIGNED PIT CATEGORY	MILLION TONNES	REO (%)*	CONTAINED REO ('000 TONNES)
Proved	4.9	12.7	620
Probable	4.1	10.0	410
Designed Pit Total	9.0	11.5	1,030
Ore Reserves On Stockpiles Category			
Proved	0.7	15.2	100
Probable	0.0	0	0
Stockpiles Total	0.7	15.2	100
Total Ore Reserves Category			
Proved	5.6	13.0	730
Probable	4.1	10.0	400
Total	9.7	11.7	1,130

* REO (%) includes all lanthanide element oxides and ytrrium oxide

Note: The ore reserve estimation for the Central Lanthanide Deposit is as per ASX announcement 21 September 2012 with a minor adjustment for depletion of stockpiles- the company confirms that all material assumptions and technical parameters underpinning the estimated mineral resources and ore reserves continue to apply and have not materially changed.

2. CENTRAL LANTHANIDE DEPOSIT MINERAL RESOURCES

The mineral resource estimation for the Central Lanthanide Deposit is shown in Table 2

TABLE 2: CLASSIFICATION OF MINERAL RESOURCES FOR THE CENTRAL LANTHANIDE DEPOSIT

CENTRAL LANTHANIDE DEPOSIT CATEGORY	MILLION TONNES	REO (%) *
Measured	6.8	12.1
Indicated	7.0	8.1
Inferred	1.1	4.6
Total	14.8	9.7

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

Note: The mineral resource estimation for the Central Lanthanide Deposit is as per ASX announcement 18 January 2012 with a minor adjustment for depletion of stockpiles- the company confirms that all material assumptions and technical parameters underpinning the estimated mineral resources continue to apply and have not materially changed.

The mineral resource estimation for the Central Lanthanide Deposit is inclusive of the ore reserve estimation.

3. DUNCAN DEPOSIT MINERAL RESOURCES

The mineral resource estimation for the Duncan Deposit is shown in Table 3

TABLE 3: CLASSIFICATION OF MINERAL RESOURCES FOR THE DUNCAN DEPOSIT

DUNCAN DEPOSIT CATEGORY	MILLION TONNES	REO (%) *
Measured	4.5	5.1
Indicated	3.9	4.7
Inferred	0.6	3.7
Total	9.0	4.8

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

Note: The mineral resource estimation for the Duncan Deposit is as per ASX announcement 18 January 2012- the company confirms that all material assumptions and technical parameters underpinning the estimated mineral resources continue to apply and have not materially changed.

4. NIOBIUM RICH RARE METALS MINERAL RESOURCES

The mineral resource estimation for the niobium rich rare metals prospect referred to as the Rare Metals Project is shown in Table 3. The Rare Metals Project is located at Mt Weld.

TABLE 4: CLASSIFICATION OF MINERAL RESOURCES FOR THE RARE METALS PROJECT

CATEGORY	MILLION TONNES	TA2O5%	NB2O5%	TLNO	ZRO	P2O5	Y2O3	TIO2
Measured	0	0	0	0	0	0	0	0
Indicated	1.5	0.037	1.4	1.65	0.32	8.9	0.1	5.8
Inferred	36.2	0.024	1.06	1.14	0.3	7.96	0.09	3.94
Total	37.7	0.024	1.07	1.16	0.3	7.99	0.09	4.01

* All figures are percentages, Ta2O5 tantalum oxide, Nb2O5 niobium oxide, TLnO total rare earth oxide, ZrO2 zirconia, P2O5 phosphate, Y2O3 yttria, TiO2 titanium oxide.

Note: The mineral resource estimation for the niobium rich rare metals is as per ASX announcement 6 October 2004- the company confirms that all material assumptions and technical parameters underpinning the estimated mineral resources continue to apply and have not materially changed.

Note on governance arrangements and internal controls: All Lynas mineral resource and ore reserve estimations are managed by an experienced competent person employed by Lynas. The competent person employed by Lynas ensures all aspects of the mineral resource and ore reserve estimations meet the JORC code requirements. In addition, in the past, Lynas has engaged experienced third parties to review specific aspects of its mine plan and ore reserve estimations.

COMPETENT PERSON'S STATEMENT

The Mineral Resources and Ore Reserves Statement in this report is based on, and fairly represents, information and supporting documentation prepared 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Brendan Shand consents to the inclusion in this report of the matters based on his information and supporting documentation in the form and context in which it appears.

ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report. The information is current as at 6 October 2014.

(a) DISTRIBUTION OF ORDINARY SHARES

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

Ordinary shares

HOLDINGS RANGES	HOLDERS	NUMBER OF SHARES	PERCENTAGE OF SHARES
1 – 1,000	4,440	2,768,825	0.111
1,001 – 5,000	9,754	29,078,307	1.171
5,001 – 10,000	5,587	44,588,002	1.795
10,001 – 100,000	12,303	423,777,590	17.062
100,001 – 99,999,999,999	2,672	1,983,588,842	79.861
TOTALS	**34,756**	**2,483,801,566**	**100.000**
The number of shareholders holding less than a marketable parcel of shares		15,612	40,119,087

(b) DISTRIBUTION OF OPTIONS/PERFORMANCE RIGHTS

The number of holders, by size of holding, in each class of unlisted options are:

	VARIOUS DIRECTORS AND EMPLOYEES
1 – 1,000	
1,001 – 5,000	3
5,001 – 10,000	5
10,001 – 100,000	33
100,00 and over	17
TOTAL	**58**

(c) TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of quoted shares are:

	SHARES	LISTED ORDINARY	
		NO. OF SHARES	% OF SHARES
1	JP MORGAN NOMINEES AUSTRALIA LIMITED	400,662,067	16.132
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	261,721,044	10.537
3	CITICORP NOMINEES PTY LIMITED	121,828,462	4.905
4	NATIONAL NOMINEES LIMITED	99,490,323	4.006
5	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	75,129,552	3.025
6	NEWECONOMY COM AU NOMINEES PTY LTD <900 ACCOUNT>	29,115,730	1.172
7	DYNAMIC SUPPLIES INVESTMENTS PTY LTD	20,500,000	0.825
8	3RD WAVE INVESTORS LTD	20,132,743	0.811
9	BNP PARIBUS NOMS PTY LTD <DRP>	16,053,268	0.646
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2>	13,916,516	0.560
11	DMG & PARTNERS SECURITIES PTE LTD <CLIENTS A/C>	13,819,663	0.556
12	ECAPITAL NOMINEES PTY LIMITED <SETTLEMENT A/C>	12,702,417	0.511
13	ROVER INVESTMENTS PTY LTD <CRANFIELD FAMILY A/C>	11,000,000	0.443
14	JAPAN AUSTRALIA RARE EARTHS BV	10,972,275	0.442
15	MR COGLIN YUE	10,600,000	0.427
16	LANDO PTY LTD	9,050,000	0.364
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 3	8,323,059	0.335
18	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	8,214,014	0.331
19	NEFCO NOMINEES PTY LTD	7,859,926	0.316
20	TLG TRADING PTY LTD	7,250,000	0.292
	TOTAL	**1,158,361,059**	**46.636**

(d) SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations 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

	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	ML38/98	100
Kangankunde Rare Earths Project		
Kangankunde, Malawi	ML0122/2003	100

Lynas
CORPORATION LTD

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