5 March 2018

LYNAS CORPORATION HALF YEAR 2018 RESULTS

SUMMARY

- Record Profit from operating activities
  - EBIT increased to $63.0m (H1 2017: loss of $19.3m)
  - Adjusted EBITDA increased to $85.5m (H1 2017: $2.1m)
- Revenue growth of 75% to $200.9m (H1 2017: $114.6m) due to higher sales volumes and higher selling prices.
- Total REO production growth of 17% to 8,839 tonnes (H1 2017: 7,579 tonnes)
  - NdPr production up by 6%
  - Significant improvements in finished product quality of La and Ce materials
- Operating costs at $133.9m (H1 2017: $133.1m) were held constant allowing the business to benefit from the increased volumes and improved pricing.
- PBT growth to $50.8m (H1 2017: $1.1m).
- Cash flows of $80.2m from operating activities (H1 2017: $6.7m).
- Group debts reduced to USD256.5m (further reduced to USD236.5m in January 2018) through early principal repayments of USD30.0m on the JARE loan during the half year and the conversion of over 70% of the convertible bonds between 1 July 2017 and 31 January 2018.
- $35 million Lynas NEXT programme commenced in the December quarter to increase customer engagement and optimise existing assets for future growth.

Lynas Corporation Ltd (ASX:LYC, OTC:LYSDY), an integrated miner and producer of rare earths, today announced its financial results for the half year ending December 31, 2017 (H1 2018).

Lynas Corporation CEO and Managing Director, Amanda Lacaze, said: “Lynas had a very strong first half and our results are a credit to our hard working team. Operational and production improvements achieved over the past three years ensured we were well positioned to benefit from increased customer demand and favourable market pricing this half year. At the same time, we strengthened our balance sheet, reduced debts, and started on a new growth path with our investment in Lynas NEXT.”

FINANCIAL PERFORMANCE

In AUD Million (m)	H1 2018	H1 2017 restated
Revenue	200.9	114.6
Cost of sales	(117.8)	(117.5)
Gross profit / (loss)	**83.1**	**(2.9)**
General and administration expenses	(16.1)	(15.5)
Net foreign exchange loss	(3.5)	(0.4)
Other expenses	(0.5)	(0.5)
Profit / (loss) from operating activities	**63.0**	**(19.3)**
Net gain on extinguishment of debts	-	37.3
Financial income	21.3	0.1
Financial costs	(33.5)	(17.0)
Net financial (costs) / income	**(12.2)**	**20.4**
Profit / (loss) before income tax	**50.8**	**1.1**

BALANCE SHEET

In AUD Million (m)	As at December 31, 2017	As at June 30, 2017 Restated
Assets		
Cash and cash equivalents	47.8	63.9
Inventories	46.4	38.0
Property, plant and equipment	551.9	538.4
Deferred exploration, evaluation and development expenditure	40.6	42.0
Other assets	56.5	34.1
Total assets	**743.2**	**716.4**
Liabilities		
Borrowings	305.5	493.4
Other liabilities	103.7	110.9
Total liabilities	**409.2**	**604.3**
Net assets	**334.0**	**112.1**
Equity		
Share capital	1,235.6	1,094.4
Accumulated losses	(938.7)	(989.5)
Reserves	37.1	7.2
Total equity	**334.0**	**112.1**

In October 2016 the Group agreed amendments to its loan facilities. During the current period the Group has reviewed the amendments and identified an error made in accounting for these loan amendments. This error involved the classification and calculation of the new borrowing fair values which also affected the equity component of the convertible bond, associated tax balances and certain items in the statement of profit

Lynas Corporation Ltd
PT17212 Jalan Gebeng 3, Kawasan Perindustrian Gebeng, 26080 Kuantan, Pahang Darul Makmur, Malaysia
Tel: +60 9 582 5200 +60 9 582 5800
Fax: +60 9 582 5291 +60 9 582 5292
www.lynascorp.com
ACN 009 066 648

and loss and other comprehensive income. The error relates to non-cash accounting entries only. The prior period figures in this announcement have been corrected accordingly. Note 5 of the attached Financial Report provides more details.

Lynas NEXT

The December quarter marked the start of a new phase of development for Lynas with the commencement of the Lynas NEXT project. As announced at the Lynas 2017 AGM, the company will invest $35 million in the Lynas NEXT programme to enhance the company's capacity to meet current and future demand.

Lynas NEXT will improve plant reliability and recoveries, increase production, deliver a higher value product mix, and increase customer engagement. At its completion production of NdPr will increase to a sustainable 600 tonnes/month. In addition, new separation and processing capability will deliver a broader and more differentiated product range allowing Lynas to participate in expanded and higher value segments.

Project scope, planning and engineering activities are well advanced with construction and upgrade work progressing well at both Mt Weld and Lynas Advanced Materials Plant (LAMP) in current quarter.

About Lynas Corporation

Lynas Corporation Ltd (ASX: LYC) is an integrated miner and producer of rare earths, operating a high grade mine in Mt Weld, Western Australia and a reliable, sustainable chemical processing operation in Kuantan, Malaysia. Lynas is the second largest producer of Neodymium-Praseodymium (NdPr) material in the world and the leading supplier of NdPr to the free market. For more information visit: lynascorp.com or watch our video: https://www.youtube.com/watch?v=L4Gf8lEBb9s&feature=youtu.be

For all media enquiries please contact Renee Bertuch or Jennifer Parker from Cannings Corporate Communications on +61 2 8284 9990.

Andrew Arnold
Company Secretary

ACN 009 066 648

and

Controlled Entities

Interim Unaudited Condensed Consolidated Financial Report

For the half year ended December 31, 2017

Corporate Directory Information

ABN 27 009 066 648

Directors

Mike Harding
Amanda Lacaze
Kathleen Conlon
Philippe Etienne
John Humphrey
Grant Murdoch

Company Secretaries

Andrew Arnold
Ivo Polovineo

Registered Office

Suite 3, 5 Tully Road
East Perth WA 6004
Telephone: +61 8 6241 3800
Fax: +61 8 9225 6842
Email: general@lynascorp.com

Share Register

Boardroom Pty Ltd
Level 12, Grosvenor Place
225 George Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Auditors

Ernst & Young
200 George Street
Sydney NSW 2000

Internet Address

www.lynascorp.com

Table of Contents

Directors' Report

The Board of Directors (the "Board" or the "Directors") of Lynas Corporation Limited (the "Company") and its subsidiaries (together referred to as the "Group") submit their report for the half year ended December 31, 2017.

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.

Mike Harding	Chairman
Amanda Lacaze	Managing Director
William (Liam) Forde	Non-Executive Director (Resigned November 28, 2017)
Kathleen Conlon	Non-Executive Director
Philippe Etienne	Non-Executive Director
John Humphrey	Non-Executive Director
Grant Murdoch	Non-Executive Director (Appointed October 30, 2017)

Financial performance

For the half year ended

	December 31,	
In AUD Million (m)	**2017**	**2016**
		Restated
Revenue	200.9	114.6
Cost of sales	(117.8)	(117.5)
Gross profit / (loss)	**83.1**	**(2.9)**
General and administration expenses	(16.1)	(15.5)
Net foreign exchange loss	(3.5)	(0.4)
Other expenses	(0.5)	(0.5)
Profit / (loss) from operating activities	**63.0**	**(19.3)**
Net gain on extinguishment of debts	-	37.3
Financial income	21.3	0.1
Financial costs	(33.5)	(17.0)
Net financial (costs) / income	**(12.2)**	**20.4**
Profit / (loss) before income tax	**50.8**	**1.1**

Revenue growth of 75% in the half year to December 31, 2017, compared to the half year to December 31, 2016 was due to both higher sales volumes and higher selling prices achieved during the period.

Sales volumes in the half year to December 31, 2017 grew by 40% compared to the half year to December 31, 2016. Demand, particularly for NdPr products, remained strong during the period. In addition, total REO production increased by 17% and NdPr production increased by 6% compared to the half year to December 31, 2016.

Higher average selling prices were achieved across the product range reflecting increased market pricing for NdPr products and improved pricing for La and Ce materials substantially as a result of quality improvements.

Costs in the half year remained at the same level as in the half year to December 31, 2016.

Consistent with the prior year, production costs have been substantially accounted for within cost of sales. Other general and administration expenses include insurance premiums, consultancy fees, telecommunications and general office expenditures. Overall production cost recoveries increased by $8.2m in the half year.

By maintaining costs at the same level as the prior corresponding period, the Company was able to realise the benefits of both the increased volumes and increased pricing.

As a result, gross profit for the period was $83.1m (H1 2016: loss of $2.9m).

Notes to the interim unaudited condensed consolidated financial statements

For the half year ended December 31, 2017

The profit from operating activities (EBIT) increased to $63.0m compared to the prior corresponding half year (loss of $19.3m), due primarily to the increase in gross profit. On an adjusted EBITDA basis (refer to Note 6 to the Financial Report for the basis of this measure) the Group reported a gain of $85.5m (H1 2016: $2.1m) in the half year ended December 31, 2017.

Financial costs increased due to non-cash adjustments made to the fair value of the financial liabilities of $16.5m as a result of early debt repayments and changes in interest rates. An additional $16.4m of interest was recognised on the debt facilities, with the interest rate on the JARE loan facility increased from 2.50% to 3.75% p.a. and the coupon rate on the convertible bonds increased from 1.25% to 1.875% p.a. during the period. These financial costs were offset by $21.3m of financial income, primarily being interest forgiven on the JARE loan.

Cash flow

For the half year ended

	December 31,	
In AUD Million (m)	**2017**	**2016**
Net operating cash inflow	80.2	6.7
Net investing cash outflow	(42.3)	(6.9)
Net financing cash outflow	(53.9)	(4.0)
Net cash flow	**(16.0)**	**(4.2)**

Operating cash flows

During the half year ended December 31, 2017 the Group's cash receipts from sales were $204.8m (December 31, 2016: $115.8m) as a result of increased sales and higher average selling prices over the period. Cost management was maintained through the half-year resulting in strong operating cash inflow.

Investing cash flows

Net investing cash outflows increased during the half year ended December 31, 2017. These outflows included a deposit paid as security for Atomic Energy Licensing Board (AELB) payments of $30.9m and payments for property, plant and equipment and mine development of $10.3m.

Financing cash flows

Net financing cash outflows increased and included a $38.5m (USD30.0m) principal repayment under the JARE loan facility and a further $20.3m in interest payments to JARE ($4.8m) and the Convertible bondholders ($15.5m). Interest payments included both the settlement of historic interest liabilities ($14.8m) as well as interest due in the current period ($5.5m). These outflows were offset by $4.6m in proceeds from warrants exercised during the period.

Financial position
As at

In AUD Million (m)	**December 31, 2017**	**June 30, 2017 Restated**
Assets		
Cash and cash equivalents	47.8	63.9
Inventories	46.4	38.0
Property, plant and equipment	551.9	538.4
Deferred exploration, evaluation and development expenditure	40.6	42.0
Other assets	56.5	34.1
Total assets	**743.2**	**716.4**
Liabilities		
Borrowings	305.5	493.4
Other liabilities	103.7	110.9
Total liabilities	**409.2**	**604.3**
Net assets	**334.0**	**112.1**
Equity		
Share capital	1,235.6	1,094.4
Accumulated losses	(938.7)	(989.5)
Reserves	37.1	7.2
Total equity	**334.0**	**112.1**

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2017

The overall increase in net assets of the Group during the half year ended December 31, 2017 is due to the partial repayment of debt facilities, conversion of convertible bonds to share capital and the contribution of $50.8m in net profit for the period.

Cash and cash equivalents at December 31, 2017 comprise $47.8m (June 30, 2017: $35.9m) of unrestricted cash and nil (June 30, 2017: $28.0m) of restricted cash. A principal repayment was made to JARE from the JARE restricted bank account in the amount of USD15.0m when the unrestricted cash balance exceeded $25.0m in August 2017. The remaining balance in the JARE restricted interest account was used to partially settle the interest incurred from October 1, 2014 to December 31, 2015. The outstanding interest incurred in the same period was forgiven. Interest payments on the loan facility are now paid as accrued each June 30 and December 31. In total, USD30.0m was repaid on the principal balance of the JARE loan facility during the half-year, reducing the outstanding loan balance from USD200.0m to USD170.0m.

USD138.5m of convertible bonds were converted during the period, leaving an outstanding principal of USD86.5m at December 31, 2017. As noted in the Subsequent Events section, as at March 5, 2018, the outstanding principal of the convertible bonds has been further reduced to USD66.5m. The liability component has been converted to Australian dollars at the December 31, 2017 exchange rate and the equity component was converted to Australian dollars at the effective date of the amended terms during the year ended June 30, 2017.

Inventory increased by $8.4m, or 22% during the half year ended December 31, 2017. Holdings of raw materials and consumables were $12.0m which is comparable to June 30, 2017. Finished goods have increased by $4.6m to $8.5m at December 31, 2017. Work in progress inventory increased $3.8m to $25.9m at December 31, 2017. As at December 31, 2017 the Group held 3,141 tonnes of processed concentrate containing 1,200 tonnes of REO bagged and ready for export at its Mt Weld operations.

Property, plant and equipment increased by $13.5m, or 3% during the half year ended December 31, 2017. The increase is largely driven by additions of $16.1m and the foreign currency translation as a result of the strengthening of the Malaysian ringgit against the Australian dollar ($16.4m) offset by depreciation charged during the period ($18.5m).

Reserves were increased by share based payments ($2.0m) and by the increase in foreign currency translation reserve ($28.4m) driven by the strengthened Malaysian ringgit against the Australian dollar on overseas assets and the effects of the weakening USD against the AUD on Lynas' loans that are denominated in US dollars.

Capital structure

During the half year ended December 31, 2017, the Company issued shares as shown below:

	Number (000's)
Shares on issue June 30, 2017	3,677,743
Issue of shares pursuant to conversion of convertible bonds	1,713,333
Issue of shares pursuant to exercised warrants	95,733
Subtotal prior to share consolidation	**5,486,809**
10 to 1 share consolidation	(4,938,124)
Subtotal after share consolidation	**548,685**
Issue of shares pursuant to conversion of convertible bonds	13,333
Issue of shares pursuant to exercised performance rights	1,642
Shares on issue December 31, 2017	**563,660**

In addition to the ordinary shares on issue there were the following unlisted convertible bonds and warrants on issue:

	Number (000's)
Unlisted convertible bonds (Conversion price: $1.00 at a set exchange rate of A$1.00 = US$0.75)	86,500
Unlisted warrants (Exercise price: $0.50)	27,132

Performance Rights

As at December 31, 2017, the Company had the following options and performance rights on issue:

	Number (000's)
Performance Rights	11,286

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2017

Review of operations

Highlights during the half year ended December 31, 2017 include:

- The Group achieved record total sales revenue in the half year of $200.9m, compared with $114.6m in the half year ended December 31, 2016, reflecting strong market demand, increased production volumes, improved selling prices and continuing strong relationships with strategic customers in Japan and China;
- Ready for sale production of neodymium-praseodymium (NdPr) was 2,664 tonnes in the half year ended December 31, 2017 (Half year ended December 31, 2016: 2,506 tonnes) and total ready for sale production of rare earth oxide (REO) was 8,839 tonnes (1H 2017: 7,579 tonnes), reflecting a continuing trend of positive improvements in the production process, throughput rates and quality of final output;
- Operating Costs (cost of sales + general and administration) were held constant at $133.9m in the half year ended December 31, 2017 (1H 2017: $133.1m), reflecting improved efficiency throughout operations.
- During the half year, the Group reduced its debts through early repayments of USD30.0m on the JARE loan and through conversion of over 60% of the convertible bonds from June 30, 2017, leaving USD86.5m at December 31, 2017. Both facilities are due for repayment in 2020.

Mt Weld

Mt Weld continued to operate safely and efficiently throughout the half year.

A new mining campaign (Campaign 2) commenced during the September quarter with removal of top soil, blasting and removal of overburden. Ore mining commenced during the latter part of December 2017. This campaign is a northern extension of the original pit and is being conducted by the same local mining contractor as the recent Campaign 1B. The approximate scope of Campaign 2 is to remove 1.8 million BCM (Bank Cubic Metres) of waste and mine 590kt of CZ (Central Zone) ore and Duncan ore at approximately 15% REO.

This ore is expected to be similar to the original Mining Campaign 1 ore. Crushing and screening of the new ore commenced in January 2018.

The December quarter marked the start of Lynas' next phase of development with the commencement of activities related to the Lynas NEXT project. Project scope, planning and engineering activities are well progressed with construction and upgrade work commencing on both Mt Weld and Lynas Advanced Materials Plant (LAMP). As announced at the Lynas 2017 AGM, the Lynas NEXT project focusses on improving plant reliability and recoveries, increasing production, output and delivering a higher value product.

Lynas Advanced Materials Plant (LAMP)

Rare earth oxide (REO) ready for sale production at the LAMP for the half year ended December 31, 2017 was 8,839 tonnes (Half year ended December 31, 2016 7,579 tonnes). Sales during the half year totalled 8,998 tonnes (Half year ended December 31, 2016: 6,431 tonnes).

The cracking and leaching kilns at the LAMP continue to operate above design rates, treating over 14,883 tonnes of REO concentrate in the half year ending December 31, 2017 (Half year ended December 31, 2016: 12,730 tonnes).

In product finishing, the refinement of processes to produce high quality Lanthanum and Cerium products continued. Developments during the half year focussed on improved control of precipitation and centrifuge washing to remove non- rare earth impurities.

The Group continues its commercialisation program of solid residues from the LAMP. Field trials have demonstrated the efficacy of the residue material in enhancing soil structure, adjusting soil pH, enhancing growth and improving yields.

Ready for sale by tonnage

	FY14	FY15	FY16	FY17	YTD FY18
Ready for sale production volume total (REOt)	3,965	8,799	12,631	16,003	8,839
Ready for sale production volume NdPr (REOt)	946	2,258	3,896	5,223	2,664

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.

Health, Safety and Environment

The Company's Western Australian and Malaysian operations maintained certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards during the half year. The 12-month rolling lost time injury frequency rate as at December 31, 2017 was 1.2 per million hours worked (2016: 1.4 per million hours worked). The Company continued to carefully manage all residues, air, water and solid, and met or exceeded all licence requirements.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2017

Strategic marketing and sales

Demand for magnetic materials using NdPr continues to grow as demand for energy efficient technologies grows, including electric and hybrid vehicles and wind power. Demand for La and Ce materials used in catalytical applications in automotive and other applications is also growing, albeit at a slower pace.

Lynas, with 100% of capacity commissioned and operating, can confidently serve these growing markets. Over the 6 months to December 31, 2017 sales volumes continued to increase reflecting stable production rates, strong demand for NdPr products and quality improvements for Cerium and Lanthanum products. This allowed Lynas to acquire new customers and address new applications. This business development, supported by technical improvements and product customizations, will continue through the coming months and should result in Lynas securing better value for its Cerium and Lanthanum products.

In addition, Lynas has established strong key customer relationships in strategic markets allowing the company to benefit from the increased demand.

Market pricing for NdPr was volatile during the half year, reflecting increased demand and some visible activity from the China central government as it implemented controls on environmental performance and illegal production.

The average selling price (revenue basis) during the half year ended December 31, 2017 was A$22.78/kg REO (Half year ended December 31, 2016: A$18.48/kg). The Company's most significant product is NdPr. The China domestic price (VAT excluded) of NdPr oxide improved from USD36.5/kg in the June 2017 quarter to USD64.5/kg in September 2017, before returning to USD36.7/kg in December 2017. In February 2018, the China domestic price (VAT excluded) of NdPr oxide is slightly above USD40/kg.

Lynas is focussed on continuing to build key customer relationships in strategic markets. A key part of this strategy is to offer long term contracts delivering price stability and surety of supply for customers.

Sales by tonnage and value

	FY14	FY15	FY16	FY17	YTD FY18
Sales volume (REOt)	3,008	7,883	12,513	14,616	8,998
Cash receipts from customers (AUDm)	58.4	155.3	202.6	260.4	204.9

Earnings per share

For the half year ended

	December 31, 2017	December 31, 2016 Restated
Basic earnings per share (cents per share)	10.49	7.13
Diluted earnings per share (cents per share)	8.57	6.06

The basic and diluted earnings per share for the half-year ended December 31, 2016 comparative period has been restated to reflect the 10 to 1 share consolidation of Lynas Corporation Ltd shares, which was completed on December 4, 2017, as well as the correction of error as detailed in Note 5.

Dividends

There were no dividends declared or paid during the half year ended December 31, 2017 (2016: nil) and no dividends have been declared or paid since December 31, 2017.

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. The following factors and business risks could have a material effect on Lynas' future results from an operations and financial position:

Rare earth prices

Lynas' sales performance is affected by market fluctuations in rare earth prices. The product prices achieved for the majority of sales revenue, are calculated using pricing formulae which reference published prices. 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:

(i) *Supply side factors*

Supply of rare earth materials has historically been dominated by Chinese producers. Within China, including illegal operations, there has been excess capacity which has provided downward pressure on market pricing. The China Central government regulates production via quotas and environmental standards. The China Central government has recently significantly increased its focus on ensuring compliance with these regulations leading to forced closure of some plants, the removal of significant volumes of illegal production and the requirement for other firms to invest in new environmental protections. All these actions have contributed to the recent firming in rare earth prices.

(ii) *Fluctuations in demand*

A key factor influencing rare earth demand is automotive market demand, both in terms of production quantity and technology. Energy-efficient (hybrid/electrical), green (emission controlled) and luxury vehicles require significantly more rare earth materials during the manufacturing process than basic ICE motor vehicles. The market prices of rare earths are influenced by rare earth market traders' expectations of the demand for energy-efficient, green and luxury vehicles as opposed to actual daily demand for those vehicles.

The table below illustrates how China domestic prices of NdPr (excluding VAT) have moved over calendar year 2017:

	March 2017 Quarter	June 2017 Quarter	September 2017 Quarter	December 2017 Quarter
USD/kg	33.0	36.5	56.7	45.1

Lynas' approach to reduce 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 include clauses that reduce price variations for end users 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 NdPr in the world;
- End users placing more importance on being able to trace the origin of rare earths from a safe, sustainable and auditable source of production to their end products.

Exchange rates

Lynas is exposed to fluctuations in several currencies.

Sales are denominated in US dollars and the Company has borrowed money and holds a portion of cash in US dollars.

Lynas costs are generally incurred in either Malaysian ringgit or Australian dollars.

Accordingly, Lynas' income from, and the value of its business, will be affected by fluctuations in the rates by which the US dollar and the Malaysian ringgit are exchanged with Australian dollars.

Adverse movements in the Australian dollar against the US dollar and Malaysian ringgit may have an adverse impact on Lynas. The following table shows the average USD/AUD exchange rate over the last five and a half years:

	6 months to December 31, 2017	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
	$	$	$	$	$	$
USD/AUD	0.7791	0.7545	0.7283	0.8382	0.9187	1.0239
MYR/AUD	3.2832	3.2331	3.0098	2.8828	2.9804	3.1659

A devaluation in the yuan would increase attractiveness in Chinese exports and China's internal supply. Fluctuation in the Chinese yuan against the USD therefore increases the foreign exchange exposure on the Group as well.

Operating and development risks

Lynas' operations and development activities could be affected by various unforeseen events and circumstances, which 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.

Lynas undertakes regular reviews of its operational, development and business interruption risks. Lynas seeks to minimise the potential damage flowing from these risks by obtaining business interruption insurance for certain events and, where available, indemnities from suppliers and contractors.

Debt facilities

Lynas has financing arrangements in place which are subject to acceleration and enforcement rights in the event a default were to arise under them. The Japan Australia Rare Earths B.V. (JARE) loan facility is secured over all of the assets of the Group, other than the Malawi assets; so enforcement may involve enforcement of security over the assets of Lynas and its material subsidiaries, including appointing a receiver.

In addition, the principal amount of the convertible bonds has reduced significantly during the period, down to USD86.5m as at December 31, 2017 from USD225m as at June 30, 2017. As noted in the Subsequent Events section, as at March 5, 2018, the outstanding principal of the convertible bonds has been further reduced to USD66.5m. Unless the remaining convertible bonds are converted into ordinary shares in Lynas prior to maturity, the remaining principal amount of USD66.5m will be due for repayment on September 30, 2020.

In the event of repayment default, Lynas may be required to seek amendments and/or waivers of non-compliance or alternative funding arrangements such as a refinance. There is no assurance that Lynas' lenders would consent to such an amendment or waiver in the event of non-compliance, or that such consent would not be conditioned upon the receipt of a cash payment, revised payout terms, increased interest rates, or restrictions on 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, accelerating repayment of outstanding borrowings, or appointing a receiver.

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 and the convertible bonds by their respective maturity dates of June 30, 2020 and September 30, 2020 the Group's ability to continue as a going concern may also be affected.

Regulatory and title risk
Changes in legislative and administrative regimes, taxation laws, interest rates, other legal and government policies in Australia and Malaysia may have an adverse effect on the assets, operations and ultimately the financial performance of Lynas and the market price of Lynas shares.

Lynas' mining and production activities are dependent on the granting and maintenance of appropriate licences, permits 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 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 and regulatory consents and authorisations will be granted, continued or renewed, or as to the terms of renewals or grants. If there is a failure to obtain or retain the appropriate licences, permits and regulatory consents and authorisations or 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.

Interest rates
Lynas is exposed to some interest rate risk on its borrowings. The interest rate on the JARE facility and the convertible bonds can vary in certain circumstances, as detailed in the notes to the financial statements. Fluctuation in interest rates would have an impact on the Company's earnings.

Health, safety and environment
Lynas is subject to regulation in respect of the health and safety of our people and the protection and rehabilitation of the environment within which the plants operate. Health, safety and the environment matters are a key focus area and Lynas is committed to provide and maintain a healthy and safe work environment and to comply with all relevant environmental legislation and other relevant requirements. 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.

Environmental regulation and performance

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

We continue to focus on ensuring positive relationships with regulators and complying with regulatory requirements in both of the jurisdictions in which we operate.

Correction of error in the accounting of the loan amendments

In October 2016 the Group agreed amendments to its loan facilities. During the current period the Group has reviewed the amendments and identified an error made in accounting for these loan amendments. This error involved the classification and calculation of the new borrowing fair values which also affected the equity component of the convertible bond, associated tax balances and certain items in the statement of profit and loss and other comprehensive income. The error relates to non-cash accounting entries only. For details refer to Note 5.

Significant changes in the state of affairs

Except as disclosed in the review of results and operations, and subsequent events (Note 22), 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 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.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2017

Subsequent events

On January 29, 2018, bondholders converted USD10.0m of their convertible bonds which resulted in an additional 13.3m shares issued. On January 31, 2018, bondholders converted a further USD10.0m of their convertible bonds which resulted in a further 13.3m shares issued.

As a result of these conversions, the remaining liability in respect to the convertible bonds facility has reduced to USD66.5m.

There have been no other events subsequent to December 31, 2017 that would require accrual or disclosure in the interim unaudited condensed 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

D. M Harding

Mike Harding
Chairman
Sydney, March 5, 2018

Directors' Declaration

The Directors declare that:

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

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

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

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

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

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

On behalf of the Directors

D. M Harding

Mike Harding
Chairman
Sydney, March 5, 2018

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the review of Lynas Corporation Limited for the half-year ended 31 December 2017, 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 Corporation Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

GL Maris

Glenn Maris
Partner
Sydney
5 March 2018

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

For the half year ended

In AUD'000	Note	December 31 2017	December 31 2016 Restated*
Revenue		200,922	114,614
Cost of sales		(117,767)	(117,495)
Gross profit / (loss)		83,155	(2,881)
General and administration expenses	7	(16,063)	(15,545)
Net foreign exchange loss		(3,540)	(436)
Other expenses		(501)	(482)
Profit / (loss) from operating activities		**63,051**	**(19,344)**
Net gain on extinguishment of debts	8	-	37,300
Financial income	8	21,282	93
Financial costs	8	(33,491)	(16,957)
Net financial (costs) / income		**(12,209)**	**20,436**
Profit before income tax		**50,842**	**1,092**
Income tax (expense) / benefit	9	(32)	23,816
Profit for the period		**50,810**	**24,908**
Other comprehensive income / (loss) for the period net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		27,884	(53,438)
Total other comprehensive income / (loss) for the period, net of income tax		**27,884**	**(53,438)**
Total comprehensive profit / (loss) for the period attributable to equity holders of the Company		**78,694**	**(28,530)**
Earnings per share (1)			
Basic earnings per share (cents per share)	18	10.49	7.13
Diluted earnings per share (cents per share)	18	8.57	6.06

(1) The basic and diluted earnings per share for the half-year ended December 31, 2016 comparative period has been restated to reflect the 10 to 1 share consolidation of Lynas Corporation Ltd shares, which was completed on December 4, 2017. Refer to Note 18 for details of the share consolidation.

* Certain amounts shown here do not correspond to the December 31, 2016 Interim Unaudited Condensed Consolidated Financial Report and reflect adjustments made, refer to Note 5.

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

Interim Unaudited Condensed Consolidated Statement of Financial Position

As at

In AUD'000	Note	December 31, 2017	June 30, 2017 Restated*
Assets			
Cash and cash equivalents	10	47,832	63,925
Trade and other receivables	11	16,029	4,518
Prepayments		2,064	2,846
Tax receivable		102	98
Inventories	12	45,855	37,448
Total current assets		**111,882**	**108,835**
Inventories	12	515	515
Property, plant and equipment	13	551,941	538,400
Deferred exploration, evaluation and development expenditure		40,597	41,999
Intangible assets - software		3	17
Other non-current assets	14	38,226	26,616
Total non-current assets		**631,282**	**607,547**
Total assets		**743,164**	**716,382**
Liabilities			
Interest payable		95	2,770
Trade and other payables	15	38,895	44,286
Borrowings	16	-	19,516
Employee benefits		2,227	2,112
Provisions	17	315	309
Total current liabilities		**41,532**	**68,993**
Trade and other payables	15	932	1,362
Interest payable		1,803	2,321
Borrowings	16	305,522	473,843
Employee benefits		326	166
Provisions	17	59,082	57,543
Total non-current liabilities		**367,665**	**535,235**
Total liabilities		**409,197**	**604,228**
Net assets		**333,967**	**112,154**
Equity			
Share capital		1,235,554	1,094,403
Accumulated losses		(938,670)	(989,480)
Reserves		37,083	7,231
Total equity attributable to equity holders of the Company		**333,967**	**112,154**

* Certain amounts shown here do not correspond to the June 30, 2017 Consolidated Financial Report and reflect adjustments made, refer to Note 5.

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

Interim Unaudited Condensed Consolidated Statement of Changes in Equity

In AUD'000	Note	Share capital	Accumulated losses	Foreign currency translation reserve	Equity settled employee benefits reserve	Warrant reserve	Other reserves	Total
Balance at July 1, 2017 (Restated*)		1,094,403	(989,480)	(156,541)	39,970	40,413	83,390	112,155
Other comprehensive income / (loss) for the period		-	-	27,884	-	-	-	27,884
Total income / (loss) for the period		-	50,810	-	-	-	-	50,810
Total comprehensive income / (loss) for the period		**-**	**50,810**	**27,884**	**-**	**-**	**-**	**78,694**
Exercise of warrants		4,568	-	-	-	-	-	4,568
Conversion of convertible bonds		136,583	-	-	-	-	-	136,583
Employee remuneration settled through share-based payments		-	-	-	1,967	-	-	1,967
Balance at December 31, 2017		**1,235,554**	**(938,670)**	**(128,657)**	**41,937**	**40,413**	**83,390**	**333,967**
Balance at July 1, 2016		1,088,469	(988,946)	(125,943)	37,490	31,397	28,743	71,210
Other comprehensive income / (loss) for the period		-	-	(53,438)	-	-	-	(53,438)
Total income / (loss) for the period		-	24,908	-	-	-	-	24,908
Total comprehensive income / (loss) for the period		**-**	**24,908**	**(53,438)**	**-**	**-**	**-**	**(28,530)**
Issue of warrants		-	-	-	-	9,016	-	9,016
Adjustment for extinguishment of convertible bonds		-	-	-	-	-	(1,127)	(1,127)
Recognition of convertible bonds based on new terms, net of tax		-	-	-	-	-	55,774	55,774
Employee remuneration settled through share-based payments		-	-	-	1,107	-	-	1,107
Balance at December 31, 2016 (Restated*)		**1,088,469**	**(964,038)**	**(179,381)**	**38,597**	**40,413**	**83,390**	**107,450**

* Certain amounts shown here do not correspond to the December 31, 2016 Interim Unaudited Condensed Consolidated Financial Report or June 30, 2017 Consolidated Financial Report and reflect adjustments made, refer to Note 5.

Interim Unaudited Condensed Consolidated Statement of Cash Flows

For the half year ended

In AUD'000	Note	December 31, 2017	December 31, 2016
Cash flows from operating activities			
Receipts from customers		204,853	115,765
Payments to suppliers and employees		(120,784)	(106,284)
Royalties paid		(3,870)	(2,751)
Income taxes paid		(32)	(14)
Net cash from operating activities		**80,167**	**6,716**
Cash flows from investing activities			
Payments for property, plant and equipment		(5,209)	(982)
Payments for deferred exploration, evaluation and development expenditure		(5,053)	(13)
Security bonds paid		(1,141)	(5,993)
Security bonds refunded		11	36
Deposit as collateral for AELB		(30,864)	-
Net cash used in investing activities		**(42,256)**	**(6,952)**
Cash flows from financing activities			
Interest received		416	23
Interest and other financing costs paid		(20,343)	(27)
Repayment of long-term borrowing (JARE loan facility)		(38,526)	(3,950)
Proceeds from the issue of share capital		4,568	-
Net cash used in financing activities		**(53,885)**	**(3,954)**
Net decrease in cash and cash equivalents		(15,974)	(4,190)
Cash and cash equivalents at the beginning of the period		63,925	43,348
Effect of exchange rate fluctuations (net) on cash held		(119)	(681)
Cash and cash equivalents at end of the period	10	**47,832**	**38,477**

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

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the half year ended December 31, 2017

1. Reporting entity

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

The interim unaudited condensed consolidated financial statements of the Company as at and for the half year ended December 31, 2017 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 3, 5 Tully Road, East Perth WA 6004, Australia.

2. Basis of preparation

2.1 Statement of compliance

The interim unaudited condensed consolidated financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*. The unaudited condensed consolidated financial statements also comply with International Financial Reporting Standards and Interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB") where relevant. The disclosures required in these interim unaudited condensed consolidated financial statements are less extensive than the disclosure requirements for annual financial statements. The interim unaudited condensed consolidated financial statements should be read in conjunction with the annual financial report of the Group for the year ended June 30, 2017.

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

2.2 Basis of measurement

The financial report has been prepared under the historical cost convention except derivatives which are measured at fair value and certain non-current assets that are presented on a revalued amount.

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 year is for the 6 month period ended December 31, 2017. Information for the comparative year is for the 6 month period ended December 31, 2016.

2.3 Presentation currency

These interim unaudited condensed 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 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 Reclassification of comparative information

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

2.6 Accounting policies and recently issued accounting pronouncements

The accounting policies applied by the Group in these interim unaudited condensed consolidated financial statements are the same as those applied by the Group in the annual financial statements for the year ended June 30, 2017. None of the standards and amendments which became mandatory for the first time in the interim reporting period commencing July 1, 2017 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements
For the half year ended December 31, 2017

Standards and interpretations issued but not yet effective

The Australian Accounting Standards issued but not yet mandatory for the December 31, 2017 interim reporting period have not been adopted by the Group in the preparation of this interim financial report and are set out below:

Standard/Interpretation	Effective for the annual reporting period beginning on	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	July 1, 2018	June 30, 2019
AASB 15 Revenue from Contracts with Customers	July 1, 2018	June 30, 2019
AASB 2014-10 Amends to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	July 1, 2018	June 30, 2019
AASB 16 Leases	July 1, 2019	June 30, 2020
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 21]	July 1, 2018	June 30, 2019
AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts [AASB 4]	July 1, 2018	June 30, 2019
AASB 2017-1 Amendments to Australian Accounting Standards – transfers of Investment Properties, Annual Improvements 2014-2016 Cycle and Other Amendments	July 1, 2018	June 30, 2019
IFRIC 23 Uncertainty over Income Tax Treatments	July 1, 2019	June 30, 2020
IFRS 17 Insurance Contracts	July 1, 2021	June 30, 2022

The Group is evaluating the effect of AASB 9 "Financial Instruments", AASB 15 "Revenue from Contracts with Customers", and AASB Interpretation 22 "Foreign Currency Transactions and Advance Considerations" which are mandatory in FY19 and AASB 16 "Leases" which is mandatory in FY20.

The Group's process of implementation of new pronouncements will be in four stages:

- Diagnostic - the high level identification of accounting issues in the new pronouncement that will affect the Group;
- Confirmation of understanding – the detailed review of contracts or other relevant data and training for finance, commercial, procurement and other teams;
- Solution development – identifying and progressing system and data changes; and
- Implementation.

3. Use of estimates and judgements

The preparation of interim unaudited condensed 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 June 30, 2017.

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 December 31, 2017, 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 June 30, 2017.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements
For the half year ended December 31, 2017

5. Correction of error

In October 2016 the Group agreed amendments to its loan facilities. During the current period the Group has identified an error made in accounting for these loan amendments. This error involved the classification and calculation of the new borrowing fair values which also affected the equity component of the convertible bond, associated tax balances and certain items in the statement of profit and loss and other comprehensive income. The error relates to non-cash accounting entries only.

The error has been corrected and the effect on each of the affected financial statement line items for June 30, 2017 and December 31, 2016 are as follows:

Changes to equity (increase/(decrease) in equity)

As at

In AUD'000	June 30, 2017	December 31 2016
Interest payable (current)	31,783	33,661
Interest payable (non-current)	22,885	24,237
Borrowings	(33,915)	(33,206)
Net decrease in liabilities	**20,754**	**24,692**
Accumulated losses	14,342	37,892
Foreign currency translation reserve	(499)	830
Other reserves	6,911	(14,030)
Net increase in equity	**20,754**	**24,692**

Changes to statement of profit or loss and other comprehensive income (increase/(decrease) in profit)

In AUD'000	12 months ended June 30, 2017	6 months ended December 31, 2016
Net gain on extinguishment of debt	14,418	14,418
Financial expenses	(3,040)	(432)
Income tax benefit	2,964	23,905
Net increase in profit/(loss) for the period	**14,342**	**37,892**
Other comprehensive income/(loss) for the period net of income tax that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	(499)	830
Net (decrease)/increase on other comprehensive profit/(loss) for the period	**(499)**	**830**
Net increase in comprehensive profit/(loss) for the period	**13,843**	**38,722**
Net increase of profit attributable to:		
Equity holders of the parent	14,342	37,892
Non-controlling interests	-	-

Changes to basic and diluted earnings per share (EPS) (increase/(decrease) in EPS)

	12 months ended June 30, 2017	6 months ended December 31, 2016
Increase in basic earnings for the period attributable to ordinary equity holders of the parent (cents per share)	4.05	10.83
Increase in diluted earnings for the period attributable to ordinary equity holders of the parent (cents per share)	4.05	9.76

The change to basic and diluted earnings / (loss) per share for the half-year ended December 31, 2016 and year ended 30 June 2017 has been restated to reflect the 10 to 1 share consolidation of Lynas Corporation Ltd shares, which was completed on December 4, 2017, as well as the correction of error as detailed above.

The change did not have an effect on the Group's operating, investing or financing cash flows.

6. Segment reporting

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

The Group's CODM are the Board of Directors of the Company, Chief Executive Officer, the Chief Financial Officer, the Group's General Counsel and Company Secretary, Vice President for Production and Vice President for Sales and Marketing. 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.

Lynas CORPORATION LTD

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2017

In AUD'000	Note	For the half year ended December 31, 2017 Rare Earth operations	Corporate/ unallocated	Total continuing operations	For the half year ended December 31, 2016 Rare Earth operations	Corporate/ unallocated Restated*	Total continuing operations Restated*
Business segment reporting							
Revenue		200,922	-	200,922	114,614	-	114,614
Cost of sales		(117,767)	-	(117,767)	(117,495)	-	(117,495)
Gross profit / (loss)		**83,155**	**-**	**83,155**	**(2,881)**	**-**	**(2,881)**
Expenses and other income		(8,974)	(7,089)	(16,063)	(9,698)	(5,847)	(15,545)
Net foreign exchange loss		-	(3,540)	(3,540)	-	(436)	(436)
Net impairment / write-off expenses		(501)	-	(501)	(482)	-	(482)
Earnings before interest and tax ("EBIT")		**73,680**	**(10,629)**	**63,051**	**(13,061)**	**(6,283)**	**(19,344)**
Net gain on extinguishment of debts				-	-	37,300	37,300
Financial income	8			21,282			93
Financial costs	8			(33,491)			(16,957)
Profit / (loss) before income tax				**50,842**			**1,092**
Income tax expense				(32)			23,816
Profit / (loss) for the year				**50,810**			**24,908**
Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")							
EBIT		73,680	(10,629)	63,051	(13,061)	(6,283)	(19,344)
Depreciation and amortisation		19,325	629	19,954	19,105	709	19,814
EBITDA		**93,005**	**(10,000)**	**83,005**	**6,044**	**(5,574)**	**470**
Included in EBITDA:							
Impairment charge – property plant and equipment & other		501	-	501	482	-	482
Non-cash employee remuneration settled through share based payments comprising:							
Share based payments expense for the period		-	2,766	2,766	-	1,395	1,395
Impact of options and performance rights forfeited during the period		-	(799)	(799)	-	(288)	(288)
Adjusted EBITDA		**93,506**	**(8,033)**	**85,473**	**6,526**	**(4,467)**	**2,059**

* Certain amounts shown here do not correspond to the December 31, 2016 Interim Unaudited Condensed Consolidated Financial Report and reflect adjustments made, refer to Note 5.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2017

7. General and administration expenses

In AUD'000	For the half year ended December 31, 2017	2016
Employee and production costs net of costs recovered through production	6,406	6,891
Depreciation expenses net of cost recovered through production	3,696	3,069
Other	5,961	5,585
Total general and administration expenses	**16,063**	**15,545**

Other general and administration expenses have increased due to additional statutory and consulting charges.

8. Financial income and costs

In AUD'000	For the half year ended December 31, 2017	2016 Restated
Net gain on extinguishment of debts(1)	-	37,300
Interest income on cash and cash equivalents	435	93
Interest forgiven on JARE loan	20,847	-
Total financial income	**21,282**	**37,393**
Interest expense on JARE loan facility(1)	(4,469)	(7,045)
Interest expense on financial liabilities measured at amortised cost(1):		
Convertible bonds	(1,604)	(4,213)
Amortisation of deferred transaction costs - convertible bond facility	-	(434)
Unwinding of discount on convertible bond facility	(6,266)	(3,731)
Unwinding of discount on JARE loan facility	(4,052)	(1,037)
Fair value adjustments to financial liabilities(2)	(16,510)	-
Net unwinding on discounting on AELB	(222)	-
Financing transaction costs and fees	(368)	(497)
Total financial costs	**(33,491)**	**(16,957)**
Net financial income	**(12,209)**	**20,436**

(1) Refer to Note 16 for more information
(2) Adjustments made to the fair value of the JARE loan facility and convertible bond facility as a result of the early debt repayments and changes in interest rates as detailed in Note 16.

9. Income tax

In AUD'000	For the half year ended December 31, 2017	2016 Restated
Current tax		
Current tax expense / (benefit) in respect of the current half year	(32)	(89)
Adjustments recognised in the current half year in relation to the current tax in prior years	-	-
	(32)	**(89)**
Deferred tax		
Deferred tax expense / (benefit) recognised in the half year	-	23,905
Total income tax expense / (benefit) relating to the continuing operations	**(32)**	**23,816**

The significant driver of the difference between income tax benefit / expense calculated at 30% (2017: 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.

10. Cash and cash equivalents

As at

In AUD'000	December 31, 2017	June 30, 2017
Cash at bank and on hand	47,832	35,858
Restricted cash	-	28,067
Total cash and cash equivalents	**47,832**	**63,925**

<u>Restricted cash for JARE loan facility</u>
In accordance with the terms of the JARE facility, the JARE restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25.0m on any date after July 31, 2017. Following the satisfaction of the test, the funds in the JARE restricted bank account were applied as follows on August 4, 2017:

(a) USD15.0m was paid to JARE as a principal repayment;
(b) The remaining balance in the JARE restricted interest account was used to partially settle the interest incurred from October 1, 2014 to December 31, 2015. The outstanding interest incurred in the same period was forgiven.

There is a JARE principal repayment test on each interest payment date that commenced on December 31, 2016. On each interest payment date, when total unrestricted cash balance exceeds $40.0m, the surplus is paid as a principal repayment to JARE pursuant to a cash sweep mechanism. Under the terms agreed with JARE and the bondholders, if Lynas received the proceeds from an equity raising (such as an issuance of shares or an exercise of warrants), then the following amounts will be exempt from the cash sweep: (i) 75% of the proceeds received up to a cumulative balance of USD50.0m, and (ii) 50% of the proceeds above a cumulative balance of USD50.0m.

<u>Restricted cash for convertible bond facility</u>
In accordance with the terms of the convertible bond facility, the convertible bond restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25.0m on any date after July 31, 2017. Following the satisfaction of the test, on August 4, 2017, the funds in the convertible bond restricted bank account were applied in full payment of the interest incurred from January 1, 2015 to December 31, 2015 and additional interest on withdrawals made in 2016.

11. Trade and other receivables

As at

In AUD'000	**December 31, 2017**	**June 30, 2017**
Trade receivables	7,444	2,639
Other receivables	8,585	1,879
Total trade and other receivables	**16,029**	**4,518**

The Group's exposure to credit risk is primarily in its trade receivables. Credit risk is assessed on a customer by customer basis and includes a credit analysis of each customer, negotiated payment terms and payment history. As at December 31, 2017 $21,000 of trade receivables were past due and not impaired. (June 30, 2017: $21,000)

12. Inventories

As at

In AUD'000	**December 31, 2017**	**June 30, 2017**
Raw materials and consumables	12,007	11,988
Work in progress	25,887	22,075
Finished goods	8,476	3,900
Total inventories	**46,370**	**37,963**
Current	45,855	37,448
Non-current	515	515
Total inventories	**46,370**	**37,963**

During the half year ended December 31, 2017 inventories of $117.8m (2016: $117.5m) 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 (2016: $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 December 31, 2017 and 2016 respectively in the following categories:

	Recognised in Profit or Loss		**Recognised in Inventory**		**Total**	
In AUD'000	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment	2,281	2,168	16,232	16,746	18,513	18,914
Deferred exploration and evaluation expenditure	1,401	858	-	-	1,401	858
Intangibles	14	42	-	-	14	42
Total	**3,696**	**3,068**	**16,232**	**16,746**	**19,928**	**19,814**

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 $16.3m in half year ended December 31, 2017 (2016: $15.3m).

During the half year ended December 31, 2017 the Group recognised royalties payable to the Western Australian Government totalling $4.3m (2016: $2.7m). Royalties arise on the shipment of the Group's concentrate from Australia to Malaysia.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2017

13. Property, plant and equipment

As at

In AUD'000	Leasehold land	Buildings plant and equipment	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost	58,101	824,348	7,356	1,015	15,676	20,387	926,883
Accumulated impairment losses	-	(179,597)	(370)	(42)	(227)	(7,065)	(187,301)
Accumulated depreciation	(6,414)	(172,321)	(5,070)	(702)	-	(3,134)	(187,641)
Carrying amount – December 31, 2017	**51,687**	**472,430**	**1,916**	**271**	**15,449**	**10,188**	**551,941**
Cost	55,848	799,452	6,782	947	1,468	18,379	882,876
Accumulated impairment losses	-	(172,424)	(394)	(53)	(234)	(6,781)	(179,886)
Accumulated depreciation	(5,540)	(151,044)	(4,718)	(668)	-	(2,620)	(164,590)
Carrying amount – June 30, 2017	**50,308**	**475,984**	**1,670**	**226**	**1,234**	**8,978**	**538,400**
Cost at July 1, 2017	55,848	799,452	6,782	947	1,468	18,379	882,876
Accumulated depreciation and impairment losses at July 1, 2017	(5,540)	(323,468)	(5,112)	(721)	(234)	(9,401)	(344,476)
Carrying amount at July 1, 2017	50,308	475,984	1,670	226	1,234	8,978	538,400
Additions	-	1,081	120	89	14,857	-	16,147
Depreciation	(627)	(17,298)	(265)	(56)	-	(266)	(18,512)
Disposals	-	(500)	(1)	-	-	-	(501)
Transfers of assets under construction	-	623	333	-	(956)	-	-
Effect of movements in exchange rates	2,006	13,675	59	12	105	341	16,407
Carrying amount at December 31, 2017	**51,687**	**473,565**	**1,916**	**271**	**15,449**	**9,053**	**551,941**

There are no restrictions on the title of any items of property, plant and equipment except as disclosed in the annual financial report for the year ended June 30, 2017.

14. Other non-current assets

As at

In AUD'000	December 31, 2017	June 30, 2017
Security deposits – banking facilities and other, Malaysia	4,241	2,562
Security deposits – banking facilities and other, Australia	530	570
Security deposits – AELB, Australia	29,942	-
Security deposits – AELB, Malaysia	3,513	23,484
Total other non-current assets	**38,226**	**26,616**

Local banking facilities relate both to cash provided for security bonds issued to secure natural gas and electricity supply to LAMP and restricted deposits pledged as collateral and guarantees for bank facilities in Australia.

Deposits to the Malaysian Government's Atomic Energy Licencing Board ("AELB") form a component of a total USD50.0m of instalments due in accordance with the conditions underlying the granting of the Full Operating Stage Licence to the Group for the LAMP in Malaysia. The total amount deposited as security via a bond for the instalments is USD23.4m, with a further USD11.0m paid via cash directly to AELB.

15. Trade and other payables

As at

In AUD'000	**December 31, 2017**	**June 30, 2017**
Trade payables	13,172	8,747
Accrued expenses	16,232	9,136
Security deposits payable to AELB [(1)]	-	20,267
Other payables	10,423	7,498
Total trade and other payables	**39,827**	**45,648**
Current	38,895	44,286
Non-current	932	1,362
Total trade and other payables	**39,827**	**45,648**

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

(1) Security deposits payable to AELB are no longer payable as the amount due was issued in the form of a bond during the period. Refer to Note 14.

16. Borrowings

As at

In AUD'000	**December 31, 2017**	**June 30, 2017 Restated**
Current Borrowings		
JARE loan facility	-	19,516
Non - Current Borrowings		
JARE loan facility	213,800	240,556
Convertible bonds	91,722	233,287
Total borrowings [(1)]	**305,522**	**493,359**
JARE loan facility	213,800	240,556
Total JARE loan facility carrying amount	**213,800**	**240,556**
Principal value of Mt. Kellett convertible bonds [(2)]	113,846	308,354
Unamortised equity component[(2)]	(22,124)	(75,067)
Total convertible bonds carrying amount	**91,722**	**233,287**

(1) There has been no additional drawdown under the loan facilities. Details on the revised terms and conditions of the Group's borrowings are set out below.
(2) The principal balance reflects the full value of the remaining convertible bonds. On initial recognition, part of this value is recognised as a component of equity.

Japan Australia Rare Earths B.V. (JARE) loan facility
The maturity date of the JARE loan facility is June 30, 2020. The interest rate on this facility has increased to 3.75% p.a. at December 31, 2017 (June 30, 2017: 2.50% p.a.) in line with the interest rate calculation below.

If, on the last day of any calendar month ("test date") the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is USD38.0 per kilogram or greater, the interest rate will increase to 3.75% p.a., effective on and from the day after the test date. The interest rate will remain 3.75% p.a. until there have been 6 consecutive test dates on which the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is less than USD38 per kilogram, in which case the interest rate will revert to 2.50% p.a. effective on and from the day after such 6th consecutive test date, and will remain 2.50% p.a. until any test date on which the weighted average realized sale price of NdPr products sold by the Group in the immediately preceding 6 calendar month is USD38 per kilogram or greater.

Future interest liabilities will be paid directly to the lenders. There are no fixed principal repayments from unrestricted cash during the term of the facility. In accordance with the terms of the JARE facility, the JARE restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25.0m on any date after July 31, 2017. Following the satisfaction of that test, the funds in the JARE restricted bank account were applied as follows on August 4, 2017:

(a) USD15.0m was paid to JARE as a principal repayment, reducing the principal balance of the JARE facility to USD185.0m;
(b) The remaining balance in the JARE restricted interest account was used to partially settle the interest incurred from October 1, 2014 to December 31, 2015. The outstanding interest incurred in the same period was forgiven.

Except as indicated below there are no compulsory principal repayments due until the maturity date. Additional voluntary principal repayments can be made without penalty at any time. An additional voluntary principal repayment of USD15.0m was made on October 13, 2017.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2017

On each interest payment date, when the total unrestricted cash balance exceeds $40.0m, the surplus is paid as a principal repayment to JARE pursuant to a cash sweep mechanism. Under the terms agreed with JARE and the bondholders, if Lynas received the proceeds from an equity raising (such as an issuance of shares or an exercise of warrants), then the following amounts will be exempt from the cash sweep: (i) 75% of the proceeds received up to a cumulative balance of USD50.0m, and (ii) 50% of the proceeds above a cumulative balance of USD50.0m.

The payment of interest in respect of the period commencing on January 1, 2016 and ending on December 31, 2016 will be deferred to the maturity date (with no penalty, and no additional interest). All interest accrued after July 1, 2017 is paid as accrued at interest dates of December 31 and June 30 each year.

Lynas shall ensure that in the event of competing demands from the Japanese market and a non-Japanese market for the supply of NdPr produced from the LAMP, the Japanese market shall have priority of supply up to 3,600 tonnes per year subject to the terms of the Availability Agreement that was announced on March 30, 2011 and to the extent that Lynas will not have any opportunity loss.

The JARE loan facility is secured over all of the assets of the Group, other than the Malawi assets. Pursuant to a binding term sheet dated September 24, 2014, the parties agreed that all of the Senior Lender's securities will remain in place for the term of the JARE facility.

Mt. Kellett convertible bonds
As at December 31, 2017, the Company had on issue 86.5m convertible bonds, each with a face value of USD1.00. The bonds are convertible at any time prior to maturity of the bonds at the election of the bondholder. 138.5m of the convertible bonds have been converted during the 6 months ended December 31, 2017. The maturity of the bonds is September 30, 2020 and the coupon rate on the convertible bonds increased to 1.875% p.a. (June 30, 2017: 1.25% p.a.) in line with the interest calculation below. The conversion price was adjusted from $0.10 per share to $1 reflecting the 10 to 1 share consolidation during the period ended December 31, 2017. The conversion exchange rate remained at AUD 1.00 = USD 0.750. If all of the convertible bonds were converted into ordinary shares, 115.3m ordinary shares would be issued.

If the bonds are not converted prior to the maturity date, the face value of the bonds is repayable to the bondholder on the maturity date. Prior to the maturity date, the Company is liable to pay interest on the convertible bonds, as detailed below. A bondholder may, at any time following the occurrence of a defined "Redemption Event", require the Company to redeem some or all of the convertible bonds held by the bondholder. The Redemption Events include, for example, an insolvency event occurring in relation to a Group Company, a Group Company ceasing (or threatening to cease) to carry on all or part of its business which is likely to be materially adverse to the Group as a whole, a cross default by the Group in relation to certain other financial indebtedness (including the JARE loan facility), and a change in control of any member of the Group.

The convertible bonds are unsecured. The convertible bond terms include customary covenants which restrict the Group from incurring any financial liabilities or creating any security interests which in each case would rank senior to or pari passu with the convertible bonds, subject to specified exceptions which include the JARE loan facility.

If, on the last day of any calendar month ("test date") the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is USD38 per kilogram or greater, the interest rate will increase to 1.875% p.a., effective on and from the day after the test date. The interest rate will remain 1.875% p.a. until there have been 6 consecutive test dates on which the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is less than USD38 per kilogram, in which case the interest rate will revert to 1.25% p.a. effective on and from the day after such 6th consecutive test date, and will remain 1.25%p.a. until any test date on which the weighted average realized sale price of NdPr products sold by the Group in the immediately preceding 6 calendar month is USD38 per kilogram or greater.

The interest incurred from January 1, 2016 to December 31, 2016 was deferred to the maturity date with no penalty and no additional interest. All interest accrued after July 1, 2017 is paid as accrued at interest dates of December 31 and June 30 each year. As a bond is converted prior to the maturity date, the associated interest owed on that bond is paid on conversion.

In accordance with the terms of the convertible bond facility, the convertible bond restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25.0m on any date after July 31, 2017. Following satisfaction of that test, on August 4, 2017, the funds in the convertible bond restricted bank account were applied in full payment of the interest incurred from January 1, 2015 to December 31, 2015 and additional interest on withdrawals made in 2016.

17. Provisions

In AUD'000	Restoration and rehabilitation	Onerous contract	Other	Total
Current	-	315	-	315
Non-current	58,882	84	116	59,082
Total provisions at December 31, 2017	**58,882**	**399**	**116**	**59,397**
Current	-	309	-	309
Non-current	57,186	241	116	57,543
Total provisions at June 30, 2017	**57,186**	**550**	**116**	**57,852**

Restoration and rehabilitation

The activities of the Group give rise to obligations for asset and site restoration and rehabilitation at the LAMP in Malaysia and the 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.

The Group has engaged third party specialists to assist in estimating costs and will review these estimates periodically over time as the operations continue to develop.

The unwinding effect of discounting of the provision is recognised as a finance cost.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2017

Onerous lease provision
Since the relocation of headquarters from Sydney to Kuantan, the Company has sub-let the Sydney office to save on rental expenses going forward. The onerous contract provision, which is based on the future rental payments net of estimated recoveries from sub-letting, has been reduced from $0.6m to $0.4m in line with the remaining term of the lease.

18. Equity and other comprehensive income

18.1 Share Capital

Number of shares ('000)	For the half year ended December 31, 2017	For the year ended June 30, 2017
Opening balance	3,677,743	3,488,438
Issue of shares pursuant to conversion of convertible bonds	1,713,333	-
Issue of shares pursuant to exercised warrants	95,733	156,154
Issue of shares pursuant to exercised performance rights	-	33,151
Subtotal prior to share consolidation	**5,486,809**	**3,677,743**
10 to 1 share consolidation	(4,938,124)	-
Subtotal after share consolidation	**548,685**	**3,677,743**
Issue of shares pursuant to conversion of convertible bonds	13,333	-
Issue of shares pursuant to exercised performance rights	1,642	-
Closing balance	**563,660**	**3,677,743**

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 December 31, 2017 (2016: 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

	December 31, 2017	December 31, 2016 Restated
Net earnings attributed to ordinary shareholders (in AUD'000)	50,810	24,908
Earnings used in calculating basic earnings per share (in A'$000)	**50,810**	**24,908**
Net earnings impact of assumed conversions for diluted EPS (in AUD'000)	3,472	-
Earnings used in calculating diluted earnings per share (in A'$000)	**54,282**	**24,908**
Weighted average number of ordinary shares used in calculating basic earnings per share ('000)	484,515	349,179
Weighted average number of ordinary shares used in calculating diluted earnings per share ('000)	638,268	411,284
Basic earnings per share (cents per share)	10.49	7.13
Diluted earnings per share (cents per share)	8.57	6.06

The basic and diluted earnings per share for the half-year ended December 31, 2016 comparative period has been restated to reflect the 10 to 1 share consolidation of Lynas Corporation Ltd shares, which was completed on December 4, 2017, as well as the correction of error as detailed in Note 5.

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 and Vice President for Sales and Marketing.

Movement in employee share options and performance rights during the period

	For the half year ended December 31, 2017	
	Number of performance rights ('000)	**Weighted average exercise price ($)**
Balance at beginning of period	94,791	0.00
Granted during the period	45,795	0.00
Forfeited during the period	(11,130)	0.00
Subtotal prior to share consolidation	**129,456**	**0.00**
10 to 1 share consolidation	(116,527)	0.00
Subtotal after share consolidation	**12,929**	**0.00**
Exercised during the period	(1,642)	0.00
Balance at end of period	**11,287**	**0.00**

During the period, the Group recognised an expense of $2.8m, offset by $0.8m reversed due to forfeiture within the profit and loss component of the statement of comprehensive income (2016: net expense of $1.1m).

4,580 thousand performance rights (adjusted for the share consolidation) were granted with various performance conditions.

There were no share options outstanding at December 31, 2017. The outstanding performance rights had a nil weighted average exercise price (June 30, 2017: $nil) and a weighted average remaining contractual life of 973 days (June 30, 2017: 1,088 days).

19.1 Non-employee share options and performance rights exercised

There were no non-employee share options exercised during the half year ended December 31, 2017.

20. Warrants

On December 9, 2016 the Group issued 348,843,836 unlisted warrants to the Mt. Kellett led bond holder group as part of the commercial terms relating to the maturity extension of the convertible bond. From the date of issue, each warrant is exercisable into one ordinary share at an exercise price of $0.05 and has an expiry date of September 30, 2020. 77,520,853 of these warrants were exercised during the period. As a result of the 10 to 1 share consolidation, the exercise price was adjusted to $0.50 with 27,132,301 warrants on issue at December 31, 2017.

The costs of these equity-settled transactions have been measured by reference to the fair value at the date at which they were granted using the Black Scholes pricing model. Each option had a fair value of $0.0235.

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. Given the nature of non-derivative financial liabilities the carrying amount is a reasonable approximation of fair value.

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).

As at December 31, 2017 the Group did not hold any Level 1 and Level 2 financial instruments. All financial instruments held are level 3 financial instruments.

22. Subsequent events

On January 29, 2018, bondholders converted USD10.0m of their convertible bonds which resulted in an additional 13.3m shares issued. On January 31, 2018, bondholders converted a further USD10.0m of their convertible bonds which resulted in a further 13.3m shares issued.

As a result of these conversions, the remaining liability in respect to the convertible bonds facility has reduced to USD66.5m.

There have been no other events subsequent to December 31, 2017 that would require accrual or disclosure in the interim unaudited condensed consolidated financial statements.

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent Auditor's Review Report to the Members of Lynas Corporation Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Lynas Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2017, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory 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 2017 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 2017 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.

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

Glenn Maris
Partner
Sydney
5 March 2018