Appendix 4D (Listing Rule 4.2A.3)

Lynas Rare Earths Ltd (*ACN 009 066 648)*
And Controlled Entities

For the half year ended 31 December 2020

Reporting Period: Half year ended 31 December 2020

Comparative Reporting Period: Half year ended 31 December 2019

Results for announcement to market

In AUD (000's)	31 December 2020	31 December 2019	Change	% Change
Revenue from ordinary activities	202,474	180,120	22,354	12.4%
Earnings before interest, tax, depreciation, amortisation and treasury charges (EBITDA)	80,619	44,214	36,405	82.3%
Profit from ordinary activities after tax attributable to members.	40,606	3,888	36,718	944.4%
Net profit for the period attributable to members	40,606	3,888	36,718	944.4%

Dividend Information

No dividends have been paid or proposed at 31 December 2020.

Net Tangible Assets

	31 December 2020 (cents)	31 December 2019 (cents)
Net Tangible Assets per share	106.98	79.40

Lynas
Rare Earths Ltd

ACN 009 066 648

and

Controlled Entities

Interim Unaudited Consolidated Financial Report

For the half year ended 31 December 2020

Corporate Directory Information

ABN 27 009 066 648

Directors

Kathleen Conlon
Amanda Lacaze
Philippe Etienne
John Humphrey
Grant Murdoch
Vanessa Guthrie

Company Secretaries

Andrew Arnold
Ivo Polovineo
Sarah Leonard (effective 27 January 2021)

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Auditors

Ernst & Young
11 Mounts Bay Road
Perth WA 6000

Internet Address

www.lynascorp.com

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Directors' Report

The Board of Directors (the "Board" or the "Directors") of Lynas Rare Earths Limited (the "Company") and its subsidiaries (together referred to as the "Group") submit their report for the half year ended 31 December 2020.

Directors

The names and details of the Company's Directors who were in office during or since the end of the half year and until the date of this report are outlined below. All Directors were in office for this entire period unless otherwise stated.

Kathleen Conlon	Non-Executive Chair (Appointed to Chair 1 October 2020)
Mike Harding	Non-Executive Chair (Resigned 30 September 2020)
Amanda Lacaze	Managing Director
Philippe Etienne	Non-Executive Director
John Humphrey	Non-Executive Director
Grant Murdoch	Non-Executive Director
Vanessa Guthrie	Non-Executive Director (Appointed 1 October 2020)

Review of operations

Financial Highlights

During the half year, Lynas has delivered a significant uplift in profit on the prior corresponding period as a result of increased sales revenue and continuing strong cost control.

	1H 21	1H 20	Movement	
	$m	$m	$m	%
Sales Revenue	202.5	180.1	22.4	12%
Cost of Sales	(150.8)	(151.6)	0.8	(1%)
Gross Profit	**51.7**	**28.5**	**23.2**	**81%**
Net Profit after tax	**40.6**	**3.9**	**36.7**	**941%**

Note: The calculation of percentage movements may vary due to rounding.

	31 Dec 20	30 June 20	Movement	
	$m	$m	$m	%
Cash and short- term deposits	512.6	101.8	410.8	404%
Net Assets	**964.4**	**518.4**	**446.0**	**86%**
Market Capitalisation	**3,586.3**	**1,262.1**	**2,324.2**	**184%**

An equity raise of $425m (less $11m equity raising costs) was completed in September 2020. Funding from this will be used to fund the foundational Lynas 2025 projects, primarily the construction of the Kalgoorlie Rare Earths Processing plant.

Broader recognition of Rare Earth growth prospects, Lynas' unique market position and improved business performance resulted in a significant uplift in market capitalisation during the half year.

Lynas 2025 Project Highlights

Mt Weld

Exploration at Mt Weld identified potential REE mineralisation below the current Mt Weld Rare Earths pit (announced 26 November 2020).

Kalgoorlie

Continued progress on the planned Kalgoorlie Rare Earth Facility:

- Sublease signed with the City of Kalgoorlie Boulder and General Purpose Lease obtained under the Mining Act for the site of the Kalgoorlie Rare Earth Processing Facility.
- Progress on approvals includes confirmation from Australian Department of Agriculture, Water & the Environment that the Kalgoorlie Rare Earth Processing Facility is not a controlled action under the EPBC Act.
- The project will be regulated by WA state regulators and following the submission of the Section 38 referral to the EPA (Environmental Protection Authority of Western Australia), the EPA has set the level of assessment for the project as "Assessment on Referral Information with additional Information". This level of assessment is similar to that set for other recent critical minerals downstream processing projects.
- Procurement of key long lead time equipment continued including large pressure filters, agitators, steel and rubber lined tanks, FRP tanks and spray tower.
- Kiln fabrication is underway and on schedule.

Lynas Rare Earths

Lynas USA

Lynas has now received 2 separate funding grants from the United States Government:

1. Phase 1 Funding for the development of a US based Heavy Rare Earths (HRE) separation facility (announced 27 July 2020). Detailed planning and design work is progressing with this work expected to be completed in the 2021 financial year, in line with U.S. Department of Defense Phase 1 milestones.
2. As noted in the Subsequent Events section, on 22 January 2021, Lynas announced an agreement with the United States Government to jointly fund the construction and development of a commercial Light Rare Earths separation plant in the United States.

Financial and Operational Performance

Revenue and Sales Volumes

Sales by tonnage and value		**1H 21**	1H 20	2H 20	**FY20**
Sales volume	**(REOt)**	8,551	**7,693**	6,479	**14,172**
Cash receipts from customers	**(A$m)**	140.0	**179.2**	142.6	**321.8**
Sales revenue	**(A$m)**	202.5	**180.1**	125.0	**305.1**
Average selling price	**(A$/kg)**	23.7	**23.4**	19.2	**21.5**

Strong sales results were achieved both in terms of sales volumes and prices, particularly in the December quarter when Lynas achieved record quarterly sales revenue. NdPr demand recovery and supply stabilization supported a 31% increase in NdPr prices during the quarter. In addition, Dy prices increased by 18% during the quarter and Tb prices increased by 48%, supporting the sales of our mixed Rare Earths, SEG. Average Selling Price was also favoured by an improved product and customer mix, including a growing portion of Ce-La based customized products developed over the past several years.

Shipping availabilities became more limited around the world, leading to delays in some shipments which in turn delayed some cash collection from revenue generated in the December quarter.

Market Prices

The average China domestic price of NdPr (VAT excluded) increased to US$55.5/kg in December 2020, compared to US$35.9/kg in December 2019.

It is still premature to make a full assessment of global demand for Rare Earths as the impact of COVID-19 on demand in different market segments has not yet stabilized. However, the Rare Earth market appears to have been less affected by the crisis than some markets. Electric car penetration appears to be accelerating in Europe and Asia (primarily China) which more than compensates for the overall year-on-year decrease in the global car sales of approximately 14% (IEA). The IEA's preliminary estimate is for 40% growth in global sales of electric vehicles in 2020 compared to 2019, to reach a market share of 4%[1]. According to the IEA, wind energy capacity grew by 8% in 2020, despite COVID-19 disruptions[2].

Lynas continues to focus on serving customer demand and supporting development of the markets outside China. In addition, Lynas is making excellent progress towards our objective of selling all production to Rest of World markets.

Costs and Production Volumes

Costs by tonnage and value		**1H 21**	**1H 20**	**2H 20**	**FY20**
Ready for sale production volume total	**(REOt)**	7,520	7,518	7,044	**14,562**
Ready for sale production volume NdPr	**(REOt)**	2,709	2,512	2,144	**4,656**
Cost of sales	**(A$m)**	(150.8)	(151.6)	(105.7)	**(257.3)**
Sales volume total	**(REOt)**	8,551	7,693	6,479	**14,172**
Average cost of sales per REOt sold	**(A$/kg)**	17.6	19.7	16.3	**18.2**

Throughout the half year, the Lynas Malaysia advanced materials plant continued to operate at approximately 75% of Lynas NEXT production rates (equivalent to original nameplate capacity). This remains sufficient to meet key customer demand, while maintaining new COVID related health and safety protocols for our people and local communities. As a consequence of the COVID-19 related temporary production halt in early Calendar Year 2020 (CY20) and our decision to produce at 75% of Lynas NEXT rates during the remainder of CY20, Lynas Malaysia did not require regulatory approval for an uplift in the lanthanide concentrate processing limit for CY20.

[1] https://www.iea.org/commentaries/how-global-electric-car-sales-defied-covid-19-in-2020

[2] https://www.iea.org/fuels-and-technologies/wind

Cash and Cash flows

In A$m	1H 21	2H 20
Net operating cash inflows	23.3	39.1
Net investing cash outflows	(214.8)	(23.9)
Net financing cash inflows / (outflows)	408.9	6.5
Net cash flows	**217.4**	**21.7**
Cash and cash equivalents	312.6	111.8
Short term deposits	200.0	-

The equity raising completed in September 2020 resulted in net proceeds of $413.9m (approximately $425m less equity raising costs). Operating cash flows were down on the previous half year, however strong sales in December 2020 were not receipted until January 2021. Net investing cash outflows included the initial payments for property plant and equipment in relation to the Lynas Kalgoorlie project as well as $200.0m of cash transferred into short term deposits.

At 31 December 2020, in addition to the $312.6m in cash and cash equivalents, $200.0m was held in short term deposits.

Debt and Capital

		1H 21	1H 20	2H 20	FY20
JARE loan	**(A$m)**	163.7	177.7	181.2	**181.2**
Convertible bonds	**(A$m)**	-	18.8	17.8	**17.8**
Total		**163.7**	**196.5**	**199.0**	**199.0**
Interest income	**(A$m)**	1.3	1.6	1.1	**2.7**
Financial expenses	**(A$m)**	(6.7)	(8.1)	(7.5)	**(15.6)**

On 3 August 2020, bondholders converted the remaining US$12.2m (A$16.4m) convertible bonds which resulted in an additional 16.2m shares being issued. As a result of these conversions, the remaining liability in respect to the convertible bonds has been fully extinguished.

No principal repayments were made on the JARE loan facility during the period. The facility is denominated in US$, and the principal amount of the loan was unchanged during the half year. The A$ equivalent present value of the loan decreased due to exchange rate movements over the period, offset slightly by the accretion of interest resulting in an overall reduction in carrying value at 31 December 2020.

The financial expenses have decreased as a result of lower interest expense based on the full conversion of convertible bonds in August 2020.

Capital structure

During the half year ended 31 December 2020, the Company issued shares as shown below:

	Number (000's)
Shares on issue 30 June 2020	699,209
Issue of shares pursuant to equity raising	184,923
Issue of shares pursuant to exercised convertible bonds	16,203
Issue of shares pursuant to exercised performance rights	744
Shares on issue 31 December 2020	**901,079**

Performance rights

As at 31 December 2020, the Company had the following options and performance rights on issue:

	Number (000's)
Performance rights	4,824

Earnings per share

For the half year ended 31 December	2020	2019
Basic earnings per share (cents per share)	4.87	0.56
Diluted earnings per share (cents per share)	4.85	0.56

Dividends

There were no dividends declared or paid during the half year ended 31 December 2020 (2019: nil) and no dividends have been declared or paid since 31 December 2020.

Malawi operations

Since fiscal year 2012, no further capital investment has been made on the Kangankunde Rare Earths ("KGK") resource development in Malawi and the project remains on hold while the Malawi deposit remains the subject of an ongoing title dispute. As announced on January 22, 2019, the Malawi government has purported to cancel the Group's Malawi mining lease and the Group is initiating judicial review proceedings in the Malawi courts challenging that decision.

Health, Safety and Environment

Lynas is committed to ensuring the Group's operations in Australia and Malaysia are consistent with national and international safety and sustainability best practice. Lynas has established extensive processes to ensure that our operations are safe for employees, safe for the environment and community, and secure for our customers.

The 12-month rolling lost time injury frequency rate as at 31 December 2020 was 0.8 per million hours worked (June 2020: 0.8 per million hours worked). In addition, the 12-month total recordable injury frequency rate as at 31 December 2020 was 1.3 per million hours worked (June 2020: 3.5 per million hours worked).

Since October 2020, Malaysia has experienced a significant third wave of infections. We have reinforced and strengthened our well-established health and hygiene protocols in both Malaysia and Western Australia to protect the health and wellbeing of our people and communities. This includes communication and education, disclosure and reporting, testing, physical distancing, hygiene and precautionary isolation procedures.

Lynas cares for the communities in which we operate and we have increased our contributions to our local communities in Malaysia who have been affected by the recent flood event on the east coast of Malaysia and the pandemic.

The annual ISO audit was successfully completed for Lynas Malaysia during the period for recertification of ISO 9001:2015 (Quality Management) and ISO 14001:2015 (Environmental Management) as well as for ISO 45011:2018 which was a migration from OHSAS 18001:2007 (Occupational Health and Safety Management) standards. Both Lynas sites have been certified since 2012.

In line with our commitment to international environmental best practice, detailed environmental monitoring since the start of Lynas Malaysia's operations in Kuantan in 2012 has consistently demonstrated that Lynas Malaysia is compliant with regulatory requirements and international standards. Information concerning the Company's environmental monitoring programs, including monitoring data, is available at www.lynascorp.com.

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 has established an Audit and Risk Management Committee and a Health, Safety and Environment Committee.

FACTORS AND BUSINESS RISKS THAT AFFECT FUTURE PERFORMANCE

Lynas operates in a changing environment and is therefore subject to factors and business risks that will affect future performance. Set out below are the principal risks and uncertainties that could have a material effect on Lynas' future results from an operations and financial position. It is not possible to determine the likelihood of these risks occurring with any certainty. In the event that one or more of these risks materialise, Lynas' reputation, strategy, business, operations, financial condition and future performance could be materially and adversely affected. There may also be other risks that are currently unknown or are deemed immaterial, but which may subsequently become known and/or material. These may individually or in aggregate adversely affect Lynas.

1 Effects of COVID-19 and general economic conditions

In light of recent global macroeconomic events, including the effect of COVID-19, it is likely that some of the countries in which Lynas operates will experience an economic downturn of uncertain severity and duration. These economic disruptions could have a material adverse effect on Lynas' operating and financial position and performance and could affect the price of Lynas shares.

Additionally, the events relating to COVID-19 have resulted in significant market changes. The outbreak and its effects are rapidly evolving and outcomes are uncertain and dependent upon many factors beyond Lynas' control.

Many of the risks highlighted in further detail below may be heightened due to the effects of the COVID-19 pandemic. There continues to be considerable uncertainty as to the further short- and long-term impact of COVID-19 including in relation to governmental responses, international trade impacts, potential taxation changes, work stoppages, lockdowns, quarantines, travel restrictions and the impact on the global economy and share markets.

The potential effects of these possible outcomes on Lynas include:

- closure of and/or reduced capacity at Lynas' plants and facilities;
- delays or interruption in supply chains leading to an inability to secure or obtain raw materials, finished products or components, or to distribute products to customers;
- health outcomes for Lynas' employees or its customers' employees, which could result in the closure of a plant or facility for a period and could adversely affect the availability of technically equipped and qualified personnel needed to conduct certain operations;
- a reduction in processing of downstream products and production of end-products that utilize Lynas' Rare Earths or other industrial activity, leading to a decrease in demand for Lynas' Rare Earths;
- counterparty non-performance or claims under existing contractual arrangements;
- insolvency of counterparties (including customers);
- delays of projects with large associated capital spend, deferral of discretionary capital spend and impact on valuation of assets;
- disruptions to international trade resulting from policies developed by governments in response to COVID-19 or as a result of disputes or disagreements amongst governments on matters relating directly or indirectly to COVID-19.

2 Operational risks

2.1 Rare Earth prices

Lynas' revenue is affected by market fluctuations in Rare Earth prices. This is because the product prices used in the majority of Lynas' sales are calculated by pricing formulae that reference published pricing for various Rare Earths materials. The market price has been volatile in the past because it is influenced by numerous factors and events that are beyond the control of Lynas. These include:

- **Supply side factors:** Supply side factors are a significant influence on price volatility for Rare Earth materials. Supply of Rare Earth materials is dominated by Chinese producers. The Chinese Central Government regulates production via quotas and environmental standards. Over the past few years, there has been significant restructuring of the Chinese market in line with China Central government policy. However, periods of over supply or speculative trading of Rare Earths can lead to significant fluctuations in Rare Earth pricing.

- **Demand side factors:** Demand side factors are also a significant influence on price volatility for Rare Earth materials. Demand for end-products that utilise Lynas' Rare Earths including internal combustion vehicles, hybrid vehicles, electric vehicles and electronic devices fluctuates due to factors including global economic trends, regulatory developments and consumer trends.

- **Geopolitical factors:** Recently Rare Earths have been the focus of significant attention, including as a result of the recent trade tensions between the US and China.

The table below illustrates how China domestic prices of NdPr (excluding VAT) have moved since July 2019:

	NdPr China Domestic Price (VAT excluded)					
	Q2 FY21	Q1 FY21	Q4 FY20	Q3 FY20	Q2 FY20	Q1 FY20
US$/kg	48.7	40.8	33.8	35.0	36.2	39.0

Lynas' approach to reducing pricing volatility for its customers includes:

- Promoting fixed pricing to its direct customers, set for periods relevant to customer operations;
- Developing long term contracts that aim to reduce price variations for end users and OEMs such as car makers and wind turbine manufacturers.

Lynas achieved a small price premium compared to the NdPr market price, supported by:

- Sustained demand from the Japanese market and selected customers in China;
- The recognition by the market that Lynas is now well established as the second largest producer of Rare Earths in the world;
- End users placing more importance on being able to trace the origin of rare earths from a sustainable and auditable source of production to their end products, which Lynas can fulfil.

Strong Rare Earth prices, as well as real or perceived disruptions in supply, may create economic incentives to identify or create alternate technologies that ultimately could depress future long-term demand for Rare Earths. This may, at the same time, incentivise the development of additional mining properties to produce Rare Earths. If industries reduce their reliance on Rare Earth products, the resulting change in demand could have a material adverse effect on Lynas' business. In particular, if prices or demand for Rare Earths were to decline, this could impair Lynas' ability to obtain financing for current or additional projects and its ability to find purchasers for its products at prices acceptable to Lynas.

It is impossible to predict future Rare Earths price movements with certainty. Any sustained low Rare Earths prices or further declines in the price of Rare Earths, including as a result of periods of over-supply and/or speculative trading of Rare Earths, will adversely affect Lynas' business, results of operations and its ability to finance planned capital expenditures, including development projects.

2.2 Market competition

Lynas' Rare Earths supply contracts and profits may be adversely affected by the introduction of new mining and separation facilities and any increase in competition in the global Rare Earths market, either of which could increase the global supply of Rare Earths and thereby potentially lower prices.

2.3 Exchange rates

Lynas is exposed to fluctuations in the US dollar as all sales are denominated in US dollars. Lynas borrows money and holds a portion of cash in US dollars, which provides Lynas with a partial natural hedge. Accordingly, Lynas' income from customers, and the value of its business, will be affected by fluctuations in the rate by which the US dollar is exchanged with the Chinese Renminbi and the Australian dollar.

Lynas is exposed to fluctuations in the Malaysian ringgit (MYR), which is the currency that dominates Lynas' cash operating outflows. In addition, most of Lynas' non-current assets are Lynas Malaysia assets which are denominated in MYR.

Adverse movements in the Australian dollar against the US dollar and the MYR may have an adverse impact on Lynas' financial position and operating results. The following table shows the average USD/AUD and MYR/AUD exchange rates over the past five and a half years:

	6 months to 31 December 2020 $	30 June 2020 $	30 June 2019 $	30 June 2018 $	30 June 2017 $	30 June 2016 $
USD/AUD	0.7227	0.6714	0.7156	0.7391	0.7545	0.7283
MYR/AUD	3.0021	2.8233	2.9521	2.9837	3.2331	3.0098

In-China market prices for Rare Earths are denominated in the Chinese Renminbi. In addition, a devaluation in the Chinese Renminbi would increase attractiveness in Chinese exports and China's internal supply. Fluctuation in the Chinese Renminbi against the US Dollar therefore also increases the foreign exchange exposure on Lynas.

2.4 Operational and development risks

Lynas' operations and development activities could be affected by various unforeseen events and circumstances, such as hazards in exploration, the ability of third parties to meet their commitments in accordance with contractual arrangements, the realisation of tonnages and grades of ore and performance of processing facilities against design specification. Factors such as these may result in increased costs, lower production levels and, following on from that, lower revenue levels. Any negative outcomes flowing from these operational risks could have an adverse effect on Lynas' business, financial condition, profitability and performance.

2.5 Nature of mining

Mineral mining involves risks, which even with a combination of experience, knowledge and careful evaluation may not be able to be fully mitigated. Mining operations are subject to hazards normally encountered in exploration and mining. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment, which may cause a material adverse impact on Lynas' operations and its financial results. Projects may not proceed to plan with potential for delay in the timing of targeted output, and Lynas may not achieve the level of targeted mining output. Mining output levels may also be affected by factors beyond Lynas' control.

2.6 Mineral and ore reserves

No assurance can be given that the anticipated tonnages and grades of ore will be achieved during production or that the anticipated level of recovery will be realised. Mineral resource and ore reserve estimates are based upon estimates made by Lynas personnel and independent consultants. Estimates are inherently uncertain and are based on geological interpretations and inferences drawn from drilling results and sampling analyses. There is no certainty that any mineral resources or ore reserves identified by Lynas will be realised, that any anticipated level of recovery of minerals will be realised, or that an identified ore reserve or mineral resource will be a commercially mineable (or viable) deposit which can be legally and economically exploited.

Further, the grade of mineralisation which may ultimately be mined may differ materially from what is predicted. The quantity and resulting valuation of ore reserves and mineral resources may also vary depending on, amongst others, metal prices, cut-off grades and estimates of future operating costs (which may be inaccurate). Production can be affected by many factors. Any material change in the quantity of ore resources, mineral reserves, grade, or stripping ratio may affect the economic viability of any project undertaken by Lynas.

Lynas' estimated mineral resources and ore reserves should not be interpreted as assurances of commercial viability or potential or of the profitability of any future operations. Investors should be cautioned not to place undue reliance on any estimates made by Lynas. Lynas cannot be certain that its mineral resource and ore reserve estimates are accurate and cannot guarantee that it will recover the expected quantities of metals. Future production could differ dramatically from such estimates for the following reasons:

- actual mineralisation or Rare Earth grade could be different from those predicted by drilling, sampling, feasibility or technical reports;
- increases in the capital or operating costs of the mine;
- decreases in Rare Earth oxide prices;
- changes in the life-of-mine plan;
- the grade of Rare Earths may vary over the life of a Lynas project and Lynas cannot give any assurances that any particular mineral reserve estimate will ultimately be recovered; or
- metallurgical performance could differ from forecast.

The occurrence of any of these events may cause Lynas to adjust its mineral resource and reserve estimates or change its mining plans. This could negatively affect Lynas' financial condition and results of operations. Moreover, short-term factors, such as the need for additional development of any Lynas project or the processing of new or different grades, may adversely affect Lynas.

2.7 Processing operations

Lynas' operations are subject to the operating risks associated with Rare Earth processing, including performance of processing facilities against design specification, and the related risks associated with storage and transportation of raw materials, products and residues. These operating risks have the potential to cause personal injury, property damage and environmental contamination, and may result in the shutdown of affected facilities and in business interruption and the imposition of civil or criminal penalties, and negatively impact the reputation of Lynas.

The hazards associated with Lynas' mining and processing operations and the related storage and transportation of products and residues include:

- pipeline and storage tank leaks and ruptures;
- explosions and fires;
- mechanical failures; and
- chemical spills and other discharges or releases of toxic or hazardous substances or gases.

These hazards may cause personal injury and loss of life, damage to property and contamination of the environment, which may result in suspension of operations and the imposition of civil or criminal penalties, including fines, expenses for remediation and claims brought by governmental entities or third parties. Although Lynas has detailed and closely managed plans to mitigate these risks and maintains property, business interruption and casualty insurance of types and in the amounts that it believes is customary for the chemicals industry, Lynas is not fully insured against all potential hazards incidental to its businesses.

2.8 Availability of key inputs, Including water

The Mt Weld Concentration Plant and the Lynas Malaysia Plant rely on the ready availability of key inputs, including chemical reagents, water, electricity and gas. Any inability of Lynas to obtain such inputs in sufficient quantities on a timely basis could materially adversely affect Lynas' operations. For example, the insolvency of key suppliers may adversely affect the availability of chemical reagents. In addition, the water supply to the Mt Weld Concentration Plant is primarily sourced from a local aquifer supplemented by recycling, and the water supply to the Lynas Malaysia plant is primarily sourced from the local Kuantan water supply infrastructure, supplemented by recycling. Reductions in water availability from those sources, for example due to changes in weather patterns or failures of infrastructure, could materially adversely affect the availability of water to the Lynas operations.

2.9 Supply chain and counterparty risk

Lynas is dependent on contractors and suppliers to supply vital goods and services to its operations, including for the supply of chemicals and other materials. Lynas is therefore exposed to the possibility of adverse developments in the business environments of its contractors and suppliers, including in respect of the ability of those contractors and suppliers to meet their commitments under sales contracts. Any disruption to services or supplies may have an adverse effect on Lynas' financial business and financial condition.

2.10 Reliance on key personnel

Lynas' execution capacity is substantially attributable to the role played by a group of its senior management and key employees. Lynas' future success depends significantly on the full involvement of these key executives and employees and its ability to continue to retain and recruit high-level personnel. The loss of key employees could significantly affect Lynas' operations.

In addition, industrial and labour disputes, work stoppages and accidents, and logistical and engineering difficulties may also have an adverse effect on Lynas' profitability and share price.

2.11 Customer risks

Lynas' revenue is dependent on continuing sales to its key customers, many of whom require delivery to specific timetables and/or products that comply with detailed specifications. The loss of key customers could significantly affect Lynas' business, for example due to disputes with customers, customers switching to other suppliers or technologies, or customer businesses being adversely affected by events outside the control of Lynas, including customer insolvency or declining markets for the end-products of customers.

2.12 Industry Trends, including changes in technology

Changes in technology, including switches to renewable energy sources, present both opportunities and risks to the Lynas business. As technologies and consumer trends continue to evolve, new competing technologies may emerge that may reduce demand for Lynas Rare Earth products. Any significant trends away from technologies that utilize Lynas Rare Earths products could materially adversely affect the Lynas business.

2.13 Project development risks

Lynas is undertaking significant and complex construction projects, primarily related to the new Rare Earths Processing Facility in Kalgoorlie. Construction projects are subject to numerous risks, many of which are outside the control of Lynas, including project delays and cost overruns, disputes with contractors, insolvency of contractors, problems with design, delays in commissioning or ramp-up and new facilities not performing in accordance with expectations.

3.1 General regulatory risks

Lynas' business is subject, in each of the countries in which Lynas operates, to various national and local laws and regulations relating to the mining, production, marketing, pricing, transportation and storage of Lynas' products and residues. A change in the legislative and administrative regimes, taxation laws, interest rates, and other legal and government policies may have an adverse effect on the assets, operations and ultimately the financial performance of Lynas and the market price of Lynas shares. Other changes in the regulatory environment (including applicable accounting standards) may have a material adverse effect on the carrying value of material assets or otherwise have a material adverse effect on Lynas' business and financial condition.

3.2 Licences, permits, approvals, consents and authorisations

Lynas' mining and production activities are dependent on the granting and maintenance of appropriate licences, permits, approvals, and regulatory consents and authorisations (including those related to interests in mining tenements and those related to the operation of the Lynas plants in Australia and Malaysia), which may not be granted or may be withdrawn or be made subject to limitations at the discretion of government or regulatory authorities. Although such licences, permits, approvals and regulatory consents and authorisations may be granted, continued or renewed (as the case may be), there can be no assurance that such licences, permits, approvals and regulatory consents and authorisations will be granted, continued or renewed as a matter of course, or as to the terms of renewals or grants, including that new conditions, or new interpretations of existing conditions, will not be imposed in connection therewith. Whether such licences, permits, approvals and regulatory consents and authorisations may be granted, continued or renewed (as the case may be) often depends on Lynas being successful in obtaining the required statutory approvals for proposed activities. If there is a failure to obtain or retain the appropriate licences, permits, approvals and regulatory consents and authorisations, or if there is a material delay in obtaining or renewing them or they are granted subject to onerous conditions or withdrawn, then Lynas' ability to conduct its mining and production activities may be adversely affected.

3.3 Political risks and government actions

Lynas' operations could be affected by government actions in Australia, Malaysia and other countries or jurisdictions in which it has interests. Lynas is subject to the risk that it may not be able to carry out its operations as it intends, including because of a change in government, legislation, guidelines, regulation or policy, including in relation to the environment, the Rare Earths sector, competition policy, native title and cultural heritage. Such changes could affect land access, the granting of licenses and other tenements, the approval of developments and freedom to conduct operations.

The possible extent of introduction of additional legislation, regulations, guidelines or amendments to existing legislation that might affect Lynas' business is difficult to predict. Any such government action may require increased capital or operating expenditures and could prevent or delay certain operations by Lynas, which could have a material adverse effect on Lynas' business and financial condition.

Lynas also may not be able to ensure the security of its assets located outside Australia, and is subject to risks of, among other things, loss of revenue, property and equipment as a result of hazards such as expropriation, war, insurrection and acts of terrorism and other political risks and increases in taxes and government royalties. The effects of these factors are difficult to predict and any combination of one or other of the above may have a material adverse effect on Lynas' business and financial position.

Recent changes of governments in Malaysia created additional political focus on Lynas, which creates additional risks for the business. In order to continue operating the business as currently projected, Lynas will need to continue to receive new licences, renewals of existing licences and variations of the terms of existing licences. Examples may include increases to concentrate import volumes, additional residue storage approvals and periodic renewals of licences. Such amendments would require approval from the relevant regulatory authorities acting in accordance with government policy and licence conditions.

3.4 Malaysian regulatory matters

Without limiting the generality of the risks specified above in this section, as announced on 27 February 2020 and 29 January 2021, the Malaysian Atomic Energy Licensing Board (AELB) has renewed the operating licence for the Lynas Malaysia plant for three years expiring March 2023, subject to the following key conditions:

- Lynas to commence the process of developing the Permanent Disposal Facility (PDF) for WLP residue within the first year from the date of approval of the licence.
- Lynas must submit a work development plan for the construction of the PDF and report on its development status as determined by the AELB.
- Lynas must ensure that the Cracking and Leaching plant outside Malaysia is in operation before July 2023. After that period, Lynas will no longer be allowed to import raw materials containing Naturally Occurring Radioactive Material (NORM) into Malaysia.
- Holding of the financial deposit will be maintained for compliance with the relevant licence conditions.

In late January 2021, arising from the current COVID-19 restrictions in Malaysia, the regulator extended the deadline for commencing development of the PDF for WLP residue by 6 months to 2 September 2021.

To the extent that Lynas does not, or is not able to, comply with relevant licence conditions including the key conditions specified above, and/or comply with licence conditions within the timeframes prescribed, then Lynas' licences and approvals may be revoked. Government action, including legal action, may be also taken by or at the direction of the Malaysian government in order to ensure that the terms and conditions of Lynas' licences and approvals are complied with to levels satisfactory to, and within the timeframes prescribed by, the Malaysian government.

3.5 Environmental risks

Lynas' activities are subject to extensive laws and regulations controlling not only the mining of, exploration for and processing of Rare Earths, but also the possible effects of such activities upon the environment and interests of local communities. In the context of obtaining environmental permits, including the approval of reclamation plans, Lynas must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. With increasingly heightened government and public sensitivity to environmental sustainability, environmental regulation is becoming more stringent, and Lynas could be subject to increasing environmental responsibility and liability, including laws and regulations dealing with air quality, water and noise pollution and other discharges of materials into the environment, plant and wildlife protection, the reclamation and restoration of certain of its properties, greenhouse gas emissions, the storage, treatment and disposal of residues and the effects of its business on the water table and groundwater quality.

Sanctions for non-compliance with these laws and regulations may include administrative, civil and criminal penalties, revocation of permits and corrective action orders. These laws sometimes apply retroactively. In addition, a party can be liable for environmental damage without regard to that party's negligence or fault. Given the sensitive nature of this area, Lynas may be exposed to litigation and foreseen and unforeseen compliance and rehabilitation costs despite its best efforts.

3.6 Climate change risks

Climate change and the rapidly evolving response to it may lead to a number of risks, including but not limited to:

- Increased political, policy and legal risks (e.g. the introduction of regulatory changes aimed at reducing the impact of, or addressing climate change, including reducing or limiting carbon emissions);
- Increased capital and operational costs, including increased costs of inputs and raw materials; and
- Technological change and reputational risks associated with Lynas' conduct.

Climate change may also result in more extreme weather events and physical impacts on Lynas due to the energy intensive nature of Lynas' operations, and Lynas' reliance on fossil fuels for mining and processing activities.

3.7 Disposal of residues

At the Mt Weld Mine and Concentration Plant, the Lynas Malaysia Plant, and the new Lynas Kalgoorlie Rare Earths Processing Facility, Lynas operations generate/will generate residue materials in the form of solids, liquids and gases. Lynas has appropriate plans in place for the treatment, sale or disposal each of those residues. Failure to implement those plans could have a material effect on Lynas' licensing conditions and may adversely affect its operations.

3.8 Community acceptance and reputation

Lynas recognises that a strong mutual relationship with each community in which it operates is a pre-condition to successful operations. Failure to maintain those relationships and the acceptance by those communities may have an adverse effect on Lynas' operations.

In addition, Lynas recognises the importance of maintaining its reputation with all of its stakeholders including shareholders, regulatory authorities, communities, customers and suppliers. Failure to maintain its reputation with some or all of its stakeholders may have a negative impact on the future performance of Lynas.

3.9 Legal action

As announced on 17 January 2020, a judicial review application has been lodged in Malaysia challenging the processes followed during the August 2019 renewal of the Lynas Malaysia operating licence. The hearing of that judicial review application is now scheduled for 18 May 2021. While Lynas has been successful in defending several similar judicial review applications in the past, any adverse court findings could materially adversely affect the ability of Lynas to operate its Malaysian plant in its current form. In addition, it is possible that in the future, Lynas could be exposed to other litigation or proceedings, either from shareholders, financiers, regulators or members of the communities in which Lynas operates.

3.10 Health and safety

Lynas is subject to extensive laws and regulation in respect of the health and safety of its people and communities, and the protection and rehabilitation of the environments within which it operates. Lynas must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and the implementation of the regulations by the permitting authority.

3.11 Tax risks

Lynas is subject to taxation and other imposts in Australia, Malaysia and other countries or jurisdictions in which it has interests. In addition to the normal level of income tax imposed on all industries, companies in the resources sector are required to pay government royalties, direct and indirect taxes and other imposts. The profitability of companies in these industries can be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies. Further, changes in tax law, or changes in the way tax law is expected to be interpreted, in the various jurisdictions in which Lynas operates, may impact the tax liabilities of Lynas.

4.1 Debt facilities and covenants

Lynas has financing arrangements in place which are subject to acceleration and enforcement rights in the event a default were to arise under them. To date, the Japan Australia Rare Earths B.V. (JARE) loan facility has been secured over all the assets of Lynas, other than Malawi assets. Pursuant to the amendments announced on 27 June 2019, JARE has released the following securities: (i) Deed of Charge - All Assets (Malaysia) and (ii) Malaysian Real Property Mortgage.

Enforcement may involve enforcement of security over the assets of Lynas and its material subsidiaries, including appointing a receiver. The principal amount of the JARE facility was US$145m as at 31 December 2020. The principal amount will be due for repayment in fixed loan repayments between 31 December 2021 and 30 June 2030.

In the event significant uncertainty arises in relation to Lynas' ability to fully repay, refinance or reschedule the outstanding balances of the JARE loan facility by the maturity date of 30 June 2030, Lynas' ability to continue as a going concern may also be affected.

In addition, Lynas' existing debt facilities are subject to a range of covenants. A failure to comply with any of these debt covenants may require Lynas to seek amendments, waivers of covenant compliance or alternative borrowing arrangements. There is no assurance that its lenders would consent to such an amendment or waiver in the event of non-compliance, or that such consent would not be conditional upon the receipt of a cash payment, revised payout terms, increased interest rates, or restrictions in the expansion of debt facilities in the foreseeable future, or that its lenders would not exercise rights that would be available to them, including among other things, calling an event of default and demanding immediate payment of outstanding borrowings. If such a demand was made and appropriate forbearance or refinance arrangements could not be reached, Lynas may not have sufficient available funds to meet that demand.

4.2 Funding risk

Lynas' existing debt facility agreements restrict its ability to incur further debt except in certain circumstances. Should Lynas experience a protracted decline in earnings, there is a possibility that the quantum of debt and/or equity funding available to Lynas would not be sufficient to execute its strategy (including its development of large scale projects) which could have a negative impact on the future financial performance or position of Lynas.

5.1 General economic conditions

Lynas' operating performance and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, interest rates, exchange rates and government fiscal, monetary and regulatory policies. Prolonged deterioration in general economic conditions, including an increase in interest rates or decrease in consumer and business demand, could be expected to have an adverse impact on Lynas' business, results of operations or financial condition and performance.

5.2 Dividends

The payment of any dividends in respect of Lynas' shares is affected by several factors, including covenants in the JARE loan facility, Lynas' profitability, retained earnings, ability to frank dividends, capital requirements and free cash flow. Any future dividends will be determined by Lynas' Board having regard to these factors, among others. There is no guarantee that any dividends will be paid by Lynas. If Lynas is unable to pay dividends the price of its shares may fall.

5.3 Accounting standards

Accounting standards may change. This may affect the reporting earnings of Lynas and its financial position from time to time. Lynas has previously and will continue to assess and disclose, when known, the effect of adopting new accounting standards in its periodic financial reporting.

5.4 Force majeure events

Events may occur within or outside Lynas' key markets that could impact upon the global economies and the operations of Lynas. The events include, but are not limited, to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, changes in weather patterns or other severe weather events, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on market conditions, the demand for Lynas' product offering and services and Lynas' ability to conduct business.

BASIS OF REPORT

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

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. The Group is also bound by the requirements of its operating licence in Malaysia. There have been no known breaches of any of these conditions.

We continue to focus on ensuring positive relationships with regulators and local communities, and compliance with regulatory requirements in both jurisdictions in which we operate.

Significant changes in the state of affairs

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

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 Corporations Instrument 2016/191 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 Instrument, to the nearest thousand dollars, unless otherwise stated.

JORC Compliance

Information in this report is extracted from the report entitled "Exploration Identifies Potential Primary REE Mineralisation Below Current Mt Weld Rare Earths Pit" created on 26 November 2020, which is available to view at: https://www.lynascorp.com/wp-content/uploads/2020/11/Drilling-Results-v8.pdf

The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Subsequent events

On 22 January 2021, Lynas announced the signing of an agreement with the United States Government to build a commercial Light Rare Earths separation plant in the United States. This project is scheduled to be completed in accordance with the Department of Defense timetable and as part of our Lynas 2025 plan. Detailed costings are still being finalized; we expect Department of Defense funding to be capped at approximately US$30 million. Lynas will also be expected to contribute approximately US$30 million under the agreement. Once operational, the plant is expected to produce approximately 5,000 tonnes per annum of Rare Earths products, including approximately 1,250 tonnes per annum of NdPr. The plant will be designed to receive material directly from the cracking & leaching plant that Lynas is developing in Kalgoorlie, Western Australia.

In late January 2021, arising from the current COVID-19 restrictions in Malaysia, the regulator extended the deadline for commencing development of the Permanent Disposal Facility (PDF) for WLP residue to 2 September 2021.

On 24 February 2021, in light of the strong results for the half year ended 31 December 2020, the Lynas Board resolved to repay to the relevant authorities the Australian Jobkeeper subsidy and the Malaysian wage subsidy received in respect of 1H21. This is expected to result in a refund to the authorities of $1.02m. The Directors will work with the relevant authorities to refund the subsidies in the upcoming weeks.

There have been no other events subsequent to 31 December 2020 that would require accrual or disclosure in the interim unaudited consolidated financial statements.

The Directors' report is signed in accordance with a resolution of the Directors made pursuant to s.306(2) of the *Corporations Act 2001*.

On behalf of the Directors

Kathleen Conlon

Kathleen Conlon
Chairman
Sydney, 26 February 2021

Directors' Declaration

In accordance with a resolution of the directors of Lynas Rare Earths Limited, I state that in the opinion of the directors:

a) The interim financial statements and notes of the Company and its subsidiaries (collectively the Group) are in accordance with the *Corporations Act 2001*, including

  i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half year ended on that date; and

  ii) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Kathleen Conlon
Chairman
Sydney, 26 February 2021

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Building a better working world

Auditor's independence declaration to the directors of Lynas Rare Earths Limited

As lead auditor for the review of the half-year financial report of Lynas Rare Earths Limited for the half-year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Lynas Rare Earths Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner

26 February 2021

GB:AJ:LYC:032

Interim Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended

In A$'000	Note	31 December 2020	31 December 2019
Revenue		202,474	180,120
Cost of sales	6	(150,754)	(151,635)
Gross profit		**51,720**	**28,485**
General and administration expenses	6	(15,751)	(19,390)
Net foreign exchange gain / (loss)		9,102	(350)
Other income / (expenses)		1,060	(369)
Profit from operating activities		**46,131**	**8,376**
Financial income	7	1,271	3,774
Financial expenses	7	(6,663)	(8,132)
Net financial expenses		**(5,392)**	**(4,358)**
Profit before income tax		**40,739**	**4,018**
Income tax expense	8	(133)	(130)
Profit for the period		**40,606**	**3,888**
Other comprehensive (expense) / income for the period net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(26,012)	3,015
Total other comprehensive (expense) / income for the period, net of income tax		**(26,012)**	**3,015**
Total comprehensive income for the period attributable to equity holders of the Company		**14,594**	**6,903**
Earnings per share			
Basic earnings per share (cents per share)	18	4.87	0.56
Diluted earnings per share (cents per share)	18	4.85	0.56

The interim unaudited consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the notes to the interim unaudited consolidated financial statements.

Interim Unaudited Consolidated Statement of Financial Position

As at

In A$'000	Note	31 December 2020	30 June 2020
Assets			
Cash and cash equivalents	9	312,631	101,731
Short term deposits		200,000	-
Trade and other receivables	10	58,026	5,380
Tax receivable		-	46
Prepayments		1,667	3,773
Inventories	11	58,315	68,132
Total current assets		**630,639**	**179,062**
Inventories	11	6,875	9,468
Property, plant and equipment	12	616,821	653,090
Deferred exploration, evaluation and development expenditure	12	28,415	28,818
Intangible assets		460	540
Other non-current assets	13	59,694	65,147
Total non-current assets		**712,265**	**757,063**
Total assets		**1,342,904**	**936,125**
Liabilities			
Interest payable		1,493	2,007
Trade and other payables	14	27,602	28,778
Borrowings	15	16,576	34,148
Employee benefits	16	2,942	2,797
Provisions	16	26,596	26,142
Lease liabilities		1,349	1,226
Tax payable		6	-
Total current liabilities		**76,564**	**95,098**
Borrowings	15	147,112	164,851
Employee benefits	16	726	599
Provisions	16	152,546	155,462
Lease liabilities		1,555	1,734
Total non-current liabilities		**301,939**	**322,646**
Total liabilities		**378,503**	**417,744**
Net assets		**964,401**	**518,381**
Equity			
Share capital	18	1,859,597	1,424,847
Accumulated losses		(832,071)	(872,677)
Reserves		(63,125)	(33,789)
Total equity attributable to equity holders of the Company		**964,401**	**518,381**

The interim unaudited consolidated statement of financial position should be read in conjunction with the notes to the interim unaudited consolidated financial statements.

Interim Unaudited Consolidated Statement of Changes in Equity

In A$'000	Share capital	Accumulated losses	Foreign currency translation reserve	Equity settled employee benefits reserve	Warrant reserves	Other reserves	Total
Balance at 1 July 2020	1,424,847	(872,677)	(111,771)	51,708	21,765	4,509	518,381
Other comprehensive expense for the period	-	-	(26,012)	-	-	-	(26,012)
Total profit for the period	-	40,606	-	-	-	-	40,606
Total comprehensive income for the year	**-**	**40,606**	**(26,012)**	**-**	**-**	**-**	**14,594**
Issue of shares, net of issue costs	413,866	-	-	-	-	-	413,866
Conversion of convertible bonds	20,884	-	-	-	-	(4,509)	16,375
Employee remuneration settled through share-based payments	-	-	-	1,185	-	-	1,185
Balance at 31 December 2020	**1,859,597**	**(832,071)**	**(137,783)**	**52,893**	**21,765**	**-**	**964,401**
Balance at 1 July 2019 (Restated) [1]	1,398,264	(853,282)	(98,907)	50,163	34,094	5,065	535,397
Other comprehensive income for the period	-	-	3,015	-	-	-	3,015
Total profit for the period	**-**	**3,888**	**-**	**-**	-	**-**	3,888
Total comprehensive income for the period	**-**	**3,888**	**3,015**	**-**	-	**-**	**6,903**
Exercise of warrants	23,915	-	-	-	(12,328)	-	11,587
Employee remuneration settled through share-based payments	-	-	-	1,318	-	-	1,318
Balance at 31 December 2019	**1,422,179**	**(849,394)**	**(95,892)**	**51,481**	**21,766**	**5,065**	**555,205**

(1) Balance at 1 July 2019 was restated. Refer to 30 June 2020 Financial Report for further details.

Interim Unaudited Consolidated Statement of Cash Flows

For the half year ended

In A$'000	Note	31 December 2020	31 December 2019
Cash flows from operating activities			
Receipts from customers		139,956	179,201
Payments to suppliers and employees		(114,047)	(136,341)
Royalties paid		(2,513)	(3,635)
Income taxes paid		(81)	(123)
Net cash from operating activities		**23,315**	**39,102**
Cash flows from investing activities			
Payments for property, plant and equipment		(14,826)	(6,958)
Payments for deferred development expenditure		(708)	(6,892)
Security bonds paid		(43)	(4)
Security bonds refunded		4	1
Deposit as collateral for AELB		-	(11,558)
Funds held in short term deposits		(200,000)	-
Interest received		700	1,539
Net cash used in investing activities		**(214,873)**	**(23,872)**
Cash flows from financing activities			
Interest and other financing costs paid		(3,748)	(3,799)
Proceeds from the issue of share capital		425,324	11,628
Payments related to the issue of share capital		(11,458)	-
Payments in relation to lease liabilities		(1,168)	(1,289)
Net cash provided from financing activities		**408,950**	**6,540**
Net increase in cash and cash equivalents		217,392	21,770
Cash and cash equivalents at the beginning of the period		101,731	89,710
Effect of exchange rate fluctuations (net) on cash held		(6,492)	319
Cash and cash equivalents at end of the period	9	**312,631**	**111,799**

The interim unaudited consolidated statement of cash flows should be read in conjunction with the notes to the interim unaudited consolidated financial statements.

1. Reporting entity

Lynas Rare Earths Limited (the “Company”) is a for-profit company domiciled and incorporated in Australia.

The interim unaudited consolidated financial statements of the Company as at and for the half year ended 31 December 2020 comprise 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 Suite 1, 1st Floor 45 Royal Street, East Perth, 6004 Australia.

2. Basis of preparation

2.1 Statement of compliance

The interim unaudited consolidated financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*. The disclosures required in these interim unaudited consolidated financial statements are less extensive than the disclosure requirements for annual financial statements. The interim unaudited consolidated financial statements should be read in conjunction with the annual financial report of the Group for the year ended 30 June 2020.

The interim unaudited consolidated financial statements comprise the statements of comprehensive income, financial position, changes in equity and cash flows as well as the relevant notes to the interim unaudited consolidated financial statements.

2.2 Basis of measurement

The financial report has been prepared under the historical cost convention except for the borrowings which are at amortised cost.

Information as disclosed in the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the current period is for the 6 month period ended 31 December 2020. Information for the comparative period is for the 6 month period ended 31 December 2019.

2.3 Presentation currency

These interim unaudited consolidated financial statements are presented in Australian dollars (“AUD”), which is the Group’s presentation currency.

2.4 Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191 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 Instrument, to the nearest thousand dollars, unless otherwise stated.

2.5 Change in company name

In accordance with a resolution passed by shareholders during the AGM held on 26 November 2020, during the half year, the name of the company was changed from Lynas Corporation Limited to Lynas Rare Earths Limited.

2.6 Accounting policies and recently issued accounting pronouncements

The accounting policies applied by the Group in these interim unaudited consolidated financial statements are the same as those applied by the Group in the annual financial statements for the year ended 30 June 2020 other than those shown below.

No new standards and amendments which became mandatory for the first time in the interim reporting period commencing 1 July 2020 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

Change in functional currency
The functional currency of Lynas Rare Earths Pty Ltd (Parent entity) has been USD. Following the equity raise and extinguishment of the convertible bonds, management exercised its judgement that the functional currency changed. This judgement was influenced by the Parent entity primarily holding investments in its operating subsidiaries and raising its funding (debt and equity) in Australian dollars (“AUD”).

The change in functional currency to AUD is accounted for prospectively from 31 August 2020. 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.

Standards and interpretations issued but not yet effective

The Australian Accounting Standards issued but not yet mandatory for the 31 December 2020 interim reporting period have not been adopted by the Group in the preparation of this interim financial report.

3. Use of estimates and judgements

The preparation of interim unaudited consolidated financial statements 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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 consistent to those as disclosed in the annual financial report for the year ended 30 June 2020.

4. Financial risk management

Exposure to market risk (including currency, interest rate and commodity price risks), credit risk and liquidity risk arises in the normal course of the Group's business. During the half year ended 31 December 2020, the Group continued to apply the risk management objectives and policies that were disclosed in the annual financial report of the Group for the year ended 30 June 2020.

5. Segment reporting

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

The Group's CODM are the Board of Directors of the Company, Chief Executive Officer, Chief Financial Officer, the Group's General Counsel and Company Secretary, Vice President for Production, Vice President for Sales and Marketing, MD Malaysia and Vice President for People and Culture. 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 does 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 the allocation of interest income and expense and income tax benefit / (expense). The CODM assesses the performance of the operating segments based on adjusted EBITDA. Adjusted EBITDA is defined as net profit / (loss) before income tax, 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.

Notes to the interim unaudited consolidated financial statements
For the half year ended 31 December 2020

In A$'000	Note	For the half year ended 31 December 2020 Rare Earth operations	Corporate/ unallocated	Total continuing operations	For the half year ended 31 December 2019 Rare Earth operations	Corporate/ unallocated	Total continuing operations
Business segment reporting							
Revenue		202,474	-	202,474	180,120	-	180,120
Cost of sales		(150,754)	-	(150,754)	(151,635)	-	(151,635)
Gross profit		**51,720**	**-**	**51,720**	**28,485**	**-**	**28,485**
General and admin expenses		(9,162)	(6,589)	(15,751)	(10,201)	(9,117)	(19,318)
Other income [(1)]		-	1,060	1,060	-	-	-
Net foreign exchange gain / (loss)		-	9,102	9,102	-	(350)	(350)
Net impairment / write-off expenses		-	-	-	(441)	-	(441)
Earnings before interest and tax ("EBIT")		**42,558**	**3,573**	**46,131**	**17,843**	**(9,467)**	**8,376**
Financial income	7			1,271			3,774
Financial expenses	7			(6,663)			(8,132)
Profit before income tax				**40,739**			**4,018**
Income tax expense				(133)			(130)
Profit for the year				**40,606**			**3,888**
Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")							
EBIT		42,558	3,573	46,131	17,843	(9,467)	8,376
Depreciation and amortisation		32,929	1,559	34,488	35,220	618	35,838
EBITDA		**75,487**	**5,132**	**80,619**	**53,063**	**(8,849)**	**44,214**
Included in EBITDA:							
Impairment charge – property plant and equipment & other		-	-	-	441	-	441
Other income		-	(1,060)	(1,060)	-	-	-
Non-cash employee remuneration settled through share based payments comprising:							
Share based payments expense for the period		-	1,186	1,186	-	1,869	1,869
Impact of options and performance rights forfeited during the period		-	-	-	-	(550)	(550)
Adjusted EBITDA		**75,487**	**5,258**	**80,745**	**53,504**	**(7,530)**	**45,974**

(1) Other income mainly relates to Job keeper support to Mt Weld for the period July 2020 – September 2020, as well as other support measures in Malaysia. Subsequent to 31 December 2020, the Board resolved to repay approximately $1.02m of these subsidies to the relevant regulatory authorities.

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6. Cost of goods sold and General and administration expenses

In A$'000	For the half year ended 31 December 2020	2019
Cost of goods sold	118,707	118,394
Cost of goods sold depreciation	32,047	33,241
Total cost of goods sold	**150,754**	**151,635**
Employee and production costs net of costs recovered through production	5,571	5,420
Depreciation expenses net of cost recovered through production	2,442	2,158
Other	7,738	11,812
Total general and administration expenses	**15,751**	**19,390**

7. Financial income and expenses

In A$'000	For the half year ended 31 December 2020	2019
Interest income	1,271	1,619
Unrealised foreign exchange gain on intercompany balance	-	2,155
Total financial income	**1,271**	**3,774**
Interest expense on JARE loan facility	(2,802)	(2,969)
Interest expense on Convertible bonds facility	(34)	(207)
Unwinding of discount on Convertible bond facility	(134)	(761)
Unwinding of discount on JARE loan facility	(3,168)	(3,224)
Non-cash adjustments to financial liabilities	995	396
Net unwinding on discounting of rehab liabilities and security deposits	(1,210)	(1,077)
Financing transaction costs and fees	(310)	(290)
Total financial expenses	**(6,663)**	**(8,132)**
Net financial expenses	**(5,392)**	**(4,358)**

8. Income tax

In A$'000	For the half year ended 31 December 2020	2019
Current tax		
Current tax expense in respect of the current half year	(133)	(130)
	(133)	**(130)**
Deferred tax		
Deferred tax expense recognised in the half year	-	-
Total income tax expense relating to the continuing operations	**(133)**	**(130)**

The significant driver of the difference between income tax expense calculated at 30% (2019: 30%) and actual tax expense is due to unrecognised tax losses that are not recognised as deferred tax assets in Australia, Malaysia and Malawi. These unrecognised tax losses will be recognised when it becomes probable that the Group will have future taxable profits in these jurisdictions against which these tax losses can be utilised.

Lynas Malaysia has submitted its application to renew its pioneer status in Malaysia through to 2026, however formal approval of this renewal is pending at the date of this report.

9. Cash and cash equivalents

As at

In A$'000	31 December 2020	30 June 2020
Cash at bank and on hand	312,631	101,731
Total cash and cash equivalents	**312,631**	**101,731**

10. Trade and other receivables

As at

In A$'000	31 December 2020	30 June 2020
Trade receivables	53,816	1,876
GST / VAT receivables	1,523	1,606
Other receivables	2,687	1,898
Total trade and other receivables	**58,026**	**5,380**

The Group's exposure to credit risk is primarily in its trade receivables. As at 31 December 2020, $1.19m (30 June 2020: $0.14m), of trade receivables were past due but not impaired, all of which was receipted in January 2021.

11. Inventories

As at

In A$'000	31 December 2020	30 June 2020
Raw materials and consumables	22,202	25,796
Work in progress	37,631	37,181
Finished goods	5,357	14,623
Total inventories	**65,190**	**77,600**
Current	58,315	68,132
Non-current	6,875	9,468
Total inventories	**65,190**	**77,600**

During the half year ended 31 December 2020 inventories of $150.8m (2019: $151.6m) were recognised as an expense; all of which were included in 'cost of sales'. There has been no write-down of inventories held to their net realisable value (2019: $nil).

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 half years ended 31 December 2020 and 2019 respectively in the following categories:

	Recognised in General and Admin Expense		Recognised in Inventory		Total	
In A$'000	2020	2019	2020	2019	2020	2019
Property, plant and equipment	2,067	1,848	29,612	33,241	31,679	35,089
Deferred exploration and evaluation expenditure	319	310	-	-	319	310
Intangibles	56	-	-	-	56	-
Total	**2,442**	**2,158**	**29,612**	**33,241**	**32,054**	**35,399**

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 $32.0m in the half year ended 31 December 2020 (2019: $33.2m).

During the half year ended 31 December 2020 the Group recognised royalties payable to the Western Australian Government totalling $3.9m (2019: $3.5m). Royalties arise on the shipment of the Group's concentrate from Australia to Malaysia.

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12. Property, plant and equipment

In A$'000	Property, Plant and Equipment								Development Expenditure		
	Leasehold land	**Buildings plant and equipment**	**Fixtures and fittings**	**Right of Use Assets**	**Assets under construction**	**Rehabilitation asset**	**Leasehold improvements**	**Total**	**Development expenditure**	**Pre-production /Stripping asset**	**Total**
As at 31 Dec 2020											
Cost	28,172	883,629	7,130	5,856	23,584	181,232	19,898	**1,149,501**	24,538	18,358	**42,896**
Accumulated impairment losses	-	(183,420)	(378)	-	(230)	-	(7,216)	**(191,244)**	(3,354)	-	**(3,354)**
Accumulated depreciation	(3,573)	(308,272)	(5,779)	(3,669)	-	(15,311)	(4,832)	**(341,436)**	(6,166)	(4,961)	**(11,127)**
Carrying amount	**24,599**	**391,937**	**973**	**2,187**	**23,354**	**165,921**	**7,850**	**616,821**	**15,018**	**13,397**	**28,415**
Opening cost	29,705	920,798	7,267	4,873	8,123	186,125	20,977	**1,177,868**	25,050	18,358	**43,408**
Opening accumulated impairment and depreciation	(3,617)	(487,034)	(6,059)	(2,603)	(258)	(12,825)	(12,382)	**(524,778)**	(9,716)	(4,874)	**(14,590)**
Opening carrying amount	**26,088**	**433,764**	**1,208**	**2,270**	**7,865**	**173,300**	**8,595**	**653,090**	**15,334**	**13,484**	**28,818**
Additions	-	199	6	1,142	15,461	-	74	**16,882**	-	-	**-**
Disposals	-	-	-	(8)	-	-	-	**(8)**	-	-	**-**
Depreciation expense	(148)	(26,726)	(271)	(1,203)	-	(3,019)	(312)	**(31,679)**	-	-	**-**
Amortisation expense	-	-	-	-	-	-	-	**-**	(232)	(87)	**(319)**
Change in rehabilitation obligations	-	-	-	-	-	2,482	-	**2,482**	-	-	**-**
Asset write offs	-	-	-	-	-	-	-	**-**	(84)	-	**(84)**
Foreign currency translation	(1,341)	(15,300)	30	(14)	28	(6,842)	(507)	**(23,946)**	-	-	**-**
Carrying amount at 31 Dec 2020	**24,599**	**391,937**	**973**	**2,187**	**23,354**	**165,921**	**7,850**	**616,821**	**15,018**	**13,397**	**28,415**

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	Property, Plant and Equipment								Development Expenditure		
In A$'000	**Leasehold land**	**Buildings plant and equipment**	**Fixtures and fittings**	**Right of Use Assets**	**Assets under construction**	**Rehabilitation asset**	**Leasehold improvements**	**Total**	**Development expenditure**	**Pre-production /Stripping asset**	**Total**
As at 30 June 2020											
Cost	29,705	920,798	7,267	4,873	8,123	186,125	20,977	**1,177,868**	25,050	18,358	**43,408**
Accumulated impairment losses	-	(193,463)	(401)	-	(258)	-	(7,608)	**(201,730)**	(3,725)	-	**(3,725)**
Accumulated depreciation	(3,617)	(293,571)	(5,658)	(2,603)	-	(12,825)	(4,774)	**(323,048)**	(5,991)	(4,874)	**(10,865)**
Carrying amount	**26,088**	**433,764**	**1,208**	**2,270**	**7,865**	**173,300**	**8,595**	**653,090**	**15,334**	**13,484**	**28,818**
Opening cost	30,245	903,749	7,460	-	6,105	105,120	21,301	**1,073,980**	39,759	18,078	**57,837**
Opening accumulated impairment and depreciation	(4,190)	(416,811)	(5,894)	-	(253)	(8,432)	(11,938)	**(447,518)**	(24,139)	(767)	**(24,906)**
Opening carrying amount	**26,055**	**486,938**	**1,566**	**-**	**5,852**	**96,688**	**9,363**	**626,462**	**15,620**	**17,311**	**32,931**
Additions	-	5,678	134	119	7,252	-	79	**13,262**	202	280	**482**
Additions arising from implementation of AASB 16	-	-	-	4,766	-	-	-	**4,766**	-	-	**-**
Disposals	-	-	-	-	-	-	-	**-**	-	-	**-**
Depreciation expense	(395)	(58,580)	(542)	(2,621)	-	(3,875)	(744)	**(66,757)**	(310)	(4,107)	**(4,417)**
Amortisation expense	-	-	-	-	-	-	-	**-**	-	-	**-**
Transfers of assets under construction	-	4,819	48	-	(4,884)	-	17	**-**	-	-	**-**
Change in rehabilitation obligations	-	-	-	-	-	83,295	-	**83,295**	-	-	**-**
Asset write offs	-	(778)	-	-	-	-	-	**(778)**	(178)	-	**(178)**
Foreign currency translation	428	(4,313)	2	6	(355)	(2,808)	(120)	**(7,160)**	-	-	**-**
Carrying amount at 30 June 2020	**26,088**	**433,764**	**1,208**	**2,270**	**7,865**	**173,300**	**8,595**	**653,090**	**15,334**	**13,484**	**28,818**

13. Other non-current assets

As at

In A$'000	**31 December 2020**	**30 June 2020**
Security deposits – banking facilities and other, Malaysia	2,893	2,977
Security deposits – banking facilities and other, Australia	15	15
Security deposits – AELB, Australia	50,564	56,675
Security deposits – AELB, Malaysia	6,222	5,480
Total other non-current assets	**59,694**	**65,147**

Deposits to the Malaysian Government's Atomic Energy Licensing Board ("AELB") form a component of a total US$50.0m of instalments due in accordance with the conditions underlying the granting of the Full Operating Stage Licence to the Group for the Lynas Malaysia plant. The total amount deposited as security via a bond for the instalments is US$39.0m (all of which is interest earning), with a further US$11.0m paid via cash directly to AELB (none of which is interest earning, and has been discounted to a present value of $6.2m).

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14. Trade and other payables

As at

In A$'000	31 December 2020	30 June 2020
Trade payables	7,767	13,180
Accrued expenses	11,830	9,761
Other payables	8,005	5,837
Total trade and other payables	**27,602**	**28,778**
Current	27,602	28,778
Total trade and other payables	**27,602**	**28,778**

Trade and other payables are non-interest bearing and are normally settled on 30 to 60 day terms.

15. Borrowings

As at

In A$'000	31 December 2020	30 June 2020
Current borrowings		
JARE loan facility[1]	16,576	16,371
Convertible bonds[2]	-	17,777
Total current borrowings	**16,576**	**34,148**
Non-current borrowings		
JARE loan facility	147,112	164,851
Total non-current borrowings	**147,112**	**164,851**
Principal value of convertible bonds	-	18,228
Unamortised equity component	-	(451)
Total convertible bonds carrying amount	**-**	**17,777**

(1) A payment of interest in respect of the period commencing on 1 January 2016 and ending on 31 December 2016 was deferred until October 2020 as part of the extension to the JARE loan facility on 27 June 2019. This payment was extended further on 13 August 2020, with a payment due 31 October 2021 and is therefore classified as a current liability. In addition, US$2m due on 31 December 2021 has also been included as a current liability.

(2) The remaining convertible bonds were fully converted on 3 August 2020.

Reconciliation of liabilities arising from financing activities

	30 June 2020	Cash flows	Non-Cash Movements					31 December 2020
	Opening Balance	Proceeds / (Repayments)	Effective Interest	Foreign Exchange	Adjust-ment[1]	Other [2]	Reclass	Closing Balance
JARE loan facility (Current)	16,371	-	-	(1,794)	-	-	1,999	16,576
JARE loan facility (Non-Current)	164,851	-	3,214	(17,959)	(995)	-	(1,999)	147,112
Convertible bond facility	17,777	-	134	(1,193)	-	(16,718)	-	-
Lease liability	2,960	(1,168)	83	(114)	-	1,142	-	2,903
Total	**201,959**	**(1,168)**	**3,431**	**(21,060)**	**(995)**	**(15,576)**	**-**	**166,591**

[1] Adjustments to the carrying values of the JARE loan during the period relate to changes in the cash flow profile used to measure the carrying value of the loan.
[2] Other non-cash movements in the convertible bond facility relates to conversions of the convertible bonds, including interest paid. Other non-cash movements in the lease liability relate to new lease liabilities arising during the period.

Japan Australia Rare Earths B.V. (JARE) loan facility
An extension of the JARE loan facility was announced on 27 June 2019. As part of this extension, new terms were agreed as detailed below.

The maturity date of the JARE loan facility has been extended to 30 June 2030. The interest rate on this facility is fixed at 2.5% p.a. at 31 December 2020 (30 June 2020: 2.5% p.a.). Conditions linking the interest rate to the NdPr sales price in the previous facility have been removed.

Interest liabilities will be paid directly to the lenders at 31 December and 30 June each year. The payment of interest in respect of the period commencing on 1 January 2016 and ending on 31 December 2016 is deferred to 31 October 2021 (with no penalty, and no additional interest). There are a series of fixed repayments in the facility which have replaced the “Cash Sweep” mechanism in the former facility. The details of the fixed repayments are as follows:

Repayment date	Amount
Each half-year from 31 Dec 2021 to 31 Dec 2023	US$2m on each date
30 June 2024	US$5m
Each half-year from 31 Dec 2024 to 31 Dec 2027	US$10m on each date
Each half-year from 30 June 2028 to 30 June 2030	US$12m on each date

Under an Availability Agreement with JARE, Japan will have the following priority supply rights until 2038:

1. Any fundraising will not hinder Lynas’ ability to support Japanese industries diversifying their rare earths supply sources, in accordance with the Availability Agreement announced on 30 March 2011.
2. Lynas shall ensure that in the event of competing demands from the Japanese market and a non-Japanese market for the supply by the Borrower or Lynas Malaysia for NdPr produced from the Lynas Malaysia plant, the Japanese market shall have priority of supply up to 7,200 tonnes per year subject to the terms of the Availability Agreement and to the extent that Lynas will not have any opportunity loss.
3. JARE has rights of negotiation with Lynas in priority to non-Japanese market customers for the priority supply to the Japanese market of additional NdPr and Nd products produced by the Lynas 2025 Project.
4. Lynas will continue to prioritize the needs of Japanese customers for the supply of Heavy Rare Earths products produced by the Blue Line JV, to the extent possible under any agreement with the U.S. and to the extent that Lynas will not have any opportunity loss.

Previously, the JARE loan facility had been secured over all of the assets of the Group, other than the Malawi assets. Pursuant to the amendments announced on 27 June 2019, JARE agreed to release the following securities: (i) Deed of Charge - All Assets (Malaysia) and (ii) Malaysian Real Property Mortgage.

16. Provisions and Employee Benefits

In A$'000	31 December 2020	30 June 2020
Current		
Short term employee benefits	2,942	2,797
Restoration and rehabilitation(1)	26,596	26,142
Total current	**29,538**	**28,939**
Non-current		
Long term employee benefits	726	599
Restoration and rehabilitation	152,546	155,462
Total non-current	**153,272**	**156,061**

(1) The current portion of the restoration and rehabilitation provision represents Lynas’ best estimate of the present value of the outflows relating to the discharge of the rehabilitation obligation relating to residue disposal in Malaysia over the next 12 month period.

Restoration and rehabilitation

The activities of the Group give rise to obligations for asset and site restoration and rehabilitation at Lynas Malaysia and the Mt Weld concentration plant. 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.

During the prior year, the Group engaged third party specialists to assist in estimating costs and will review these estimates periodically over time as the operations continue to develop. On 30 January 2020, the Group announced that The State Government of Pahang has issued its consent to a site for the PDF for iron phosphate residue. In additional Lynas Malaysia has appointed Gading Sengarra Sdn Bhd (“GGSB”) as the contractor to manage the entire PDF project. This project will cost US$98m over 6.5 years. The provision for restoration and rehabilitation reflects the present value of the obligation that exists at 31 December 2020. Those costs expected to be paid within 12 months have been reflected as current. The unwinding effect of discounting of the provision is recognised as a finance cost.

17. Contingent Liabilities

No contingent liabilities exist at 31 December 2020.

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18. Equity and other comprehensive income

18.1 Share Capital

	For the half year ended 31 December 2020		For the year ended 30 June 2020	
	Number of shares '000	A$'000	Number of shares '000	A$'000
Balance at the beginning of the period	**699,209**	**1,424,847**	**667,802**	**1,398,264**
Issue of shares pursuant to equity raising	184,923	425,324	**-**	**-**
Costs related to issue of shares	-	(11,458)		
Issue of shares pursuant to conversion of convertible bonds	16,203	20,884	2,000	2,668
Issue of shares pursuant to exercised performance rights	744	-	6,151	-
Issue of shares pursuant to exercised warrants	-	-	23,256	23,915
Closing balance	**901,079**	**1,859,597**	**699,209**	**1,424,847**

All issued ordinary shares are fully paid and have no par value. Details of options and performance rights exercised during the period to ordinary shares are outlined in Note 19. 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.

18.2 Dividends

There were no dividends declared or paid during the half year ended 31 December 2020 (2019: nil).

18.3 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the half year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the half year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the half year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

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

For the half year ended

	31 December 2020	31 December 2019
Net earnings attributed to ordinary shareholders (in A$'000)	40,606	3,888
Earnings used in calculating basic earnings per share (in A$'000)	**40,606**	**3,888**
Net earnings impact of assumed conversions for diluted EPS (in A$'000)	-	-
Earnings used in calculating diluted earnings per share (in A$'000)	**40,606**	**3,888**
Weighted average number of ordinary shares used in calculating basic earnings per share ('000)	833,117	689,958
Weighted average number of ordinary shares used in calculating diluted earnings per share ('000)	837,942	696,250
Basic earnings per share (cents per share)	4.87	0.56
Diluted earnings per share (cents per share)	4.85	0.56

The following dilutive shares are included in share base for the calculation of dilutive earnings per share:

	Number (000's)
Performance rights	4,824
Total	4,824

19. Employee share options and performance rights

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 are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. Other than short term incentives and strategic performance rights, 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 dividends 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 Executives. At half year end, the Executives include the Chief Executive Officer, the Chief Financial Officer, the Group's General Counsel and Company Secretary, Vice President for Production, Vice President for Sales and Marketing, MD Malaysia and Vice President for People and Culture.

Movement in employee share options and performance rights during the period

	For the half year ended 31 December 2020	
	Number of performance rights ('000)	Weighted average exercise price ($)
Balance at beginning of period	4,461,537	0.00
Granted during the period	1,408,092	0.00
Forfeited during the period	(301,816)	0.00
Exercised during the period	(743,645)	0.00
Balance at end of period	**4,824,168**	**0.00**

During the period, the Group recognised an expense of $1.2m within the profit and loss component of the statement of comprehensive income (2019: net expense of $1.3m).

1.41m performance rights were granted with various performance conditions.

There were no share options outstanding at 31 December 2020. The outstanding performance rights had a nil weighted average exercise price (30 June 2020: $nil) and a weighted average remaining contractual life of 472 days (30 June 2020: 282 days).

19.1 Non-employee share options and performance rights exercised

There were no non-employee share options exercised during the half year ended 31 December 2020.

20. Capital commitments

In A$'000	31 December 2020	30 June 2020
Less than one year	50,132	4,109
Total	**50,132**	**4,109**

During the half year ended 31 December 2020, Lynas entered into several contracts, primarily in relation to the Lynas Kalgoorlie project.

21. Determination of fair values

Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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.

21.1 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.

21.2 Non-derivative financial liabilities

The fair value of non-derivative financial liabilities is calculated by discounting the future contractual cash flows at the current market interest rates that are available for similar financial instruments. The carrying value of the non-derivative financial liability is considered to approximate fair value as the market rate is expected to approximate the effective interest rate.

21.3 Fair value measurements recognised in the statement of comprehensive income

Upon 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).

The Group has no financial assets or liabilities that are measured at fair value.

22. Subsequent events

On 22 January 2021, Lynas announced the signing of an agreement with the United States Government to build a commercial Light Rare Earths separation plant in the United States. This project is scheduled to be completed in accordance with the Department of Defense timetable and as part of our Lynas 2025 plan. Detailed costings are still being finalized; we expect Department of Defense funding to be capped at approximately US$30 million. Lynas will also be expected to contribute approximately US$30 million under the agreement. Once operational, the plant is expected to produce approximately 5,000 tonnes per annum of Rare Earths products, including approximately 1,250 tonnes per annum of NdPr. The plant will be designed to receive material directly from the cracking & leaching plant that Lynas is developing in Kalgoorlie, Western Australia.

In late January 2021, arising from the current COVID-19 restrictions in Malaysia, the regulator extended the deadline for commencing development of the Permanent Disposal Facility (PDF) for WLP residue to 2 September 2021.

On 24 February 2021, in light of the strong results for the half year ended 31 December 2020, the Lynas Board resolved to repay to the relevant authorities the Australian Jobkeeper subsidy and the Malaysian wage subsidy received in respect of 1H21. This is expected to result in a refund to the authorities of $1.02m. The Directors will work with the relevant authorities to refund the subsidies in the upcoming weeks.

There have been no other events subsequent to 31 December 2020 that would require accrual or disclosure in the interim unaudited consolidated financial statements.

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Independent auditor's review report to the members of Lynas Rare Earths Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Lynas Rare Earths Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim unaudited consolidated statement of financial position as at 31 December 2020, interim unaudited consolidated statement of profit or loss and other comprehensive income, interim unaudited consolidated statement of changes in equity and interim unaudited consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and

b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth

26 February 2021