

Appendix 4D (Listing Rule 4.2A.3)

Lynas Corporation Ltd (ACN 009 066 648) And Controlled Entities

For the half year ended 31 December 2018

Reporting Period: Half year ended 31 December 2018

Comparative Reporting Period: Half year ended 31 December 2017

Results for announcement to market

In AUD (000's)	31 December 2018	31 December 2017	Change	% Change
Revenue from ordinary activities	179,801	200,922	(21,121)	(10.5%)
Earnings before interest, tax, depreciation, amortisation and treasury charges (EBITDA)	50,797	83,005	(32,208)	(38.8%)
Profit from ordinary activities after tax attributable to members.	19,024	50,810	(31,876)	(62.6%)
Net profit for the period attributable to members	19,024	50,810	(31,876)	(62.6%)

Dividend Information

No dividends have been paid or proposed at 31 December 2018

Net Tangible Assets

	31 December 2018 (cents)	31 December 2017 (cents)
Net Tangible Assets per share	52.66	59.25

Emphasis of Matter included in Auditor Review Report

The financial statements have been prepared on a going concern basis after consideration of the various matters detailed in Note 2.2. However, in accordance with applicable accounting standards, the Auditor Review Report includes the following Emphasis of Matter paragraph:

“Without qualifying our conclusion, we draw attention to Note 2.2 to the financial statements which describes the principal conditions that raise doubt about the consolidated entity’s ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity’s ability to continue as a going concern. Our conclusion is not modified in respect of this matter.”



ACN 009 066 648

and

Controlled Entities

Interim Unaudited Condensed Consolidated Financial Report

For the half year ended December 31, 2018



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
11 Mounts Bay Road
Perth WA 6000

Internet Address

www.lynascorp.com

Table of Contents

	Page
Directors' Report	1
Directors' Declaration	9
Auditor's Independence Declaration	10
Interim Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	11
Interim Unaudited Condensed Consolidated Statement of Financial Position	12
Interim Unaudited Condensed Consolidated Statement of Changes in Equity	13
Interim Unaudited Condensed Consolidated Statement of Cash Flows	14
Notes to the Interim Unaudited Condensed Consolidated Financial Statements	14
Independent Auditor's Review Report	28

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, 2018.

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	Non-Executive Chairman
Amanda Lacaze	Managing Director
Kathleen Conlon	Non-Executive Director
Philippe Etienne	Non-Executive Director
John Humphrey	Non-Executive Director
Grant Murdoch	Non-Executive Director

Financial performance

For the half year ended

In AUD Million (m)	December 31,	
	2018	2017
Revenue	179.8	200.9
Cost of sales	(133.7)	(117.8)
Gross profit	46.1	83.1
General and administration expenses	(16.4)	(16.1)
Net foreign exchange gain / (loss)	0.1	(3.5)
Other expenses	(0.1)	(0.5)
Profit from operating activities	29.7	63.0
Financial income	1.1	21.3
Financial expenses	(11.7)	(33.5)
Net financial (expenses) / income	(10.6)	(12.2)
Profit before income tax	19.1	50.8

The Company achieved a solid result for the half year ended December 31, 2018, despite financial performance being affected by difficult regulatory conditions and subdued market conditions compared to the prior corresponding period. The Company was in production for only five months of the half year due to equipment shutdowns in November 2018 associated with Lynas NEXT and a temporary production halt in December 2018, once the plant reached the annual approved limit for processing of lanthanide concentrate. Revenue was \$179.8m in the half year to December 31, 2018, down 11% on the half year to December 31, 2017.

Despite the shutdown of production for one month during the period, sales volumes grew by 5% in the half year to December 31, 2018 compared to the prior corresponding period. Customer demand remained strong during the period, particularly for NdPr products. Total tonnes sold was a new half year record, however, the product mix skewed towards La and Ce compared to previous quarters, delivering a lower average price.

The average market rate of the NdPr China Domestic Price (VAT excluded) of US\$39/kg – US\$41/kg remained low during the period, compared to an average price of US\$51/kg for the half year ended December 31, 2017. La and Ce prices experienced marginal increases in line with ongoing product improvement.

Production volumes increased by 9% during the half year, an excellent result given the one month shutdown of production. Cost of sales increased by 14%, primarily due to an increase in overall production volumes, a product mix including more NdPr sales which generate a higher cost of sales, higher variable costs and depreciation expenses, and increased employment and utility costs associated with the production processes.

As a result, gross profit for the period was \$46.1m (H1 2018: \$83.1m). Net profit after tax (NPAT) was \$19.0m (H1 2018: \$50.8m).

Other general and administration expenses remained steady, including insurance premiums, consultancy fees, telecommunications and general office expenditures. Overall production cost recoveries increased by \$2.6m in the half year.

The profit from operating activities (EBIT) was \$29.7m (H1 2018: \$63.0m). 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 \$53.0m (H1 2018: \$85.5m) in the half year ended December 31, 2018. This represents a strong EBITDA margin of 28.3%.

Financial expenses decreased due to non-cash adjustments made to the present value of the financial liabilities of \$16.5m as a result of early debt repayments and changes in interest rates recognised in the half year ended December 31, 2017. Interest on both the JARE loan and convertible bonds has decreased as a result of the reduction in principal balance of both facilities.

Notes to the interim unaudited condensed consolidated financial statements For the half year ended December 31, 2018

These financial expenses were offset by financial income. \$20.8m of the financial income recognised during the half year ended December 31, 2017, was a one off income item as a result of the refinancing of the facilities in August 2017.

Cash flow

For the half year ended

In AUD Million (m)	December 31,	
	2018	2017
Net operating cash inflow	41.2	80.2
Net investing cash outflow	(26.3)	(42.3)
Net financing cash outflow	(4.2)	(53.9)
Net cash flow	10.7	(16.0)

Operating cash flows

During the half year ended December 31, 2018, the Group's cash receipts from sales were \$182.2m (December 31, 2017: \$204.8m). This reflected the reduction in sales revenue during the period due to the temporary production halt and Lynas NEXT commissioning and the lower NdPr price. Payments to suppliers and employees and royalty payments increased due to the overall increase in production volumes.

Investing cash flows

Net investing cash outflows decreased during the half year ended December 31, 2018 due to a reduction in \$20.2m in deposits paid as security for Atomic Energy Licensing Board (AELB) payments. This was offset by an increase in payments for property plant and equipment, largely due to capital expenditure associated with Lynas NEXT.

Financing cash flows

Net financing cash outflows for the half year ended December 31, 2018 include \$4.1m in net interest paid during the period. The prior half year included a \$38.5m (USD30.0m) principal repayment under the JARE loan facility offset by \$4.6m in proceeds from warrants. There were no principal debt repayments or warrant conversions during the current half year.

Financial position

As at

In AUD Million (m)	December 31,	June 30,
	2018	2018
Assets		
Cash and cash equivalents	53.7	42.3
Inventories	59.5	55.8
Property, plant and equipment	597.7	594.4
Deferred development expenditure	23.5	18.7
Other assets	78.5	53.4
Total assets	812.8	764.6
Liabilities		
Borrowings	241.2	225.1
Other liabilities	110.2	105.0
Total liabilities	351.4	330.1
Net assets	461.4	434.5
Equity		
Share capital	1,395.4	1,395.4
Accumulated losses	(917.3)	(936.3)
Reserves	(16.7)	(24.6)
Total equity	461.4	434.5

Cash and cash equivalents at December 31, 2018 comprise \$53.7m (June 30, 2018: \$42.3m) fully unrestricted cash accounts. In line with the cash sweep mechanism in the JARE loan agreement, a payment of USD3.1m was made in January 2019. No repayments were made on the facility during the half year ended December 31, 2018.

Other assets include deposits held as security via a bond for the Malaysian Government's AELB. Total deposits increased by \$13.0m due to a deposit of \$10.7m (USD7.8m) and a strengthening of the USD over the period to a balance of \$51.7m at December 31, 2018. The closing balance at December 31, 2018 consists of deposits of \$51.7m and trade and other receivables and prepayments of \$26.8m.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018

No convertible bonds were converted during the period, leaving an outstanding principal of USD15.2m (AUD19.3m) at December 31, 2018. The present value of both the JARE loan and convertible bonds increased due to interest accretion during the half year and a strengthening of the USD (both facilities are denominated in USD).

Capital structure

During the half year ended December 31, 2018, the Company issued shares as shown below:

	Number (000's)
Shares on issue June 30, 2018	662,547
Issue of shares pursuant to exercised performance rights	3,135
Shares on issue December 31, 2018	665,682

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 AU\$1.00 = US\$0.75)	15,242
Unlisted warrants (Exercise price: \$0.50)	23,256

Review of operations

Highlights during the half year ended December 31, 2018:

- Solid half year result despite difficult regulatory and market conditions.
- The company increased production and sales volume compared to the prior corresponding period, despite the production shutdown for one month in the half year to December 31, 2018.
- Record sales volume.
- Ready for sale production of NdPr increased to 2,802 tonnes (H1 2018: 2,664 tonnes) despite the one month shutdown of production.
- Total ready for sale production of rare earth oxide (REO) increased to 9,642 tonnes (H1 2018: 8,839 tonnes).
- Strong cash inflows generated despite a fall in the Neodymium-Praseodymium ("NdPr") China Domestic Price.
- Over 600 tonnes of NdPr produced in 2 consecutive months (September and October 2018).
- Successful start-up of new Nd and Pr separation circuit as part of Lynas NEXT and first production and sales of separated Nd.
- Lynas NEXT substantially complete at Lynas Malaysia with initiatives continuing at Mt Weld, Australia.
- Commenced Mining Campaign 3 at Mt Weld.

Mt Weld

The Lynas mine at Mt Weld continued to operate safely and efficiently throughout the half year.

In the period, overburden removal for Mining Campaign 3 commenced at Mt Weld, Western Australia. A locally based company who conducted the previous two mining campaigns, is the contractor for this mining campaign.

The half year saw the completion of several Lynas NEXT improvements at Mt Weld including:

- A major update of the Mt Weld Mineral Resource and Ore Reserve Statement was announced on August 6, 2018 with a 70% increase in Mineral Resource and a 60% increase in Ore Reserve. Transition and fresh mineralisation were included for the first time as Inferred Resource. The Duncan deposit was included in the Ore Reserve for the first time. The updated Ore Reserve has confirmed a 25+ year life at Lynas NEXT rates (600t NdPr/month).
- The construction of the third Tailings Storage Facility (TSF3) was completed and commissioning is underway.
- A sump has been excavated in the eastern diversion channel and two of the four planned aquifer re-injection wells have been drilled and installed.

As announced at the Lynas 2017 AGM, the Lynas NEXT project has focussed on improving plant reliability and recoveries, increasing production, output and delivering an improved product range, including some higher value products.

Lynas Malaysia

Rare Earth Oxide (REO) ready for sale production at Lynas Malaysia for the half year ended December 31, 2018 increased to 9,642 tonnes (H1 2018: 8,839 tonnes). Sales during the half year also grew to a total of 9,418 tonnes (H1 2018: 8,998 tonnes).

The cracking and leaching kilns at the Lynas Malaysia continue to operate above design rates, treating 12,957 tonnes of REO concentrate in the half year ending December 31, 2018 (H1 2018: 14,883 tonnes). The decrease was due to the shutdown in December 2018.

Final commissioning of the new Nd and Pr separation circuit was completed, with first production of separated Nd delivered late in the half year ending December 31, 2018.

**Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018**

Ready for sale by tonnage

	FY14	FY15	FY16	FY17	FY18	YTD FY19
Ready for sale production volume total (REOt)	3,965	8,799	12,631	16,003	17,753	9,642
Ready for sale production volume NdPr (REOt)	946	2,258	3,896	5,223	5,444	2,802

Malawi operations

The group's Malawi mining lease ML0122/2003 has been the subject of an ongoing dispute. The value of the group's Malawi assets was written down to nil in the group's accounts several years ago, and no capital expenditure has been made in Malawi for several years. During the half year, the Malawi government purported to cancel the group's Malawi mining lease. In response, the group has initiated judicial review proceedings in the Malawi courts challenging that decision.

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, 2018 was 1.9 per million hours worked (2017: 1.2 per million hours worked). The Company continued to carefully manage all residues, air, water and solid, and met or exceeded all current licence requirements.

Strategic marketing and sales

Demand for magnetic materials using NdPr continues to grow in line with increased demand for energy efficient technologies, 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.

As the move to car electrification is yet to translate into sharp demand increases, the broader market remains unsettled. We expect this to continue until the new growth is realised.

Lynas is focussed on continuing to build key customer relationships in strategic markets, which include current and future-facing applications for Rare Earth materials. 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

	H1 FY17	H2 FY17	FY17	H1 FY18	H2 FY18	FY18	H1 FY19
Sales volume (REOt)	6,431	8,185	14,616	8,998	8,674	17,672	9,418
Cash receipts from customers (AUDm)	115.8	144.6	260.4	204.5	178.6	383.1	182.2

Lynas, with 100% of capacity commissioned and operating, can confidently serve these growing markets. Over the 6 months to December 31, 2018, sales volumes continued to increase reflecting increased production rates, consistent demand for NdPr products and quality improvements for Cerium and Lanthanum products. This result has occurred despite a reduction in production in November and December due to reaching the annual production limit for processing lanthanide concentrate and shutdowns associated with the final commissioning of the Nd and Pr separation processes.

Malaysian Regulatory Matters

The Lynas Malaysia plant operates under the terms of a Full Operating Stage Licence (FOSL), which is due for renewal on September 2, 2019. The terms of the existing Full Operating Stage Licence state that WLP residue should be recycled, and if that fails, then it should be stored in a Permanent Disposal Facility (PDF). Export of WLP is only to be considered in the event neither recycling nor a PDF are possible. The WLP is currently stored in temporary storage facilities on site and in accordance with the current licence. Lynas' PDF planning Framework and Site Selection Plan were approved by the Atomic Energy Licensing Board on February 25, 2014. In addition, the Pahang State Government has given its consent to the location of a PDF in Pahang, should it be required.

Following the change of government in Malaysia in May 2018, the Malaysian Government appointed a Review Committee to complete an assessment of Lynas Malaysia's compliance with the terms of its operating licence and of its overall operations. The Review Committee released its formal report on December 4, 2018 and found that Lynas Malaysia's operations are low risk and compliant with all applicable laws and the terms of its existing operating licence. The Review Committee re-iterated that Lynas Malaysia should only be required to export WLP residues if the building of a PDF could not be achieved.

Also on December 4, 2018, the Atomic Energy Licensing Board (AELB) issued a letter to Lynas specifying two new pre-conditions for the renewal of Lynas Malaysia's Full Operating Stage Licence:

- 1) The export before September 2, 2019 of all WLP residue that is currently stored at the LAMP; and
- 2) Submission of an action plan on the disposal of NUF.

As noted in the Subsequent Events section, on February 14, 2019, the Group announced that following extensive consultation with the Malaysian government and regulators, there is an agreed pathway for the management of NUF. An updated NUF action plan has been submitted as

**Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018**

required, which includes commercialisation options for NUF and a long term NUF disposal solution. At this stage, the Group does not expect that this will involve material additional compliance costs.

Exporting the volume of WLP presently on site within the timeframe mandated by the AELB is unachievable. Lynas continues to engage with the Malaysian government to agree a basis upon which Lynas will achieve a renewal of its operating licence.

The following matters are also relevant in assessing the current status of Malaysian regulatory issues:

- Lynas Malaysia continues to engage in discussions with the Malaysian government seeking to agree a basis upon which Lynas will achieve a renewal of its operating licence. The Directors have reasonable confidence that an appropriate resolution will be achieved.
- The Review Committee Report that was released on December 4, 2018 found that Lynas Malaysia's operations are low risk and compliant with applicable laws. The Review Committee Report recommended the siting and construction of a PDF for the WLP residue, and Lynas would be willing to comply with that recommendation.
- Lynas Malaysia has commissioned numerous studies by independent researchers that demonstrate that WLP, NUF and filler material can be used in a soil conditioner product known as Condisoil. All of the studies demonstrate that Condisoil is safe and commercially beneficial. Customers in Malaysia are ready to accept Condisoil from Lynas Malaysia subject to receipt of pending regulatory approvals.
- Lynas has strong relationships with each of its lenders, and its lenders have expressed strong support for the continuation of the Lynas Malaysia business.
- Lynas Malaysia has filed an appeal pursuant to the Atomic Energy Licencing Act 1984 in respect of the AELB letter dated December 4, 2018 requiring WLP to be exported as a pre-condition to the renewal of Lynas Malaysia's operating licence.
- Lynas is the only significant supplier of Rare Earths products outside China. Lynas' products are critical to several key global supply chains including the automotive, electronics, oil and gas, catalytic and wind turbines supply chains. Various key trading partners of Malaysia, including Japan, the United States and Australia, have expressed strong support for the Lynas Malaysia business.

Note 2.2 contains additional information on Malaysian regulatory matters and the basis of preparation of the financial statements.

Earnings per share

For the half year ended

	December 31,	
	2018	2017
Basic earnings per share (cents per share)	2.87	10.49
Diluted earnings per share (cents per share)	2.78	8.57

Dividends

There were no dividends declared or paid during the half year ended December 31, 2018 (2017: nil) and no dividends have been declared or paid since December 31, 2018.

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:

Rare earth prices

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

- (i) *Supply side factors*
Supply of rare earth materials is 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. Recently, the China Central government has 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.
- (ii) *Fluctuations in demand*
A key factor influencing rare earth demand is automotive market demand, both in terms of production quantity and technology incorporated into the vehicles manufactured. Energy-efficient (hybrid/electrical), green (emission controlled) and luxury vehicles require significantly more rare earth materials during the manufacturing process than basic motor vehicles. The market price of rare earth materials is

**Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018**

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 since July 2017:

NdPr China Domestic Price (VAT excluded)						
	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
US\$/kg	57.0	44.6	45.2	44.2	40.5	39.4

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

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

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

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

Market competition

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

Exchange rates

Lynas is exposed to fluctuations in the US dollar as all sales are denominated in US dollars. The Company borrows money and holds a portion of cash in US dollars, which provides the Group with a partial natural hedge.

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

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

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

	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	6 months to December 31, 2018
	\$	\$	\$	\$	\$	\$
USD/AUD	0.9187	0.8382	0.7283	0.7545	0.7791	0.7247
MYR/AUD	2.9804	2.8828	3.0098	3.2331	3.2832	2.9941

	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	6 months to December 31, 2018
	\$	\$	\$	\$	\$	\$
USD/AUD	0.9187	0.8382	0.7283	0.7545	0.7791	0.7247
MYR/AUD	2.9804	2.8828	3.0098	3.2331	3.2832	2.9941

A devaluation in the Chinese Yuan would increase attractiveness in Chinese exports and China's internal supply. Fluctuation in the Chinese Yuan against the US Dollar 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, such as hazards in exploration, the ability of third parties to meet their commitments in accordance with contractual arrangements, the realisation of tonnages and grades of ore and performance of processing facilities against design specification. Factors such as these may result in increased costs, lower production levels and, following on from that, lower revenue levels. Any negative outcomes flowing from these operational risks could have an adverse effect on Lynas' business, financial condition, profitability and performance.

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.

Notes to the interim unaudited condensed consolidated financial statements For the half year ended December 31, 2018

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. Therefore, enforcement may involve enforcement of security over the assets of Lynas and its material subsidiaries, including appointing a receiver.

The principal amount of the JARE facility was US\$150.0m as at December 31, 2018. The principal amount will be due for repayment on June 30, 2020. In addition, the principal amount of the convertible bonds was US\$15.2m as at December 31, 2018. Unless the convertible bonds are fully converted into ordinary shares in Lynas prior to maturity, the principal amount 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.

The Group requires various licences and approvals for its operations at both sites, and such licences and approvals customarily require renewal on a periodic basis. For example, Lynas Malaysia's full operating stage licence was most recently renewed for a three-year period on September 2, 2016. In addition, as the Group continues to ramp up operations, there are various conditions in our operating licences that may require amendment to accommodate expansions of the business. Such amendments would require approval from the relevant regulatory authorities.

The operating licences for the two sites include conditions relating to several key aspects of operations, including volumes of inputs to be processed, environmental matters and management of residues. The Group has lodged a detailed residue management plan with the regulatory authorities in Malaysia. The Group has demonstrated that the solid residues from Lynas Malaysia can be safely commercialised, however the Group's commercialisation plans require approval from the regulatory authorities. Similarly, options for potential long term storage of solid residues from Lynas Malaysia would require approval from the regulatory authorities.

Note 2.2 includes additional information on Regulatory Risk.

Interest rates

Lynas is exposed to some interest rate risk on its borrowings. The interest rate on the JARE loan facility and the convertible bonds facility 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 extensive laws and regulation in respect of the health and safety of our people and the protection and rehabilitation of the environment within which the plants operate. Lynas must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. Changes in weather patterns and unanticipated or severe weather events could also have an adverse impact on Lynas' operations and market conditions.

Health, safety and the environment matters are a key focus area for Lynas and the Group is committed to provide and maintain a healthy and safe work environment and to comply with all relevant environmental legislation and other relevant requirements. Sanctions for non-compliance with these laws and regulations may include administrative, civil and criminal penalties, revocation of permits and corrective action orders. These laws sometimes apply retroactively. In addition, a party can be liable for environmental damage without regard to that party's negligence or fault. Given the sensitive nature of this area, Lynas may be exposed to litigation and foreseen and unforeseen compliance and rehabilitation costs despite its best efforts.

Political risks and government actions

Lynas' operations could be affected by government actions in Australia, Malaysia and other countries or jurisdictions in which it has interests. Lynas is subject to the risk that it may not be able to carry out its operations as it intends, including because of a change in government, legislation, regulation or policy. Lynas also may not be able to ensure the security of its assets located outside Australia, and is subject to risks of, among other things, loss of revenue, property and equipment if action was taken by governments, political or social groups or activists, or regulators, or if there was an increase in taxes or government royalties. The emergences of such risks, and their consequences, is difficult to predict and any combination of one or other of the above may have a material adverse effect on Lynas.

**Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018**

The change of government in Malaysia that occurred in May 2018 has the potential to create additional risks for the business. In order to continue operating the business as currently projected, Lynas will need to continue to receive new licences, renewals of existing licences and variations of the terms of existing licences. Examples may include increases to concentrate import volumes, additional residue storage approvals and periodic renewals of licences. Such amendments would require approval from the relevant regulatory authorities acting in accordance with government policy and licence conditions.

Note 2.2 includes additional information on Political Risks and Government Actions.

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.

Significant changes in the state of affairs

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

Auditor's independence declaration

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

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission, in relation to the "rounding off" of amounts. Amounts in the Directors' Report and Financial Report have been rounded off, in accordance with the Instrument, to the nearest thousand dollars, unless otherwise stated.

Subsequent events

On February 14, 2019, the Group announced that following extensive consultation with the Malaysian government and regulators, there is an agreed pathway for the management of the solid residue known as NUF. The updated NUF action plan includes commercialisation options for NUF and a long term NUF disposal solution. At this stage, the Group does not expect that this will involve material additional compliance costs.

There have been no other events subsequent to December 31, 2018 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



Mike Harding
Chairman
Sydney, February 28, 2019

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 Corporations Instrument 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 Corporations Instrument 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



Mike Harding
Chairman
Sydney, February 28, 2019

Auditor's independence declaration to the directors of Lynas Corporation Limited

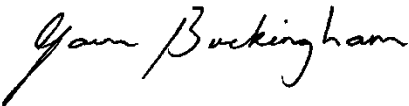
As lead auditor for the review of Lynas Corporation Limited for the financial half year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- 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



Gavin Buckingham
Partner
Perth
28 February 2019

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

For the half year ended

In AUD'000	Note	December 31	
		2018	2017
Revenue		179,801	200,922
Cost of sales	6	(133,675)	(117,767)
Gross profit		46,126	83,155
General and administration expenses	6	(16,399)	(16,063)
Net foreign exchange gain / (loss)		136	(3,540)
Other expenses		(144)	(501)
Profit from operating activities		29,719	63,051
Financial income	7	1,118	21,282
Financial expenses	7	(11,679)	(33,491)
Net financial expenses		(10,561)	(12,209)
Profit before income tax		19,158	50,842
Income tax expense	8	(134)	(32)
Profit for the period		19,024	50,810
Other comprehensive income for the period net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		5,304	27,884
Total other comprehensive income for the period, net of income tax		5,304	27,884
Total comprehensive income for the period attributable to equity holders of the Company		24,328	78,694
Earnings per share			
Basic earnings per share (cents per share)	18	2.87	10.49
Diluted earnings per share (cents per share)	18	2.78	8.57

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, 2018	June 30, 2018
Assets			
Cash and cash equivalents	9	53,697	42,292
Trade and other receivables	10	23,082	12,365
Prepayments		3,714	2,358
Inventories	11	56,652	51,658
Total current assets		137,145	108,673
Inventories	11	2,810	4,109
Property, plant and equipment	12	597,655	594,416
Deferred exploration, evaluation and development expenditure		23,455	18,725
Other non-current assets	13	51,723	38,708
Total non-current assets		675,643	655,958
Total assets		812,788	764,631
Liabilities			
Interest payable		444	452
Trade and other payables	14	35,046	35,012
Borrowings	15	4,395	-
Employee benefits		2,064	2,142
Provisions	16	26	357
Tax Payable		67	52
Total current liabilities		42,042	38,015
Trade and other payables	14	530	580
Interest payable		1,687	1,607
Borrowings	15	236,763	225,112
Employee benefits		460	354
Provisions	16	69,888	64,485
Total non-current liabilities		309,328	292,138
Total liabilities		351,370	330,153
Net assets		461,418	434,478
Equity			
Share capital		1,395,417	1,395,417
Accumulated losses		(917,337)	(936,361)
Reserves		(16,662)	(24,578)
Total equity attributable to equity holders of the Company		461,418	434,478

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, 2018		1,395,417	(936,361)	(109,619)	45,091	34,094	5,856	434,478
Other comprehensive income for the period		-	-	5,304	-	-	-	5,304
Total income for the period		-	19,024	-	-	-	-	19,024
Total comprehensive income for the period		-	19,024	5,304	-	-	-	24,328
Employee remuneration settled through share-based payments		-	-	-	2,612	-	-	2,612
Balance at December 31, 2018		1,395,417	(917,337)	(104,315)	47,703	34,094	5,856	461,418
Balance at July 1, 2017		1,094,403	(989,480)	(156,541)	39,970	40,413	83,390	112,155
Other comprehensive income for the period		-	-	27,884	-	-	-	27,884
Total income for the period		-	50,810	-	-	-	-	50,810
Total comprehensive income 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

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

Interim Unaudited Condensed Consolidated Statement of Cash Flows
For the half year ended

In AUD'000	Note	December 31,	
		2018	2017
Cash flows from operating activities			
Receipts from customers		182,208	204,853
Payments to suppliers and employees		(136,572)	(120,784)
Royalties paid		(4,335)	(3,870)
Income taxes paid		(121)	(32)
Net cash from operating activities		41,180	80,167
Cash flows from investing activities			
Payments for property, plant and equipment		(13,283)	(5,209)
Payments for deferred exploration, evaluation and development expenditure		(2,345)	(5,053)
Security bonds paid		(41)	(1,141)
Security bonds refunded		10	11
Deposit as collateral for AELB		(10,661)	(30,864)
Net cash used in investing activities		(26,320)	(42,256)
Cash flows from financing activities			
Interest received		804	416
Interest and other financing costs paid		(4,942)	(20,343)
Repayment of long-term borrowing (JARE loan facility)		-	(38,526)
Proceeds from the issue of share capital		-	4,568
Net cash used in financing activities		(4,138)	(53,885)
Net increase / (decrease) in cash and cash equivalents		10,722	(15,974)
Cash and cash equivalents at the beginning of the period		42,292	63,925
Effect of exchange rate fluctuations (net) on cash held		683	(119)
Cash and cash equivalents at end of the period	9	53,697	47,832

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, 2018

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, 2018 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 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, 2018.

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 Going concern

The Lynas Advanced Materials Plant (LAMP), owned and operated by Lynas Malaysia, produces two types of solid residue, Water Leach Purification Residue (WLP) and Neutralisation Underflow Residue (NUF).

WLP is managed under the terms of the Full Operating Stage Licence, which is due for renewal on September 2, 2019. The terms of the existing Full Operating Stage Licence state that WLP residue should be recycled, and if that fails, then it should be stored in a Permanent Disposal Facility (PDF). Export of WLP is only to be considered in the event neither recycling nor a PDF are possible. The WLP is currently stored in temporary storage facilities on site and in accordance with the current licence. Lynas’ PDF planning Framework and Site Selection Plan were approved by the Atomic Energy Licensing Board on February 25, 2014. In addition, the Pahang State Government has given its consent to the location of a PDF in Pahang, should it be required.

The Malaysian Government appointed a Review Committee to complete an assessment of Lynas Malaysia’s compliance with the terms of its operating licence and of its overall operations in October 2018. The Review Committee released its formal report on December 4, 2018 and found that Lynas Malaysia’s operations are low risk and compliant with all applicable laws and the terms of its existing operating licence. The Review Committee re-iterated that Lynas Malaysia should only be required to export WLP residues if the building of a PDF could not be achieved.

Also on December 4, 2018, the Atomic Energy Licensing Board (AELB) issued a letter specifying two new pre-conditions for the renewal of Lynas Malaysia’s operating licence:

- 1) The export before September 2, 2019 of all WLP residue that is currently stored at the LAMP; and
- 2) Submission of an action plan on the disposal of NUF.

As noted in the Subsequent Events section, on February 14, 2019, the Group announced that following extensive consultation with the Malaysian government and regulators, there is an agreed pathway for the management of NUF. An updated NUF action plan has been submitted as required, which includes commercialisation options for NUF and a long term NUF disposal solution. At this stage, the Group does not expect that this will involve material additional compliance costs.

Exporting the volume of WLP presently on site within the timeframe mandated by the AELB is unachievable. Lynas continues to engage with the Malaysian government to agree a basis upon which Lynas will achieve a renewal of its operating licence. If such a regulatory outcome is not achieved in Malaysia, there would be a material uncertainty regarding the Group’s ability to continue to operate the LAMP in its current form beyond September 2, 2019

The Directors consider it appropriate to prepare the financial statements on a going concern basis after having regard to the following pertinent matters:

- Lynas Malaysia continues to engage in discussions with the Malaysian government seeking to agree a basis upon which Lynas will achieve a renewal of its operating licence. The Directors have reasonable confidence that an appropriate resolution will be achieved.
- Consistent with the AELB letter dated December 4, 2018, Lynas Malaysia has submitted an updated action plan on the management of NUF to the Department of Environment (DOE). As noted in the Subsequent Events section, on February 14, 2019, the Group announced that following extensive consultation with the Malaysian government and regulators, there is an agreed pathway for the management of NUF. The updated NUF action plan includes commercialisation options for NUF and a long term NUF disposal solution. At this stage, the Group does not expect that this will involve material additional compliance costs.
- The Review Committee Report that was released on December 4, 2018 found that Lynas Malaysia’s operations are low risk and compliant with applicable laws. The Review Committee Report recommended the siting and construction of a PDF for the WLP residue, and Lynas would be willing to comply with that recommendation.
- Lynas Malaysia has commissioned numerous studies by independent researchers that demonstrate that WLP, NUF and filler material can be used in a soil conditioner product known as Condisoil. All of the studies demonstrate that Condisoil is safe and commercially beneficial. Customers in Malaysia are ready to accept Condisoil from Lynas Malaysia subject to receipt of pending regulatory approvals.
- Lynas has strong relationships with each of its lenders, and its lenders have expressed strong support for the continuation of the Lynas Malaysia business.

Notes to the Interim Unaudited Condensed Consolidated Financial Statements
For the half year ended December 31, 2018

2.2 Going concern (Continued)

- Lynas Malaysia has filed an appeal pursuant to the Atomic Energy Licencing Act 1984 in respect of the AELB letter dated December 4, 2018 requiring WLP to be exported as a pre-condition to the renewal of Lynas Malaysia's operating licence.
- Lynas is the only significant supplier of Rare Earths products outside China. Lynas' products are critical to several key global supply chains including the automotive, electronics, oil and gas, catalytic and wind turbines supply chains. Various key trading partners of Malaysia, including Japan, the United States and Australia, have expressed strong support for the Lynas Malaysia business.

Based on the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis. However the Directors also point out that in the event that the Group is unable to resolve the pre-condition currently stipulated for the renewal of Lynas Malaysia's full operating stage licence that requires export of all WLP residue before September 2, 2019, there would be material uncertainty as to whether the group would be able to continue to operate the LAMP in Malaysia in its current form beyond September 2, 2019 and in that instance, whether the group can continue as a going concern and, therefore whether it would be able to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Consistent with the Directors' decision to prepare the financial statements on a going concern basis, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

2.3 Basis of measurement

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

Information as disclosed in the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the current year is for the 6 month period ended December 31, 2018. Information for the comparative year is for the 6 month period ended December 31, 2017.

2.4 Presentation currency

These interim unaudited condensed consolidated financial statements are presented in Australian dollars ("AUD"), which is the Group's presentation currency.

2.5 Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission, in relation to the "rounding off" of amounts. Amounts in the Directors' Report and Financial Report have been rounded off, in accordance with the Instrument, to the nearest thousand dollars, unless otherwise stated.

2.6 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, 2018. None of the standards and amendments which became mandatory for the first time in the interim reporting period commencing July 1, 2018 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

The Group applies, for the first time, AASB 15 Revenue with Contracts from Customers and AASB 9 Financial Instruments. As required by AASB 134, the nature and effect of the changes of these new standards has been outlined below.

Standards and interpretations issued but not yet effective

The Australian Accounting Standards issued but not yet mandatory for the December 31, 2018 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 16 Leases	January 1, 2019	June 30, 2020
AASB 2017-6 Amendments to Australian Accounting Standards –Prepayment Features with Negative Compensation	January 1, 2019	June 30, 2020
AASB 2018-1 Annual Improvements to IFRS Standards 2015 – 2017 Cycles	January 1, 2019	June 30, 2020
AASB 2018-2 Amendments to Australian Accounting Standards – Plan, Amendment, Curtailment or Settlement	January 1, 2019	June 30, 2020
AASB Interpretation 23 Uncertainty over Income Tax Treatments	January 1, 2019	June 30, 2020
AASB 17 Insurance Contracts	January 1, 2021	June 30, 2022

Notes to the Interim Unaudited Condensed Consolidated Financial Statements For the half year ended December 31, 2018

New and amended accounting standards and interpretations

AASB 15 Revenue from Contracts with Customers

The Group adopted AASB 15 as of July 1, 2018.

AASB 15 establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The existing revenue recognition policy is as follows:

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

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

The Group adopted AASB 15 using the full retrospective method of adoption. The impact of the change in accounting policy did not have a material impact on the amount of revenue recognised as the transfer of risks and rewards under the previous AASB 118 Revenue coincides with the fulfilment of the performance obligation to transfer the final products and revenue from freight services and insurance is immaterial (where relevant) in the current and comparative periods.

Lynas key products include Neodymium-Praseodymium (NdPr), Cerium (Ce), Lanthanum (La) and a combined La-Ce. These products are sold based on a mix of long term supply contracts and spot sales. The long term contracts in place include a single performance obligation, being the delivery of either NdPr, Ce, La or La-CE to the vessel for shipment. During the half year ended December 31, 2018, no contracts required the delivery of the final product to the port of discharge.

AASB 9 Financial Instruments

The Group adopted AASB 9 as of July 1, 2018.

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The hedge accounting changes are not applicable as the Company is not the party to any hedge relationship.

(a) Classification and measurement

Under AASB 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the asset. Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

On adoption of AASB 9, Lynas has reclassified its financial assets as subsequently measured at amortised cost or fair value depending on the basis above. As a result, the Groups financial assets, being cash and cash equivalents and receivables are classified as 'financial assets at amortised cost.' Other non-current assets in the form of term deposits are also classified as "financial assets at amortised cost". There has been no change to the classification or measurement of financial liabilities.

In relation to the reclassification and measurement of financial assets and liabilities, there was no impact to the Statement of Comprehensive Income, Statement of Financial Position or Statement of Changes in Equity, nor has there been any impact on basic or diluted earnings per shares.

(b) Impairment

The adoption of AASB 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment

The adoption of the ECL requirements of AASB 9 has not had a material impact on an impairment allowance for the Group's receivables. As a result, there has been no impact to the Statement of Comprehensive Income, Statement of Financial Position or Statement of Changes in Equity, nor has there been any impact on basic or diluted earnings per share.

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

Notes to the Interim Unaudited Condensed Consolidated Financial Statements

For the half year ended December 31, 2018

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, 2018.

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, 2018, 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, 2018.

5. Segment reporting

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

The Group's CODM are the Board of Directors of the Company, Chief Executive Officer, Chief Financial Officer, the Group's General Counsel and Company Secretary, Vice President for Production, Vice President for Sales and Marketing, MD Malaysia and Vice President for People and Culture. Information reported to the Group's CODM for the purposes of resource allocation and assessment of performance currently focuses on the operation of the Group's integrated rare earth extraction and process facilities.

The Group has only one reportable segment under AASB 8 being its rare earth operations. The CODM does not review the business activities of the Group based on geography.

The accounting policies applied by each segment are the same as the Group's accounting policies. Results from operating activities represent the profit earned by each segment without the allocation of interest income and expense and income tax benefit / (expense). The CODM assesses the performance of the operating segments based on adjusted EBITDA. Adjusted EBITDA is defined as net profit / (loss) before income tax, net of financial expenses, depreciation and amortisation and adjusted to exclude certain significant items, including but not limited to such items as employee remuneration settled through share based payments, restructuring costs, unrealised gains or losses on derivatives, gains or losses on the sale of non-strategic assets, asset impairments and write downs.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018

In AUD'000	Note	For the half year ended December 31, 2018			For the half year ended December 31, 2017		
		Rare Earth operations	Corporate/unallocated	Total continuing operations	Rare Earth operations	Corporate/unallocated	Total continuing operations
Business segment reporting							
Revenue		179,801	-	179,801	200,922	-	200,922
Cost of sales		(133,675)	-	(133,675)	(117,767)	-	(117,767)
Gross profit		46,126	-	46,126	83,155	-	83,155
Expenses and other income		(8,780)	(7,805)	(16,585)	(8,974)	(7,089)	(16,063)
Net foreign exchange gain / (loss)		-	136	136	-	(3,540)	(3,540)
Net impairment / write-off expenses		42	-	42	(501)	-	(501)
Earnings before interest and tax ("EBIT")		37,388	(7,669)	29,719	73,680	(10,629)	63,051
Financial income	7			1,118			21,282
Financial expenses	7			(11,679)			(33,491)
Profit before income tax				19,158			50,842
Income tax expense				(134)			(32)
Profit for the year				19,024			50,810
Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")							
EBIT		37,388	(7,669)	29,719	73,680	(10,629)	63,051
Depreciation and amortisation		20,460	618	21,078	19,325	629	19,954
EBITDA		57,848	(7,051)	50,797	93,005	(10,000)	83,005
Included in EBITDA:							
Impairment charge – property plant and equipment & other		(42)	-	(42)	501	-	501
Non-cash employee remuneration settled through share based payments comprising:							
Share based payments expense for the period		-	2,773	2,773	-	2,766	2,766
Impact of options and performance rights forfeited during the period		-	(162)	(162)	-	(799)	(799)
Adjusted EBITDA		57,806	(4,440)	53,366	93,506	(8,033)	85,473

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018

6. Cost of goods sold and General and administration expenses

In AUD'000	For the half year ended December 31,	
	2018	2017
Cost of goods sold	115,589	101,509
Cost of goods sold depreciation	18,086	16,258
Total cost of goods sold	133,675	117,767
Employee and production costs net of costs recovered through production	5,347	6,406
Depreciation expenses net of cost recovered through production	2,992	3,696
Other	8,060	5,961
Total general and administration expenses	16,399	16,063

Cost of goods sold have increased due to an overall increase in sales volume, increase in royalty rates and transport costs from Mt Weld to LAMP and an increase in utility and staff costs across both sites.

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

7. Financial income and expenses

In AUD'000	For the half year ended December 31,	
	2018	2017
Interest income	1,118	435
Interest forgiven on JARE loan	-	20,847
Total financial income	1,118	21,282
Interest expense on JARE loan facility ⁽¹⁾	(4,374)	(4,469)
Interest expense on Convertible bonds facility	(219)	(1,604)
Unwinding of discount on Convertible bond facility	(723)	(6,266)
Unwinding of discount on JARE loan facility	(3,604)	(4,052)
Non-cash adjustments to financial liabilities ⁽²⁾	(396)	(16,510)
Net unwinding on discounting on AELB	(294)	(222)
Unrealised foreign exchange loss on intercompany balance	(1,859)	-
Financing transaction costs and fees	(210)	(368)
Total financial expenses	(11,679)	(33,491)
Net financial income	(10,561)	(12,209)

(1) Refer to Note 15 for more information

(2) Adjustments made to the fair value of the JARE loan facility and convertible bond facility as a result of early debt repayments

8. Income tax

In AUD'000	For the half year ended December 31,	
	2018	2017
Current tax		
Current tax expense in respect of the current half year	(134)	(32)
	(134)	(32)
Deferred tax		
Deferred tax expense recognised in the half year	-	-
Total income tax expense relating to the continuing operations	(134)	(32)

The significant driver of the difference between income tax expense calculated at 30% (2017: 30%) and actual tax expense is due to the pioneer status in Malaysia, which results in no taxes on operating income until 2026, as well as 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.

On November 2, 2018, Malaysia released its 2019 budget. As part of the budget proposals, a seven-year limitation for the carry forward of tax losses was adopted, effective for the year of assessment 2019. Previously, tax losses could be carried forward indefinitely. Lynas is currently in a tax holiday period in relation to the Malaysian operations through to 2026, however when it completes this period, losses generated up to 2019 may no longer be available for utilisation. No Deferred Tax Asset had been booked on these losses.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018

9. Cash and cash equivalents

As at	December 31, 2018	June 30, 2018
In AUD'000		
Cash at bank and on hand	53,697	42,292
Total cash and cash equivalents	53,697	42,292

There is a JARE facility principal repayment test on each interest payment date (being June 30 and December 31) 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.

In accordance with this test, a principal repayment of USD3.1m (AUD4.3m) was made in January 2019.

10. Trade and other receivables

As at	December 31, 2018	June 30, 2018
In AUD'000		
Trade receivables	14,335	5,843
GST / VAT receivables	6,189	5,645
Other receivables	2,558	877
Total trade and other receivables	23,082	12,365

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, 2018 \$1.95m of trade receivables were past due and not impaired (June 30, 2018: \$0.24m).

11. Inventories

As at	December 31, 2018	June 30, 2018
In AUD'000		
Raw materials and consumables	19,435	19,997
Work in progress	32,472	26,168
Finished goods	7,555	9,602
Total inventories	59,462	55,767
Current	56,652	51,658
Non-current	2,810	4,109
Total inventories	59,462	55,767

During the half year ended December 31, 2018 inventories of \$133.7m (2017: \$117.8m) 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 (2017: \$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, 2018 and 2017 respectively in the following categories:

In AUD'000	Recognised in Profit or Loss		Recognised in Inventory		Total	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	2,315	2,281	18,520	16,232	20,835	18,513
Deferred exploration and evaluation expenditure	677	1,401	-	-	677	1,401
Intangibles	-	14	-	-	-	14
Total	2,992	3,696	18,520	16,232	21,512	19,928

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 \$18.1m in half year ended December 31, 2018 (2017: \$16.3m).

During the half year ended December 31, 2018 the Group recognised royalties payable to the Western Australian Government totalling \$4.9m (2017: \$4.3m). 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, 2018

12. Property, plant and equipment

In A\$'000	Leasehold land	Buildings plant and equipment	Fixtures and fittings	Motor vehicles	Assets under construction	Rehab asset	Leasehold improvements	Total
As at December 31, 2018								
Cost	29,994	901,696	7,403	1,128	17,374	64,399	21,079	1,043,073
Accumulated impairment losses	-	(195,306)	(403)	(1)	(252)	-	(7,683)	(203,645)
Accumulated depreciation	(3,198)	(219,741)	(5,228)	(791)	-	(8,945)	(3,870)	(241,773)
Carrying amount	26,796	486,649	1,772	336	17,122	55,454	9,526	597,655
As at June 30, 2018								
Cost	29,304	866,403	7,867	1,158	26,476	59,582	20,595	1,011,385
Accumulated impairment losses	-	(190,791)	(393)	(42)	(264)	-	(7,506)	(198,996)
Accumulated depreciation	(2,977)	(197,423)	(5,483)	(767)	-	(7,840)	(3,483)	(217,973)
Carrying amount	26,327	478,189	1,991	349	26,212	51,742	9,606	594,416
Cost at July 1, 2018	29,304	866,403	7,867	1,158	26,476	59,582	20,595	1,011,385
Accumulated depreciation and impairment losses at July 1, 2018	(2,977)	(388,214)	(5,876)	(809)	(264)	(7,840)	(10,989)	(416,969)
Carrying amount at July 1, 2018	26,327	478,189	1,991	349	26,212	51,742	9,606	594,416
Additions	-	1,193	-	-	8,518	-	-	9,711
Disposals	-	(542)	-	(5)	-	-	-	(547)
Depreciation for the six month period	(147)	(19,094)	(243)	(54)	-	(998)	(299)	(20,835)
Impairment reversal	-	-	-	42	-	-	-	42
Transfers of assets under construction	-	17,881	1	-	(17,883)	-	1	-
Change in rehabilitation obligations	-	-	-	-	-	4,148	-	4,148
Effect of movements in exchange rates	616	9,022	23	4	275	562	218	10,720
Carrying amount at December 31, 2018	26,796	486,649	1,772	336	17,122	55,454	9,526	597,655
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	-	-	-	-	27,262	-	-	27,262
Disposals	-	(2,193)	-	(4)	(56)	-	-	(2,253)
Depreciation for the six month period	(1,302)	(35,534)	(530)	(113)	-	-	(548)	(38,027)
Transfers of assets under construction	-	2,207	760	227	(3,482)	-	288	-
Transfer of rehabilitation asset from buildings, plant and equipment	(25,658)	-	-	-	-	25,658	-	-
Transfer of rehabilitation asset from deferred development expenditure	-	-	-	-	-	20,781	-	20,781
Change in rehabilitation obligations	-	-	-	-	-	3,068	-	3,068
Effect of movements in exchange rates	2,979	37,726	91	13	1,255	2,235	888	45,186
Carrying amount at June 30, 2018	26,327	478,189	1,991	349	26,212	51,742	9,606	594,416

13. Other non-current assets

As at

In AUD'000	December 31, 2018	June 30, 2018
Security deposits – banking facilities and other, Malaysia	2,965	2,834
Security deposits – banking facilities and other, Australia	398	398
Security deposits – AELB, Australia	44,179	31,568
Security deposits – AELB, Malaysia	4,181	3,908
Total other non-current assets	51,723	38,708

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 to date as security via a bond for the instalments is USD31.2m, with a further USD11.0m paid via cash directly to AELB. The final payment is due in mid FY20.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018

14. Trade and other payables

As at	December 31, 2018	June 30, 2018
In AUD'000		
Trade payables	15,501	12,556
Accrued expenses	13,469	11,994
Other payables	6,606	11,042
Total trade and other payables	35,576	35,592
Current	35,046	35,012
Non-current	530	580
Total trade and other payables	35,576	35,592

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

15. Borrowings

As at	December 31, 2018	June 30, 2018
In AUD'000		
Current borrowings		
JARE loan facility	4,395	-
Non-current borrowings		
JARE loan facility	217,477	207,449
Convertible bonds	19,286	17,663
Total borrowings ⁽¹⁾	241,158	225,112
JARE loan facility	221,872	207,449
Total JARE loan facility carrying amount	221,872	207,449
Principal value of Mt. Kellett convertible bonds ⁽²⁾	22,729	20,944
Unamortised equity component ⁽²⁾	(3,443)	(3,281)
Total convertible bonds carrying amount	19,286	17,663

- (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 was 3.75% p.a. at December 31, 2018 (June 30, 2018: 3.75% 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 USD38.0 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 realised sale price of NdPr products sold by the Group in the immediately preceding 6 calendar month is USD38.0 per kilogram or greater.

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. No additional voluntary repayments were made during the half year ended December 31, 2018.

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 Lynas Malaysia, 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.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018

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, 2018, the Company had on issue 15.2m 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. No bonds were converted during the half year ended December 31, 2018. The maturity of the bonds is September 30, 2020 and the coupon rate on the convertible bonds was 1.875% p.a. (June 30, 2018: 1.875% 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, 20.32m 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 USD38.0 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 USD38.0 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 realised sale price of NdPr products sold by the Group in the immediately preceding 6 calendar month is USD38.0 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.

16. Provisions

In AUD'000	Restoration and rehabilitation	Onerous contract	Other	Total
Current	-	26	-	26
Non-current	69,888	-	-	69,888
Total provisions at December 31, 2018	69,888	26	-	69,914
Current	-	241	116	357
Non-current	64,485	-	-	64,485
Total provisions at June 30, 2018	64,485	241	116	64,842

Restoration and rehabilitation

The activities of the Group give rise to obligations for asset and site restoration and rehabilitation at Lynas Malaysia and the Mt Weld concentration plant. Upon cessation of operations, the site including the processing assets, ancillary facilities, utilities and the onsite storage facility will be decommissioned and any materials removed from the location.

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.

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 \$0.24m to \$0.03m in line with the remaining term of the lease. The lease will expire in February 2019. The other provision related to the make-good obligation on the lease, has been transferred to accrued expenses during the half year ended December 31, 2018.

17. Contingent Liabilities

In October 2018, the Malaysian government appointed a Review Committee to evaluate Lynas Malaysia’s operations including safety, health and environment aspects, and residue storage.

During the half year, the Review Committee conducted an extensive tour of Lynas’ operations, reviewed data from Lynas’ monitoring, relevant regulators and peer-reviewed research, met with regulators, independent experts and local community members, and conducted a public hearing in Kuantan to hear evidence on Lynas’ operations. The Review Committee’s report was released on December 4, 2018 and key findings included:

- Lynas Malaysia is compliant with applicable laws
- Lynas Malaysia’s operations are low risk

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018

- The Review Committee found no breaches of our operating licence

Separately, on December 4, 2018, the AELB issued a letter subjecting Lynas Malaysia to two new pre-conditions for its licence renewal on September 2, 2019 and future permission renewals in relation to residue management.

These new conditions are:

1. The export of Water Leach Purification (WLP) residue before September 2, 2019.
2. Submission of an action plan on the disposal of NUF (current approval valid until February 15, 2019).

As announced on January 3, 2019, Lynas has appealed the first of the new conditions which requires the export of Lynas Malaysia's WLP residue out of Malaysia before September 2, 2019.

Key issues for the appeal include the availability of regulatory approvals, the proposed timetable for export of WLP residue and the significant cost. Lynas is continuing its discussions with the Malaysian government to seek to resolve these issues.

Under the current operating licence, the requirements to store the WLP have been met, as confirmed by Review Committee. Accordingly, Lynas does not consider that it had a present obligation to export WLP as at December 31, 2018, but rather that any cost associated with the possible export of WLP will be a future expenditure in connection with the renewal of the operating licence in September 2019. Whilst Lynas continues to work with the Malaysian government to resolve the future issues, there is no impact to current operations or production.

In addition to the above, as at the date of this report Lynas is not able to reliably measure the potential outflow. This is due to the following uncertainties:

- A decision on the permanent disposal facility ("PDF") site has not yet been determined. Each different location will have a range of cost options to transport the WLP from the Lynas Malaysia plant to the new PDF. This is not known at the date of this report and therefore a reliable estimate cannot be made of these costs.
- All of the potential locations identified for a PDF require extensive regulatory and environmental approvals. None of these have been received as at the date of the report. Should these not be attained, or be delayed, it creates further uncertainty around any cost estimate.
- There is a current appeal in place as mentioned above and the outcomes of any appeal could change the nature and magnitude of any expenditure.

As a result of the significant uncertainty around the nature and extent of costs associated with the removal of WLP from the Lynas Malaysia plant, it is not practicable to include an estimate of the costs at the date of this report.

As noted in the Subsequent Events section, on February 14, 2019, the Group announced that following extensive consultation with the Malaysian government and regulators, there is an agreed pathway for the management of NUF. The updated NUF action plan includes commercialisation options for NUF and a long term NUF disposal solution. At this stage, the Group does not expect that this will involve material additional compliance costs. Accordingly, the second condition within the AELB's letter dated December 4, 2018 is considered to have been satisfied.

18. Equity and other comprehensive income

18.1 Share Capital

	For the half year ended December 31, 2018		For the year ended June 30, 2018	
	Number of shares '000	A\$'000	Number of shares '000	A\$'000
Balance at the beginning of the year	662,547	1,395,417	3,677,743	1,094,403
Issue of shares pursuant to conversion of convertible bonds	-	-	1,713,333	173,914
Issue of shares pursuant to exercised warrants	-	-	95,733	9,066
Subtotal prior to share consolidation	662,547	1,395,417	5,486,809	1,277,383
10 to 1 share consolidation	-	-	(4,938,124)	-
Subtotal after share consolidation	662,547	1,395,417	548,685	1,277,383
Issue of shares pursuant to conversion of convertible bonds	-	-	108,344	114,275
Issue of shares pursuant to exercised performance rights	3,135	-	1,642	-
Issue of shares pursuant to exercised warrants	-	-	3,876	3,759
Closing balance	665,682	1,395,417	662,547	1,395,417

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, 2018 (2017: 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.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018

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, 2018	December 31, 2017
Net earnings attributed to ordinary shareholders (in AUD'000)	19,024	50,810
Earnings used in calculating basic earnings per share (in A'\$000)	19,024	50,810
Net earnings impact of assumed conversions for diluted EPS (in AUD'000)	763	3,472
Earnings used in calculating diluted earnings per share (in A'\$000)	19,787	54,282
Weighted average number of ordinary shares used in calculating basic earnings per share ('000)	663,593	484,515
Weighted average number of ordinary shares used in calculating diluted earnings per share ('000)	711,135	638,268
Basic earnings per share (cents per share)	2.87	10.49
Diluted earnings per share (cents per share)	2.78	8.57

19. Employee share options and performance rights

The Group has established an employee share plan whereby, at the discretion of Directors, options and performance rights may be granted over the ordinary shares of the Company for the benefit of Directors, Executives and certain employees of the Group. The options and performance rights are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. Other than short term incentives and strategic performance rights, each option or performance right is convertible into one ordinary share of the Company during the two years following the vesting date, which is the third anniversary of the grant date. The exercise price for the options is not less than the VWAP for the five days preceding the date the option is granted. The options or performance rights hold no voting or dividends rights and are not transferrable.

Options and performance rights are granted for the benefit of Key Management Personnel ("KMP") and other selected employees to provide greater alignment to our strategic business objectives. KMP are those people who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Executive Director of the Group and the Executives. At half year end, the Executives include the Chief Executive Officer, the Chief Financial Officer, the Group's General Counsel and Company Secretary, Vice President for Production, Vice President for Sales and Marketing, MD Malaysia and Vice President for People and Culture.

Movement in employee share options and performance rights during the period

	For the half year ended December 31, 2018	
	Number of performance rights ('000)	Weighted average exercise price (\$)
Balance at beginning of period	11,286,942	0.00
Granted during the period	1,161,987	0.00
Forfeited during the period	(270,336)	0.00
Exercised during the period	(3,134,524)	0.00
Balance at end of period	9,044,069	0.00

During the period, the Group recognised an expense of \$2.8m, offset by \$0.2m reversed due to forfeiture within the profit and loss component of the statement of comprehensive income (2017: net expense of \$2.0m).

1.16m performance rights were granted with various performance conditions.

There were no share options outstanding at December 31, 2018. The outstanding performance rights had a nil weighted average exercise price (June 30, 2018: \$nil) and a weighted average remaining contractual life of 592 days (June 30, 2018: 973 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, 2018.

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2018

20. Warrants

Warrants have been issued to lenders as part of the amendments in debt facilities. No warrants were exercised during the half year ended December 31, 2018 with 23.26m warrants outstanding at an exercise price of \$0.50 and an expiry date of September 30, 2020.

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, 2018 the Group held only Level 2 financial instruments (being the loans and borrowings) and all other liabilities were classified as Level 1.

22. Subsequent events

On February 14, 2019, the Group announced that following extensive consultation with the Malaysian government and regulators, there is an agreed pathway for the management of the solid residue known as NUF. The updated NUF action plan includes commercialisation options for NUF and a long term NUF disposal solution. At this stage, the Group does not expect that this will involve material additional compliance costs.

There have been no other events subsequent to December 31, 2018 that would require accrual or disclosure in the interim unaudited condensed consolidated financial statements.

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 2018, 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 2018 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*.

Emphasis of matter - material uncertainty related to going concern

Without qualifying our conclusion, we draw attention to Note 2.2 to the financial statements which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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 2018 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



Gavin Buckingham
Partner
Perth
28 February 2019