



ACN 009 066 648

and

Controlled Entities

Financial Report

For the year ended

June 30, 2015

Lynas Corporation Limited and Controlled Entities

Corporate Directory Information

ABN 27 009 066 648

Directors

Mike Harding (Appointed January 1, 2015)
William (Liam) Forde
Kathleen Conlon
Jake Klein
Amanda Lacaze
Philippe Etienne (Appointed January 1, 2015)

Company Secretaries

Andrew Arnold
Ivo Polovineo

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Auditors

Ernst & Young
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Lynas Corporation Limited and Controlled Entities

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Lynas Corporation Limited and Controlled Entities

Directors' Report

The Board of Directors (the "Board" or the "Directors") of Lynas Corporation Limited (the "Company") and its subsidiaries (together referred to as the "Group") submit their report for the year ended June 30, 2015. In order to comply with the provisions of the *Corporations Act 2001*, the Directors' report as follows:

Directors

The names and details of the Company's Directors who were in office during or since the end of the financial year are as set out below. All Directors were in office for this entire period unless otherwise stated.

Information about the Directors

Mike Harding MSc (MecEn) - Chairman

Mr Harding joined the Company as Non-Executive Chairman on January 1, 2015 and has significant experience with industrial businesses, having previously held management positions around the world with British Petroleum (BP), including as President and General Manager of BP Exploration Australia.

Mr Harding is currently Chairman of Downer EDI Ltd, and a Non-Executive Director of Transpacific Limited. He is a former Chairman of Roc Oil Company Limited and a former Non-Executive Director of Santos Limited and Clough Limited.

Amanda Lacaze BA, MAICD - Managing Director

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

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

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

William (Liam) Forde BSc (Econ), MAICD – Non-Executive Director

Mr Forde joined the Company as a Non-Executive Director in December 2007 and was also the Deputy Chairman of the Company until January 1, 2015. Mr Forde has many years' experience in senior finance and managerial positions in both Ireland and Australia. He is currently a Director of Hastings Funds Management Limited and Chairman of Hastings Management Pty Limited. Mr Forde is also a Director of Hastings High Yield Fund.

In addition, Mr Forde is a member of the Australian Institute of Company Directors. Mr Forde was Chief Executive Officer of the Baulderstone Hornibrook Group from 2002 to 2005, following 15 years as Chief Financial Officer for the group.

Kathleen Conlon BA (Econ) (Dist.), MBA, FAICD - Non-Executive Director

Ms Conlon was appointed as a Non-Executive Director from November 1, 2011. Ms Conlon is currently a Non-Executive Director of CSR Limited, REA Group Limited, Aristocrat Leisure Limited and The Benevolent Society. She is also President of the NSW division of the Australian Institute of Company Directors, a member of the National Board of the Australian Institute of Company Directors and a member of Chief Executive Women. Ms Conlon is also Chairperson of the audit committee of the Commonwealth Department of Health. Prior to her Non-Executive Director career, Ms Conlon spent 20 years in professional consulting where she successfully assisted companies achieve increased shareholder returns through strategic and operational improvements in a diverse range of industries.

Ms Conlon is one of the pre-eminent thought leaders in the area of operations and change management, both in Australia and globally. In 2003, Ms Conlon was awarded the Commonwealth Centenary medal for services to business leadership.

Jake Klein BCom (Hons), ACA - Non-Executive Director

Mr Klein is a Non-Executive Director of the Company and joined the Board on August 25, 2004. Mr Klein has also been Executive Chairman of Evolution Mining since October 2011, a company formed following the merger of Conquest Mining Limited (of which he was Executive Chairman from May 2010 until the merger) and Catalpa Resources Limited. Prior to that, Mr Klein was President and Chief Executive Officer of Sino Gold Mining Limited, where he managed (with Mr Curtis who was Chairman until November 2005) the development of that company into the largest foreign participant in the Chinese Gold Industry. Sino Gold Mining Limited was listed on the ASX in 2002 with a market capitalisation of \$100 million and was purchased by Eldorado Gold Corporation in late 2009 for over \$2 billion. Sino Gold Mining Limited was an ASX 100 company, operating two award-winning gold mines and engaging over 2,000 employees and contractors in China. Mr Klein resigned as a Director of Sino Gold Mining Limited in December 2009. Mr Klein was also a Non-Executive Director of OceanaGold Corporation between December 2009 and July 2014.

Prior to joining Sino Gold Mining Limited in 1995, Mr Klein was employed at Macquarie Bank and PricewaterhouseCoopers. Mr Klein is a past president of the NSW Branch of the Australia China Business Council and previously served on the NSW Asia Business Council.

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Philippe Etienne MBA, BSc (Phys) (Pharm) - Non-Executive Director

Mr Etienne joined the Company as a Non-Executive Director on 1 January 2015. He is a Non-Executive Director of Transpacific Industries Group Limited and Sedgman Limited and the former Managing Director and Chief Executive Officer of Innovia Security Pty Ltd.

In addition, he was previously Chief Executive Officer of Orica Mining services and was a member of Orica Limited's Executive Committee. Mr Etienne's career includes senior executive positions with Orica in Australia, the USA and Germany including strategy and planning and responsibility for synergy delivery of large scale acquisitions.

Resignation

Nicholas Curtis – Chairman and Non-Executive Director

Mr Curtis ceased to be Chairman with effect from January 1, 2015 and Non-Executive Director with effect from February 1, 2015.

Details of Mr Curtis' relevant experience are set out in the Director's report for the year ended June 30, 2014.

Company Secretaries

Andrew Arnold

Mr Arnold was appointed as General Counsel and Company Secretary to the Group on July 23, 2008, following 15 years as a lawyer at Deacons, including six years as a Partner. During that time Mr Arnold also spent two years on secondment at Riddell Williams, Seattle. In his role at Deacons he had been overseeing the legal work of the Group since 2001. Mr Arnold is the responsible person for communication with the Australian Securities Exchange (ASX) in relation to listing rule matters.

Sally McDonald

Ms McDonald was appointed as In-house Counsel Joint Company Secretary on January 30, 2012, following six years as a lawyer at Norton Rose and Addleshaw Goddard. Ms McDonald resigned as a Company Secretary of Lynas with effect from July 31, 2014.

Ivo Polovineo

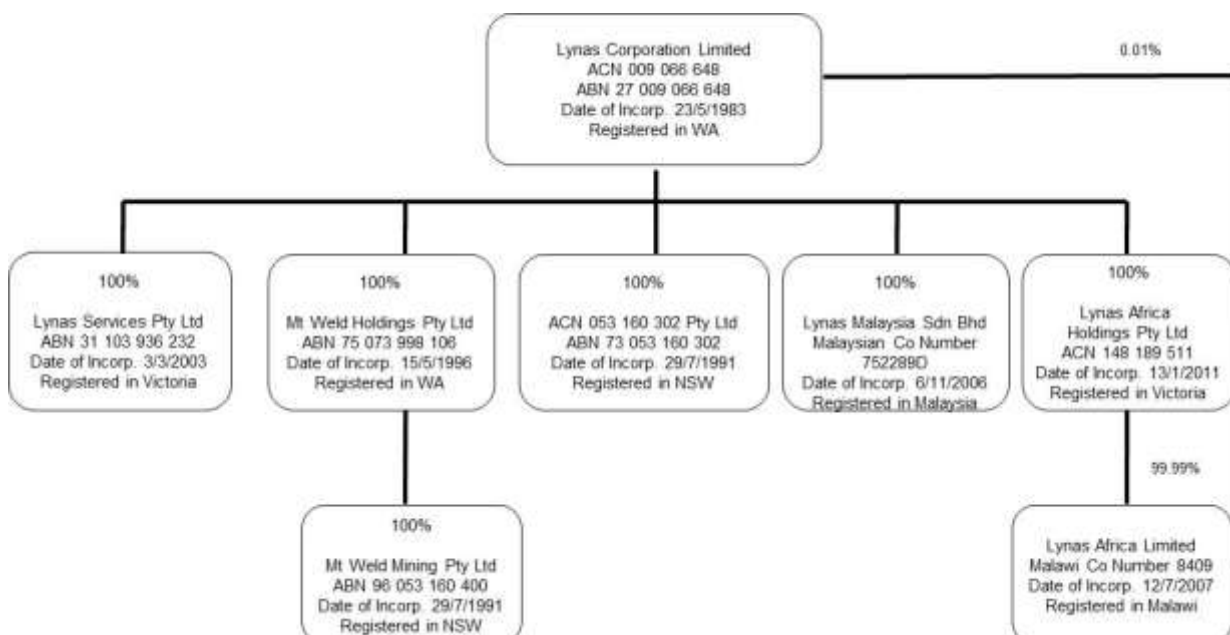
Mr Polovineo, appointed as Joint Company Secretary on October 20, 2014, was previously Chief Financial Officer and Company Secretary for Sino Gold Mining Limited, formerly an ASX 100 company. He was with Sino Gold for 12 years forming part of the executive team. Ivo is a Fellow of the Institute of Public Accountants (FIPA) with more than 30 years' experience as a CFO and Company Secretary including over 20 years in the resources sector. Ivo is Company Secretary of Variscan Mines Limited, Silver City Minerals Limited, Thomson Resources Ltd and KBL Mining Limited

Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report of this Directors' Report. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director of the Company.

Corporate information

The Company is limited by shares and is incorporated and domiciled in Australia. The Group's corporate structure is as follows:



Lynas Corporation Limited and Controlled Entities

Directors' Report

Nature of operations and principal activities

The principal activities of the Group are:

- Integrated extraction and processing of rare earth minerals, primarily in Australia and Malaysia; and
- Development of rare earth deposits.

Performance review

The Directors together with management monitor the Group's overall performance, from implementation of the strategic plan through to the operating and financial performance of the Group.

Basis of preparation of financial statements

Note 2.2 Going Concern contain additional information relating to the preparation of the financial statements using the going concern assumption.

Review of operations

Highlights

- The ramp up of the Malaysian plant ("LAMP") experienced continuing production issues in the Cracking and Leaching (C&L) and Solvent Extraction (SX) stages, affecting production output through the year. These have been managed and resolved and by the end of the year, production was stable and at target rates.
- Quarterly sales volume and quarterly sales revenue increased significantly during the year, and continue to grow as production output grows.
- A focus on product quality has enabled Lynas to build strong relationships with key customers, particularly in the Japanese market.
- Cost reductions of over A\$40m per annum have been achieved well in excess of original targets. The company continues to work to achieve further reductions in the cost of production.
- The business reported positive cash flow in the fourth quarter.
- The Full Operating Stage Licence for the LAMP was granted in September 2014.
- Both of the Company's debt providers, Japan Australia Rare Earths B.V. and the Mt Kellett led bondholder group, continued to demonstrate their support for the business by extending the term of their facilities and by agreeing to other amendments to the terms of their facilities.
- Rare Earths prices declined during the year; however the Company's initiatives during the year have positioned the Company to take advantage of any future improvements in Rare Earths prices.

Significant progress has been made in all areas of the business during the year; however, there is still work to be done, particularly in developing additional sales opportunities.

Rare Earth Oxide (REO) production for the 12 months to 30 June 2015 was 10,223 tonnes (2014: 3,965 tonnes), while shipments during the year totalled 7,883 tonnes (2014: 3,008 tonnes). Production increased from 2,043 tonnes in the first quarter to 2,606 tonnes in the fourth quarter. Sales increased from 1,546 tonnes in the first quarter to 2,353 tonnes in the fourth quarter. Production in the fourth quarter was 32% higher than in the third quarter and represented 30% of full year production, while shipment volume in the fourth quarter was 29% more than in the third quarter and represented 30% of the full year total. The average selling price (revenue basis) during the financial year was A\$18.34/kg REO (2014: A\$21.47/kg). The Company's most significant product is NdPr. The China Domestic price (VAT excluded) of NdPr oxide declined from US\$41.4/kg in July 2014 to US\$37.3/kg in June 2015.

Lynas products are sold to customers involved in high technology, high growth future facing industries in Japan, China, Vietnam, Europe and North America.

The Company's Western Australian and Malaysian operations maintained certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards during the year. The 12-month rolling Lost Time Injury Frequency Rate as at 30 June 2015 was 1.9 per million hours worked (2014: 1.5 per million hours). The Company continued to carefully manage all residues, air, water and solid, and met or exceeded all licence requirements. In FY15, the IAEA reviewed the Company's operations in Malaysia and confirmed that the LAMP is low risk.

In Western Australia, the Concentration Plant performed in line with expectations during the year. Until concentrate stocks run down, the Plant continues to be operated on a campaign basis, synchronised to demand from the LAMP. At 30 June 2015, 5,263 dry tonnes of concentrate (2014: 10,828 dry metric tonnes) containing 2,050 tonnes REO (2014: 4,144 tonnes) were bagged in WA ready for export. In line with the ramp up of production at the LAMP, concentrate stocks reduced by 49% (2014: 31% reduction) during the year.

At the LAMP, the ramp up was achieved as key issues in the primary production stages were addressed. By the end of the year, production was stable and at target rates.

Identified bottlenecks at the LAMP have been resolved. During the year, significant improvements were made in plant organisation and operating procedures. The LAMP has three main stages: Cracking & Leaching, Solvent Extraction and Product Finishing. The Phase 2 Cracking & Leaching and Product Finishing assets were successfully commissioned in FY14. During FY15, the Company commissioned selected assets in the Phase 2 Solvent Extraction circuits. The SX5 circuits perform the important role of separating NdPr from LaCe. During the third quarter, the Company commissioned SX5 Train 3. The timing for commissioning of the final SX5 Train (SX5 Train 4) will be determined primarily by customer demand.

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The Company continues its commercialisation program of solid residues from the LAMP. The Company's commercialization programs include the use of solid residues in soil additives, fertilizers and road base material.

During the year, the Company successfully implemented a number of cost saving initiatives. This included a simplification of the Company's structure by co-locating management personnel and resources with production and sales facilities in Western Australia and Malaysia. This has resulted in the Company's Head Office relocating from Sydney to Kuantan, and the closure of the Company's Kuala Lumpur office. Other initiatives to reduce costs included reducing management personnel, reducing workforce numbers (mostly by reducing contractor positions), improving asset utilisation, renegotiating supplier contracts and improvements in procurement practices.

Financial performance

For the year ended

In A\$ Million	June 30,	
	2015	2014
Revenue	144.6	64.6
Cost of sales	(168.3)	(77.7)
Gross loss	(23.7)	(13.1)
Other income	0.1	20.4
General and administration expenses	(40.9)	(125.1)
Restructuring expenses	-	(3.8)
Impairment expenses	(16.8)	(196.4)
Loss from operating activities	(81.3)	(318.0)
Financial income	0.5	2.0
Financial expenses	(37.8)	(29.4)
Net financial expenses	(37.3)	(27.4)
Loss before income tax	(118.6)	(345.4)

Other income decreased from \$20.4m to \$0.1m during the year as the Company was not entitled to a cash rebate from the Australian Tax Office on research and development expenditure incurred in the year ended June 30, 2015 since its sales exceeded the entitlement threshold of \$20.0m. Other income in the current year consists of a gain on sale of financial assets (2014: \$0.9m).

General and administration expenses that predominantly consist of employee costs, unrecovered production costs and depreciation (net of recovery) reduced by \$84.2m during the year. In FY14, unrecovered employee costs and unrecovered production costs were \$94.4m and unrecovered depreciation was \$10.7m. In FY15, production costs have been substantially accounted in cost of sales. In FY15, unrecovered employee costs and unrecovered production costs included in general and administration expenses were reduced to \$25.6m. Unrecovered depreciation was \$12.5m. Other general and administration expenses include insurance premiums, consultancy fees, telecommunications and general office expenditures. Net production cost recoveries improved by \$61.2m in FY15.

An impairment review of the carrying value of LAMP and Mt Weld assets was carried out, resulting in an impairment adjustment of \$16.8m in the current year. However, this adjustment is significantly lower than in the prior year when the cost and performance of the Phase 2 assets were used to assess whether the carrying value ascribed to the Phase 1 assets represented fair value. The Board and Management consider the assets' book value currently reflects the corresponding fair values. The impairment adjustment is recorded as a non-cash item.

Net financial expenses increased by \$9.9m to \$37.3m for the year ended June 30, 2015. Interest income reduced by \$1.5m attributable to lower unrestricted cash balances compared to prior year. As a result of the USD and MYR strengthening against the AUD, the Group also realised a foreign exchange gain of \$3.9m (2014: loss of \$1.5m) mainly via the revaluation of bank balances denominated in USD and MYR. However, also as a result of that and since no interest has been capitalised in the current year, interest expense on loan facilities increased by \$12.9m from \$25.8m to \$38.7m.

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Directors' Report

Cash flow for the year ended

In A\$ Million	June 30,	
	2015	2014
Net Operating Cash flow	(32.0)	(103.2)
Net Investing Cash flow	(9.6)	(8.6)
Net Financing Cash flow	51.9	8.2
Net cash flow	10.3	(103.6)

Operating cash flows

Net operating cash outflows decreased by \$71.2m, to \$32.0m for the year ended June 30, 2015. The decrease in the net cash outflow is in line with the Group's operational ramp-up activities and was principally driven by increased sales receipts of \$96.7m offset by increased payments to suppliers and employees of \$10.2m and non-entitlement to cash-based government grants (2014: \$14.1m).

Investing cash flows

Net investing cash outflows increased by \$1m to \$9.6m for the year ended June 30, 2015. Even though payments for property, plant and equipment reduced by \$7.2m and payments of security bonds reduced by \$6.8m, the amount of security bonds refunded reduced by \$12.4m and there had been no proceeds from sale of property, plant and equipment this year (2014: \$2.7m).

Financing cash flows

Net financing cash inflows increased by \$43.7m to \$51.9m for the year ended June 30, 2015. The increment mainly comprises the proceeds from capital raising totaling \$77.9m net of costs during the year compared with \$40.0m raised in the prior year. Net financing costs have reduced by \$5.8m.

Financial position

As at

In A\$ Million	June 30,	
	2015	2014
Assets		
Cash and cash equivalents	52.0	38.1
Inventories	61.8	73.4
Property, plant and equipment	658.4	669.1
Deferred exploration, evaluation and development expenditure	45.8	46.9
Other assets	27.5	24.8
Total assets	845.5	852.3
Liabilities		
Borrowings	(546.2)	(443.6)
Other liabilities	(116.1)	(106.7)
Total liabilities	(662.3)	(550.3)
Net assets	183.2	302.0
Equity		
Share capital	1,083.9	1,034.6
Retained earnings (accumulated deficit)	(894.9)	(776.2)
Reserves	(5.8)	43.6
Total equity	183.2	302.0

The overall net assets of the Group decreased by \$118.8m during the year which primarily reflects an increase in the AUD value of the Group's USD borrowings (arising from the strengthening of the USD in FY15) and continued operating losses experienced by the Group as it ramped up performance levels at the LAMP in Malaysia.

Cash and cash equivalents comprise \$31.4m of unrestricted cash and \$20.6m of restricted cash. Restricted cash is available to fund future interest payments under the JARE loan facility and Mt. Kellelt Convertible Bond.

Inventory decreased by \$11.6m, or 16% during the year. The decrease includes impairment of obsolete inventory of \$4.7m. Additional decrease reflects the production ramp-up at the LAMP and the reclassification of spares from WIP Inventory to PP&E, which more correctly reflects the nature of the asset. As at June 30, 2015 the Group continues to hold 2,050 tonnes REO (2014: 5,994 tonnes) of processed concentrate and unprocessed ore of 213,518 tonnes (2014: 289,560 tonnes) at its Mount Weld operations; which are expected to be used for production purposes over the next 6 to 18 month periods respectively.

Property plant and equipment decreased by \$10.7m. The decrease is predominantly related to depreciation on buildings, plant and equipment of \$38.0m and impairment loss of \$12.0m offset by effects of change in exchange rates of \$24.5m, additions of \$9.9m and reclassification from inventory to plant and equipment of \$5.3m.

Borrowings of \$546.2m are represented by the USD205.0 million JARE loan facility revalued to AUD using the exchange rate at June 30, 2015 and the liability component of the convertible bonds issued to funds managed or selected by Mt Kellelt Capital Management. During the year, the Group made \$11.4m (USD10.0m) in repayments against the JARE loan facility that is in line with the previously announced repayment schedule (refer to note 24).

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The increase in share capital of \$49.3m is predominantly attributable to the net proceeds from the equity raising which was completed in November 2014.

The movement in reserves of \$49.4m during the current period reflects movements in the equity settled employee benefits, foreign currency translation reserves and options issued in conjunction with the equity raising mentioned above.

Capital structure

At the start of the year the Group had 2,333,661,566 ordinary shares on issue. During the year an additional 1,037,570,737 shares were issued as follows:

	Number
Shares on issue June 30, 2014	2,333,661,566
Issue of shares pursuant to equity raising	1,037,071,988
Issue of shares pursuant to exercises of options and performance rights	498,749
Shares on issue June 30, 2015	3,371,232,303

In addition to the ordinary shares on issue there were 740,178,231 listed options, 29,428,814 unlisted options and performance rights and 225,000,000 unlisted convertible bonds on issue with a conversion price of \$0.5634 (at a set exchange rate of USD1.00 = AUD0.9533).

Loss per share

	June 30,	
	2015	2014
Basic loss per share (cents per share)	(3.82)	(15.41)
Diluted loss per share (cents per share)	(3.82)	(15.41)

Dividends

No dividend has been recommended since the end of the financial year.

Risk management

The Group takes a proactive approach to risk management. The Directors are responsible for ensuring that risks and opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with these risks and opportunities.

The Group believes that it is crucial for Directors to be a part of this process, and has established a Risk Management, Safety, Health and Environment Committee.

Factors and business risks that affect future performance

Lynas operates in a changing environment and is therefore subject to factors and business risks that will affect future performance. The following factors and business risks could have a material effect on Lynas' future results from an operations and financial position:

Rare Earth prices

Lynas' sales performance is affected by market fluctuations in rare earth prices. This is because the product prices used in the majority of Lynas' sales are calculated by a pricing formula that is tied to average rare earth market prices in the previous calendar quarter. 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) *Production capacity*
For most rare earth products, global capacity for rare earth production, including illegal operations in China, currently exceeds global demand.
- (ii) *Fluctuations in demand*
A key factor influencing rare earth demand is automotive market demand, both in terms of production quantity and technology incorporated in 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 is 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.
- (iii) *Chinese government regulations*
China currently supplies around 90% of the global rare earths and China represents around 60% of the global demand. That has enabled China to encourage many downstream activities to relocate into China. As an example, Chinese regulators previously enforced quotas and taxes on rare earth exports. In FY15, Chinese regulators removed regulations on export quotas and export taxes, and introduced new resource and production taxes. The net effect has been a reduction in taxes on rare earths produced in China and a reduction in realised prices outside of China.

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The table below includes the published rare earth market price over a 3-year period and illustrates its volatility. It also calculates the possible impact on Lynas' aggregate market price.

USD/kg	Rare Earth Content in Lynas ore				Lynas Aggregate Market Price
	24%	4%	47%	24%	
	NdPr	SEG	Cerium	Lanthanum	
Market Price in China, VAT excluded					
Q1 2013	40.8	56.3	5.8	5.8	16.4
Q2 2013	37.2	45.6	4.3	4.3	14.0
Q3 2013	46.3	37.8	3.7	3.7	15.4
Q4 2013	45.2	44.9	3.3	3.4	15.2
Q1 2014	43.5	43.7	2.8	2.9	14.4
Q2 2014	43.3	38.4	2.4	2.5	13.8
Q3 2014	41.8	33.4	2.1	2.2	13.0
Q4 2014	38.7	29.4	1.8	2.0	11.9
Q1 2015	41.4	25.7	1.7	1.8	12.3
Q2 2015	39.5	20.6	1.6	1.7	11.5

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

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

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 a partial natural hedge.

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

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

	30-Jun-15	30-Jun-14	30-Jun-13
	\$	\$	\$
USD/AUD	0.8382	0.9187	1.0239

Refer to Note 28 to the financial statements for details of the Company's foreign currency exposure and sensitivity analysis.

Operating and development risks

Lynas' operations and development activities could be affected by various unforeseen events and circumstances, which may result in increased costs, lower production levels and, following on from that, lower revenue levels. Any negative outcomes flowing from these operational risks could have an adverse effect on Lynas' business, financial condition, profitability and performance.

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

Debt covenants

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

The future principal repayments due prior to maturity under the JARE loan facility as at June 30, 2015 were as follows:

Repayment date	Repayment amount
30 September 2015	USD30m
21 December 2015	USD20m
31 March 2016	USD20m
30 June 2016	USD135m

As detailed in the Subsequent Events note, the above repayment schedule has now been amended to the following:

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Repayment date	Repayment amount
30 June 2016	USD2m
21 December 2016	USD5m
30 June 2017	USD15m
21 December 2017	USD30m
30 June 2018	USD153m

During the current year, the principal repayment due on September 30, 2014 in respect of the JARE facility was paid by its due date.

In addition, the principal amount of the Mt Kellett convertible bonds is US\$225 million. Unless the convertible bonds are converted into ordinary shares in Lynas prior to maturity, the principal amount of US\$225 million was originally due for repayment on July 25, 2016. As detailed in the Subsequent Events note, that repayment date has now been extended to September 30, 2018.

In the event of repayment default, Lynas may be required to seek amendments and/or waivers of covenant 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 Mt Kellett convertible bonds by their respective maturity dates in mid-2018, 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. As noted in the Quarterly Report released on July 17, 2015, one court challenge remains to the original Temporary Operating Licence for the LAMP. A decision in respect of that challenge is expected later in 2015.

Interest rates

Lynas is exposed to some interest rate risk on its borrowings. The interest rate on the JARE facility can vary in certain circumstances, as detailed in Note 28 to the financial statements. Fluctuation in interest rates would have an impact on the Company's earnings.

Health, safety and environment

Lynas is subject to regulation in respect of the health and safety of our people and the protection and rehabilitation of our environment... Health, safety and the environment is a key focus area and Lynas is committed to provide and maintain a healthy and safe work environment and to comply with all relevant environmental legislation and other relevant requirements. Given the sensitive nature of this area, Lynas may be exposed to litigation, foreseen and unforeseen compliance and rehabilitation costs despite its best efforts.

Statement of compliance

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

Significant changes in the state of affairs

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

Environmental regulation and performance

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

Lynas Corporation Limited and Controlled Entities

Directors' Report

Corporate Governance Statement

The Board of Directors of the Company is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of the Group on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board has approved this Corporate Governance Statement. This Corporate Governance Statement is current on the date that the Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298 (2) of the Corporations Act 2001.

In accordance with the ASX Corporate Governance Council's (the "Council's") Principles and Recommendations (3rd edition), the Corporate Governance Statement must contain certain specific information and also report on the Group's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Group, together with the reasons why they have not been adopted. The Group's corporate governance principles and policies are therefore structured with reference to the Council's best practice recommendations.

The Group's corporate governance practices were in place throughout the financial year ended June 30, 2015, and complied with all of the Council's Principles and Recommendations except as noted below in relation to Recommendation 2.5. As noted below, the Group has been fully compliant with Recommendation 2.5 since January 1, 2015.

Details of the Group's corporate governance practices in place throughout the financial year ended June 30, 2015 are as follows.

Principle 1 - Lay solid foundations for management and oversight

Recommendation 1.1 – Functions reserved to the Board and delegated to Senior Executives

The Group has established the functions reserved to the Board and the functions delegated to senior executives. The functions reserved to the Board include:

- (1) oversight of the Group, including its control and accountability systems;
- (2) appointing and removing the Chief Executive Officer ("CEO") (or equivalent), including approving remuneration of the CEO and the remuneration policy and succession plans for the CEO;
- (3) ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer ("CFO") (or equivalent) and the Company Secretary;
- (4) input into the final approval of management's development of corporate strategy and performance objectives;
- (5) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- (6) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- (7) approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- (8) approving and monitoring financial and other reporting;
- (9) appointment and composition of committees of the Board;
- (10) on recommendation of the Audit, Risk Management, Safety, Health and Environment Committee, appointment of external auditors; and
- (11) on recommendation of the Nomination, Remuneration and Community Committee, initiating Board and Director evaluation.

The functions delegated to senior executives include:

- (1) implementing the Group's strategic business plan;
- (2) managing the business to agreed capital and operating expenditure budgets;
- (3) identifying and exploring opportunities to build and sustain the business;
- (4) allocating resources to achieve the desired business outcomes;
- (5) sharing knowledge and experience to enhance success;
- (6) facilitating and monitoring the potential and career development of the Group's people resources;
- (7) identifying and mitigating areas of risk within the business;
- (8) managing effectively internal and external stakeholder relationships and engagement strategies;
- (9) sharing information and making decisions across functional areas;
- (10) determining the senior executives' position on strategic and operational issues; and
- (11) determining the senior executives' position on matters that will be referred to the Board.

In addition, the functions reserved for the Board are summarised in the Group's Board Charter, a copy of which is available on the Group's website, www.lynascorp.com.

Lynas Corporation Limited and Controlled Entities

Directors' Report

Recommendation 1.2 – Information in Relation to Board Candidates

The Nomination, Remuneration and Community Committee of the Board ensures that appropriate checks are undertaken before a person is appointed as a Director, or before a person is put forward to shareholders as a candidate for election as a Director. If the Nomination, Remuneration and Community Committee concludes that it would be appropriate to consider the appointment of an additional Director, an extensive process is undertaken to identify suitable candidates, usually involving an external search firm. That process will involve identifying the skills and experience required of the candidate, compiling lists of potential candidates, identifying a short list of candidates to be interviewed, conducting interviews, obtaining and checking information in relation to the character, experience, education, criminal record and bankruptcy history of the short listed candidates, and selecting a recommended candidate.

The Group provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director by providing all material information concerning the proposed Director in the Explanatory Memorandum that accompanies each Notice of Meeting at which candidates are proposed for election or re-election.

Recommendation 1.3 – Written Agreements with Directors and Senior Executives

The Group has signed letters of appointment with each non-executive Director, and service contracts with the CEO and the other senior executives. Further details are set out in the Remuneration Report. The letters of appointment with the non-executive Directors cover topics including:

- (1) the term of appointment;
- (2) the time commitment envisaged, including committee work;
- (3) remuneration;
- (4) disclosure requirements;
- (5) the requirement to comply with key corporate policies;
- (6) the Group's policy on non-executive Directors seeking independent professional advice;
- (7) the circumstances in which the Director's office becomes vacant;
- (8) indemnity and insurance arrangements;
- (9) rights of access to corporate information; and
- (10) confidentiality obligations.

Recommendation 1.4 – Company Secretary

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. The role of the Company Secretary includes:

- (1) advising the Board and its committees on governance matters;
- (2) monitoring that Board and committee policy and procedures are followed;
- (3) coordinating the timely completion and despatch of Board and committee papers;
- (4) ensuring accurate minutes are taken of Board and committee meetings; and
- (5) helping to organize and facilitate the induction and professional development of Directors.

Recommendation 1.5 – Diversity

The Group has established a policy concerning diversity. The Group recognises the need to set diversity measures in each of its operating locations taking into account the differing diversity issues within each geographic location in which it operates. A copy of the 'Diversity Policy' is available from the Group's website, www.lynascorp.com. The policy includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

Below are the measurable objectives set by the Board for achieving gender diversity together with the progress made in achieving those objectives:

- (1) Ensuring that recruitment of employees and Directors is made from a diverse pool of qualified candidates. Where appropriate, a professional recruitment firm shall be engaged to select a diverse range of suitably qualified candidates.

The Group continues to ensure that professional recruitment firms provide a broad selection of suitably qualified candidates together with prioritising local employment in the areas in which it operates.

- (2) Ensuring that there are appropriate proportions of women or other groups of individuals within areas of the Group.

The Group recognises that further work can be done to ensure that there are appropriate proportions of women and other groups of individuals. The Group believes that its current diversity levels are good compared to other companies in its industry. The Group's policies of favouring local employment and promoting education in its local communities will continue to contribute to the diversity of its workforce.

Lynas Corporation Limited and Controlled Entities

Directors' Report

- (3) Identifying programmes that assist in the development of a broader pool of skilled and experienced candidates including:
 - (a) initiatives focused on skills development, such as executive mentoring programmes; and
 - (b) career advancement programmes to develop skills and experience that prepare employees for senior management and Board positions.

The Group has in place a formal talent management process including mentoring and succession planning.

- (4) Taking action to correct inappropriate workplace behaviour and behaviour that is inconsistent with the diversity objectives of the Group.

The Group has in place a Code of Conduct as well as an Harassment & Discrimination Policy which defines inappropriate behaviour and the potential resultant disciplinary actions. A formal employee grievance process has been established to assist in identifying issues such as inappropriate workplace behaviour and behaviour that is inconsistent with the values and diversity objectives of the Group.

The Group provides the following statistics on gender diversity as at June 30, 2015 (prior year: June 26, 2014):

- (1) Proportion of women employees in the whole organisation: 11.7% (2014 – 16.8%). Proportion of women employees in Australia: 16% (2014 – 34.3%).
- (2) Proportion of women employees in senior executive positions in the whole organisation: 33.0% (2014 – 35.3%).
- (3) Proportion of women on the Board: 33% (2014 – 40%).

The Group defines “senior executive positions” as members in the leadership team who have the authority and responsibility for planning, directing and controlling major activities of the group.

The Group is not a “relevant employer” under the Workplace Gender Equality Act, because the Group had less than 80 employees in Australia for more than 6 months of the year ending June 30, 2015.

Recommendation 1.6– Process for evaluating the performance of the Board

In accordance with the Charter of the Nomination, Remuneration and Community Committee, the Committee is responsible for the:

- (1) evaluation and review of the performance of the Board against both measurable and qualitative indicators established by the Committee;
- (2) evaluation and review of the performance of individual Directors against both measurable and qualitative indicators established by the Committee;
- (3) review of and making of recommendations on the size and structure of the Board; and
- (4) review of the effectiveness and programme of Board meetings.

An evaluation of the performance of the Board, its committees and individual Directors took place during the financial year. That evaluation was in accordance with the above process.

Recommendation 1.7 – Performance evaluation of Senior Executives

The Group has established detailed written Key Responsibility Areas and Key Performance Indicators (KPIs) for each senior executive. The performance of senior executives is periodically reviewed against their KPIs, at least once every 12 months, as part of the Group's formal performance review procedures. The Group has adopted a formal procedure whereby each senior executive meets with his/her direct supervisor to review performance against KPI's during the review period. The results of that review are recorded in writing for follow up during subsequent meetings, and for internal reporting purposes.

Induction procedures are in place to allow new senior executives to participate fully and actively in management decision making at the earliest opportunity.

An evaluation of senior executives took place during the financial year. The evaluation was in accordance with the above process.

Principle 2 - Structure the board to add value

Recommendation 2.1 – Nomination Committee

The Group has established a Nomination, Remuneration and Community Committee.

The Group's Nomination, Remuneration and Community Committee complies with each of the requirements of Recommendation 2.1 as follows:

- (1) The Committee consists of a majority of independent Directors. During the financial year ending June 30, 2015, the members of the Committee were Ms Conlon, Mr Forde and Mr Curtis (until February 1, 2015) and Mr Harding (from February 1, 2015).
- (2) The Committee is chaired by Ms Conlon, who is an independent Director and who is not Chair of the Board.
- (3) There were three formal meetings of the Committee during the financial year ending June 30, 2015. In addition, there were several informal meetings. Further details, including the attendances of members, are provided in the Directors Meetings section of the Directors' Report.

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(4) At all times during the financial year ending June 30, 2015, the Committee had three members.

The Group has adopted Charters for its Nomination, Remuneration and Community Committee. Copies of the Committee Charters are available from the Group's website, www.lynascorp.com.

Recommendation 2.2 – Board Skills

The Nomination, Remuneration and Community Committee recognizes that it is important that the Board has an appropriate mix of skills, experience, expertise and diversity. The Board considers it important for the following skills and experience to be represented:

- Experience as a Chief Executive;
- International business experience;
- Financial and accounting experience;
- Operational experience in the chemical and resources industries
- Strategy and strategic marketing experience
- Corporate governance and risk management experience.

Information about the diversity of the Board is set out under Recommendation 1.5 above.

Recommendation 2.3 – Independence of Directors

The Council defines independence as being free from any interest, position, association or relationship that might influence, or could reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the Group and its shareholders generally.

During the financial year ended June 30, 2015, the Board had a majority of independent Directors. In accordance with the definition of independence above, and the materiality thresholds set, J. Klein, W. Forde, K. Conlon and M Harding (since January 1, 2015) and P. Etienne (since January 1, 2015), were viewed as independent Directors. During the financial year ending June 30, 2012, Mr Forde acted as Chairman of the LampsOn Board, which had oversight of the construction of Phase 1 of the Rare Earths Project, and received consultancy fees for those services. As construction of Phase 1 of the Rare Earths Project has been completed, Mr Forde has not provided any consultancy services to the Group since June 30, 2012. The Board does not view this historical consultancy arrangement as interfering with the exercise of unfettered and independent judgement. This historical consultancy arrangement was for approximately 12 months, and it was not material. As Chairman of the LampsOn Board, Mr Forde acted as the Lynas Board representative in the supervisory board for the construction of Phase 1 of the Rare Earths Project, and this role was an extension of his role as a Non-Executive Director.

N. Curtis was the Non-Executive Chairman until January 1, 2015, and a Non-Executive Director until February 1, 2015. As Mr Curtis was employed as the Chief Executive Officer of the Group up until March 31, 2013, Mr Curtis was not an independent Director of the Group in accordance with the definition above.

A. Lacaze's appointment as Chief Executive Officer of the Group was effective from June 25, 2014 (previously, a Non-Executive Director from January 1, 2014). As the Chief Executive Officer of the Group, Ms Lacaze is not an independent Director of the Group in accordance with the definition above.

The length of service of each Director who held office as at June 30, 2015 is as follows:

Name	Term in office
J. Klein	10 years
W. Forde	7 years 5 months
K. Conlon	3 year 8 months
A. Lacaze	1 year 6 months
M. Harding	6 months
P. Etienne	6 months

Recommendation 2.4 – Majority of Independent Directors

As noted above in relation to Recommendation 2.3, at all times during the financial year ended June 30, 2015, the Board had a majority of independent Directors.

Recommendation 2.5 – The Chair should be an independent Director and not the same person as the CEO

Until January 1, 2015, N. Curtis was the Chairman of the Group.. As Mr Curtis was employed as the Chief Executive Officer of the Group up until March 31, 2013, Mr Curtis was not an independent Director of the Group in accordance with the Council's definition of independence.

The role of Mr Curtis as Chairman until January 1, 2015 was balanced by the presence of a clear majority of independent Directors on the Board. In addition Mr Forde, who is an independent Non-Executive Director, acted as the Deputy Chairman of the Board during Mr Curtis' tenure. The role of the Deputy Chairman includes chairing meetings of the Board on matters where the Chairman is unable to act in that capacity, for example due to a lack of independence.

Since January 1, 2015, M. Harding has been the Chairman of the Board. Mr Harding is an independent Director and he is not the CEO. Accordingly, the Group has been fully compliant with Recommendation 2.5 since January 1, 2015.

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Directors' Report

Recommendation 2.6 – Director Induction and Professional Development

The Group has adopted a Board Induction Policy that summarizes the key matters to be addressed in the induction of each new Director. Among other things, the Induction Policy deals with information to be provided to new Directors, the Chair's role, key contacts, remuneration, indemnities, insurance, access to information, and disclosure.

The Nomination, Remuneration and Community Committee regularly reviews the skills and experience of the Directors and assists Directors to identify professional development opportunities to develop and maintain the skills required to perform their roles effectively.

Principle 3 – Act ethically and responsibly

Recommendation 3.1 – Code of Conduct

The Group has established a code of conduct for its directors, senior executives and employees concerning the:

- (1) practices necessary to maintain confidence in the Group's integrity;
- (2) practices necessary to take into account the Group's legal obligations and the expectations of stakeholders; and
- (3) responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A copy of the code of conduct is available from the Group's website, www.lynascorp.com.

Conflict Of Interest Policy

The Group has established a 'conflict of interest' policy to:

- (1) protect the integrity of the decision-making processes within the Group by avoiding ethical, legal, financial or other conflicts of interest;
- (2) establish internal procedures so that all employees understand their obligation to avoid actual, potential or perceived conflicts of interest;
- (3) provide guidance to employees for dealing with any conflicts of interest in an open and transparent manner;
- (4) provide guidance to employees for recognising and reporting on related party transactions; and
- (5) establish internal procedures to ensure that related party transactions are referred to the Group's shareholders where required.

A copy of the conflict of interest policy is available from the Group's website, www.lynascorp.com.

Principle 4 – Safeguard integrity in corporate reporting

Recommendation 4.1 – Audit Committee

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

The Group's Audit, Risk Management, Safety, Health and Environment Committee complies with each of the requirements of Recommendation 4.1 as follows:

- (1) The Committee consists only of Non-Executive Directors. During the financial year ending June 30, 2015, the members of the Committee were Mr Forde, Mr Klein, Ms Conlon and Mr Etienne (from February 1, 2015). Further details, including the relevant qualifications and experience of the members of the Committee, are provided in the Directors section of the Directors' Report.
- (2) Eight meetings of the Committee were held during the financial year ending June 30, 2015. Further details, including the attendances of members, are provided in the Directors Meetings section of the Directors' Report.
- (3) All of the members of the Committee are independent Directors.
- (4) The Committee is chaired by Mr Forde, who is an independent Director and who is not Chair of the Board.
- (5) At all times during the financial year ending June 30, 2015, the Committee had at least three members.

The Group has adopted Charters for its Audit, Risk Management, Safety, Health and Environment Committee. Copies of the Committee Charters are available from the Group's website, www.lynascorp.com.

Recommendation 4.2 – Statement from the Chief Executive Officer and the Chief Financial Officer

Before the Board approves the Group's financial statements for a financial period, the Board receives a declaration from the Chief Executive Officer and the Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* that, in their opinion, the financial records of the Group have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Group, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Lynas Corporation Limited and Controlled Entities

Directors' Report

Recommendation 4.3 – Auditor Attendance at AGM

The Group holds an Annual General Meeting of shareholders ("AGM") in October or November of each year. The Group ensures that its external auditor attends the AGM and is available to answer questions from shareholders relevant to the audit.

Principle 5 - Make timely and balanced disclosure

Recommendation 5.1 – ASX Listing Rule Disclosure Requirements

The Group has established a written policy designed to ensure:

- (1) compliance with ASX Listing Rules continuous disclosure obligations; and
- (2) accountability at a senior executive level for that disclosure.

A copy of the Group's Continuous Disclosure Policy is available from the Group's website, www.lynascorp.com.

Principle 6 - Respect the rights of shareholders

Recommendation 6.1 – Information on the Group's Website

The Group provides information about itself and its governance to its shareholders via the Group's website, www.lynascorp.com. Information about governance is available under the Corporate Governance tab of the Group's website.

Recommendation 6.2 – Investor Relations Program

The Group has an investor relations program to facilitate effective two-way communication with shareholders. The Group's investor relations program includes the following:

- (1) an email link on the Group's website, www.lynascorp.com for shareholders to ask questions;
- (2) actively engaging with shareholders at the AGM;
- (3) periodic meetings with institutional investors, analysts and financial media representatives; and
- (4) recorded CEO interviews at the time of each quarterly report, which are accessible via www.asx.com.au and the Group's website, www.lynascorp.com.

Recommendation 6.3 – Encouraging Shareholder Participation at AGMs

The Group's processes to encourage shareholder participation at AGMs include:

- (1) providing an email link on the Group's website, www.lynascorp.com for shareholders to ask questions ahead of AGMs; and
- (2) providing a facility for online lodgement of proxies.

In addition, the Group has adopted a Shareholder Communications Policy for:

- (1) promoting effective communication with shareholders; and
- (2) encouraging shareholder participation at AGMs.

A copy of the Group's Shareholder Communications Policy is available from the Group's website, www.lynascorp.com.

Recommendation 6.4 – Electronic Communications

The Group gives shareholders the option to receive communications from, and to send communications to, the Group and its share registry electronically. The Group periodically sends communications to those shareholders who have provided an email address. In addition, there is an email link on the Group's website, www.lynascorp.com for shareholders to communicate with the Group electronically. The Group's share registry, Boardroom Pty Ltd, has similar arrangements that are accessible via its website www.boardroomlimited.com.au.

Principle 7 - Recognise and manage risk

Recommendation 7.1 – Risk Management Committee

The Group has established an Audit, Risk Management, Safety, Health and Environment Committee to oversee risk.

The Group's Audit, Risk Management, Safety, Health and Environment Committee complies with each of the requirements of Recommendation 7.1 as follows:

- (1) The Committee consists only of Non-Executive Directors. During the financial year ending June 30, 2015, the members of the Committee were Mr Forde, Mr Klein, Ms Conlon and Mr Etienne (from February 1, 2015). Further details, including the relevant qualifications and experience of the members of the Committee, are provided in the Directors section of the Directors' Report.
- (2) Eight meetings of the Committee were held during the financial year ending June 30, 2015. Further details, including the attendances of members, are provided in the Directors Meetings section of the Directors' Report.

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- (3) All of the members of the Committee are independent Directors.
- (4) The Committee is chaired by Mr Forde, who is an independent Director and who is not Chair of the Board.
- (5) At all times during the financial year ending June 30, 2015, the Committee had at least three members.

The Group has adopted Charters for its Audit, Risk Management, Safety, Health and Environment Committee. Copies of the Committee Charters are available from the Group's website, www.lynascorp.com.

Recommendation 7.2 – Risk Management Framework

The Group has adopted a Risk Management Policy and a Risk Management Framework for oversight and management of its material business risks. The Audit, Risk Management, Safety, Health and Environment Committee reviews the Group's Risk Management Framework at least annually to satisfy itself that it continues to be sound. Such a review has taken place in the financial year ending June 30, 2015.

Recommendation 7.3 – Internal Audit

The Group does not have an internal audit function. The processes that the Group employs for evaluating and continually improving the effectiveness of its risk management and internal control processes include the following:

- (1) The Group's Risk Management Policy and Risk Management Framework clearly describe the roles and accountabilities of the Board, the Audit, Risk Management, Safety, Health and Environment Committee and management.
- (2) The Audit, Risk Management, Safety, Health and Environment Committee oversees the Group's material business risks.
- (3) Those members of the Group's management team who are accountable for risk management, safety, health, environment and community matters manage the Group's material business risks.
- (4) The Audit, Risk Management, Safety, Health and Environment Committee oversees financial risks pursuant to its Charter. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.
- (5) The members of the Group's finance department manage financial risks.
- (6) The Group has adopted the following policies for the oversight and management of material business risks: Risk Management Policy, Environmental Policy, Community Policy and Occupational Health and Safety Policy.

Copies of the following documents referred to in this section are available from the Group's website, www.lynascorp.com:

- (1) Audit, Risk Management, Safety, Health and Environment Committee Charters;
- (2) Risk Management Policy;
- (3) Environmental Policy;
- (4) Community Policy; and
- (5) Occupational Health and Safety Policy.

Recommendation 7.4 – Economic, Environmental and Social Sustainability Risks

The categories of risk to which the Group has exposure include economic, environmental and social sustainability risks. The Group manages these risks as follows:

- (1) The Group seeks to reduce the impact of fluctuations in Rare Earths prices and demand by building strategic relationships with customers and other parties in the Group's key markets. The Group seeks to reduce the impact of exchange rate variations by having both revenue under its sales contracts and its debt repayment obligations denominated in US dollars, and by broadly matching the currencies in which funds are held with the currencies of anticipated outgoings.
- (2) The Group manages environmental risks by adopting environmental management programs for each of its sites. The Group has detailed environmental monitoring at each of its sites, and the Group has invested significant amounts in environmental controls such as the Group's Malaysian waste gas treatment plant, waste water treatment plant and solid residues commercialization programs. These measures have ensured that the Group has complied with all applicable environmental standards at each site.
- (3) The Group recognises that a strong mutual relationship with each community in which it operates is necessary for successful operations. In addition, the Group recognises the importance of maintaining its reputation with all of its stakeholders including shareholders, regulatory authorities, communities, customers and suppliers. The Group has adopted a Community and Stakeholder Engagement Plan and the Group engages in community programs that build relationships with each of the communities in which the Group operates.

Principle 8 - Remunerate fairly and responsibly

Recommendation 8.1 – Remuneration Committee

The Group has established a Nomination, Remuneration and Community Committee.

The Group's Nomination, Remuneration and Community Committee complies with each of the requirements of Recommendation 8.1 as follows:

- (1) The Committee consists of a majority of independent Directors. During the financial year ending June 30, 2015, the members of the Committee were Ms Conlon, Mr Forde and Mr Curtis (until February 1, 2015) and Mr Harding (from February 1, 2015).

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- (2) The Committee is chaired by Ms Conlon, who is an independent Director and who is not Chair of the Board.
- (3) There were three formal meetings of the Committee during the financial year ending June 30, 2015. In addition, there were several informal meetings. Further details, including the attendances of members, are provided in the Directors Meetings section of the Directors' Report.
- (4) At all times during the financial year ending June 30, 2015, the Committee had three members.

The Group has adopted Charters for its Nomination, Remuneration and Community Committee. Copies of the Committee Charters are available from the Group's website, www.lynascorp.com.

Recommendation 8.2 – Remuneration of Executive Directors, Executives and Non-Executive Directors

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

- (1) Fixed remuneration, superannuation payments and termination payments.
- (2) Share options issued for the benefit of the relevant individuals pursuant to the Group's employee incentive plans.
- (3) Non-monetary benefits.

Details of the remuneration of Executive Directors and senior executives during the financial year are set out in the Remuneration Report section of the Directors' Report.

The remuneration of Non-Executive Directors during the financial year consisted only of cash fees and superannuation payments.

Details of the remuneration of Non-Executive Directors during the financial year are set out in the Remuneration Report section of the Directors' Report.

The fixed remuneration paid to Executive Directors and senior executives is clearly distinguished from the cash fees paid to Non-Executive Directors.

The Group complies with Recommendation 8.2 by clearly distinguishing the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives. During the financial year ended June 30, 2015 no options were issued to Non-Executive Directors.

Recommendation 8.3 – Use of Derivatives and Similar Transactions

In accordance with the Group's share trading policy, Directors and employees must not at any time enter into transactions in associated products which limit the economic risk of participating in invested entitlements under equity-based remuneration schemes. A copy of the share trading policy is available from the Group's website, www.lynascorp.com.

Share options and performance rights

As at year end the Group had on issue the following options and performance rights to acquire ordinary fully paid shares:

Series	Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
G	July 1, 2010	1,000,000	July 1, 2013	July 1, 2015	\$ 0.66	\$ 0.24
H	August 19, 2010	4,500,000	August 19, 2013	August 19, 2015	\$ 1.15	\$ 0.34
J	October 1, 2010	1,000,000	October 1, 2013	October 1, 2015	\$ 1.60	\$ 0.48
K	August 19, 2010	1,350,000	August 19, 2013	August 19, 2015	\$ 1.15	\$ 0.66
T	September 25, 2012	679,758	September 24, 2015	September 24, 2017	\$ 1.02	\$ 0.26
U	September 25, 2012*	432,489	September 24, 2015	September 24, 2017	\$ 0.00	\$ 0.72
V	September 23, 2013*	579,663	September 23, 2016	September 23, 2018	\$ 0.00	\$ 0.41
W	September 23, 2013*	1,237,127	September 23, 2016	September 23, 2018	\$ 0.00	\$ 0.41
X	September 23, 2013*	1,030,940	September 23, 2016	September 23, 2018	\$ 0.00	\$ 0.31
Y	September 23, 2014*	5,150,943	September 23, 2017	September 23, 2019	\$ 0.00	\$ 0.116
Z	September 23, 2014*	4,292,452	September 23, 2017	September 23, 2019	\$ 0.00	\$ 0.096
AA	November 28, 2014*(1)	862,069	September 23, 2015	September 23, 2017	\$ 0.00	\$ 0.059
AB	November 28, 2014*(1)	1,086,957	September 30, 2015	September 30, 2017	\$ 0.00	\$ 0.059
AC	November 28, 2014*(1)	3,396,277	September 23, 2017	September 23, 2019	\$ 0.00	\$ 0.059
AD	November 28, 2014*(1)	2,830,189	September 23, 2017	September 23, 2019	\$ 0.00	\$ 0.031
AE	Refer to footnote (2)	4,464,286	May 6, 2016	May 6, 2018	\$ 0.00	Refer to footnote (2)
Total		33,893,100				

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

(1) Performance Rights Series AA, AB, AC and AD were approved by the Board on September 23 and September 30, 2014 subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 28, 2014. Accordingly, those Performance rights were valued as at November 28, 2014.

(2) One series of performance rights granted to A Lacaze were approved by the Board on May 6, 2015 subject to shareholder approval. Shareholder approval is expected to be sought at the Lynas AGM on November 23, 2015. A provisional value per option of \$0.0448 has been used as at 30 June 2015. This will be revalued on the date of shareholder approval.

Lynas Corporation Limited and Controlled Entities

Directors' Report

Shares issued as a result of exercise of options and performance rights

During the financial year 124,789 options and 373,960 performance rights were exercised as set out in note 31 of the 'notes to the financial statements'.

Indemnification and insurance of directors and officers

During or since the end of the financial year, the Group has paid a premium in respect of a contract insuring all Directors and Officers of the Group against liabilities incurred as a Director or Officer of the Group, to the extent permitted by the *Corporations Act 2001*, that arise as a result of the following:

- (a) a wilful breach of duty; or
- (b) a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid was \$361,052 (2014: \$324,956). This amount is not included as part of the Directors remuneration in note 29 of the 'notes to the financial statements'.

Indemnification and insurance of auditor

During or since the end of the financial year, the Group entered into an agreement with its auditors, Ernst & Young, indemnifying them against any claims by third parties arising from their report on the Annual Financial Report, except where the liability arises out of conduct involving a lack of good faith. No payment has been made to indemnify Ernst & Young during or since the financial year.

Non-audit services

During the year Ernst & Young, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements.

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in note 11 of the 'notes to the financial statements'. The Directors have considered the non-audit services provided during the year by the auditor are satisfied that the provision of non-audit services by the auditor during the year is compatible, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- (a) all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- (b) the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Directors meetings

Committee membership

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

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

Audit, Risk Management, Safety, Health and Environment	Nomination, Remuneration and Community
W. Forde ^(c)	K. Conlon ^(c)
K. Conlon	N. Curtis ⁽¹⁾
J. Klein	W. Forde
P. Etienne ⁽²⁾	M. Harding ⁽³⁾

(c) Designates the Chair of the Committee as at June 30, 2015.

(1) N. Curtis resigned as a Director with effect from February 1, 2015.

(2) P. Etienne was appointed as a member of the Audit, Risk Management, Safety, Health & Environment Committee with effect from February 1, 2015.

(3) M. Harding was appointed as a member of the Nomination, Remuneration & Community Committee with effect from February 1, 2015.

As summarised in the Corporate Governance Statement, the Audit, Risk Management, Safety, Health & Environment Committee consists of independent Directors.

Lynas Corporation Limited and Controlled Entities

Directors' Report

The number of Directors' meetings held during the year and the number of meetings attended by each Director was as follows:

	Meetings of the Board and Committees		
	Directors' Meetings	Audit, Risk Management, Safety, Health and Environment	Nomination, Remuneration and Community
Number of meetings held:	10	8	3
Number of meetings attended:			
N. Curtis ⁽¹⁾	6	-	2
W. Forde	10	8	3
K. Conlon	10	8	3
J. Klein	10	8	-
A. Lacaze	10	-	-
M. Harding ⁽²⁾	4	-	1
P. Etienne ⁽³⁾	4	2	-

(1) N. Curtis resigned as a Director with effect from February 1, 2015.

(2) M. Harding was appointed as Chairman of the Board with effect from January 1, 2015, and as a member of the Nomination, Remuneration & Community Committee with effect from February 1, 2015

(3) P. Etienne was appointed as a Non-Executive Director with effect from January 1, 2015, and as a member of the Audit, Risk Management, Safety, Health and Environment Committee with effect from February 1, 2015

On July 28, 2015 the Board resolved to restructure the committees of the Board. The Directors acting on the committees of the Board as at the date of this report are as follows:

Audit & Risk	Health, Safety & Environment	Nomination, Remuneration and Community
W. Forde ^(c)	W. Forde ^(c)	K. Conlon ^(c)
K. Conlon	K. Conlon	M Harding
J. Klein	J. Klein	W. Forde
P Etienne	P Etienne	

(c) Designates the Chair of the Committee.

Auditor's independence declaration

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

Rounding of amounts

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, in relation to the "rounding off" of amounts. Amounts in the Directors' Report and Financial Report have been rounded off in accordance with the Class Order relief to the nearest thousand dollars, or in certain cases, the nearest dollar.

Lynas Corporation Limited and Controlled Entities

Remuneration Report – Audited

Dear Shareholder,

I am pleased to present our Remuneration Report for the year ended June 30, 2015 (FY15).

As with other areas of the business, we have fundamentally restructured the executive team and executive remuneration in FY15. FY15 was our first full financial year with Amanda Lacaze in the role of Chief Executive Officer and Managing Director.

In addition, in FY15, we substantially restructured the Board, welcoming Mike Harding and Philippe Etienne to the Board.

Remuneration has been simplified and reduced. Total remuneration for the continuing Directors and Executives in FY15 is shown in the table on page 26. .

The incentive structure has also been simplified. Payments have been made only where specific objectives that underpin improved performance have been delivered. These have included:

- Improved production
- Achievement of significant cost reductions
- Excellent cash management
- Implementation of new strategies to manage residues from both the mining and manufacturing operations
- Completion of new debt agreements

In FY15, the only remuneration paid to Non-Executive Directors was fees (i.e. no options or similar benefits were issued).

We hope that the report will assist your understanding of our remuneration objectives and policies. We welcome your feedback on how we can further improve the remuneration report in the future.

Yours sincerely,



Kathleen Conlon
Chair
Nomination, Remuneration and Community Committee

Lynas Corporation Limited and Controlled Entities
Directors' Report – Remuneration Report – Audited

This report sets out the remuneration arrangements of Directors and KMP of the Group in accordance with the *Corporations Act 2001* and its regulations.

A. Explanation of Key Terms

The following table explains some key terms used in this report:

Employee Share Trust (“EST”)	Options and Performance Rights that are issued for the benefit of selected Executives are issued for market value to the Lynas EST. At the same time, the EST makes an advance to the Executive equivalent to the value of the Options and/or Performance Rights to enable the Executive to subscribe for an equivalent number of units in the EST. There is no net cash impact for the Group arising from those arrangements.
Executives	At as June 30, 2015 year end, the Chief Executive Officer and Managing Director (“CEO”), the Chief Financial Officer (“CFO”), the VP Production, the VP Sales & Marketing, the VP Malaysia and the General Counsel & Company Secretary.
Key Management Personnel (“KMP”)	Those people who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including the Directors (whether executive or otherwise) and the Executives.
Lynas Advanced Materials Plant (“LAMP”)	The LAMP, which is located in the State of Pahang, Malaysia, is the facility for the cracking and separation of concentrate into separated Rare Earths products.
Long Term Incentive (“LTI”)	LTI is the long term incentive component of Total Remuneration. LTI usually comprises Options or Performance Rights with a three year vesting period that are subject to specified vesting conditions. Further details of the vesting conditions are in Section D. Options and Performance Rights cannot be exercised unless the vesting conditions are satisfied.
Option	An Option is a right to purchase a share in the future, subject to the relevant Executive paying an exercise price. Options are issued for the benefit of selected Executives as part of their LTI remuneration. The exercise price is usually set at a premium to the volume weighted average price of the shares on the ASX over the five days prior to the date of offer of the Options.
Performance Right	A Performance Right is similar to an Option, except that no “exercise price” is payable when a Performance Right is exercised.
Short Term Incentive (“STI”)	STI is the short term incentive component of Total Remuneration. An STI could be in the form of cash or equity and it is only received by the Executive if specified goals are achieved.
Total Remuneration	Total Remuneration comprises fixed pay (including superannuation) plus STI and (if applicable) LTI.
Total Shareholder Return (“TSR”)	Total Shareholder Return is the total return from a share to an investor (i.e. capital gain plus dividends).

The KMP during the financial year ended June 30, 2015 were as follows:

Non-Executive Directors:

M. Harding	Chairman (appointed with effect from January 1, 2015)
W. Forde	Non-Executive Director, Chairman of the Audit, Risk Management, Safety, Health and Environment Committee
K. Conlon	Non-Executive Director, and Chairman of the Nomination, Remuneration and Community Committee
J. Klein	Non-Executive Director
P. Etienne	Non-Executive Director
N. Curtis	Chairman until January 1, 2015 (resigned as a Non-Executive Director with effect from February 1, 2015)

Lynas Corporation Limited and Controlled Entities

Directors' Report – Remuneration Report – Audited

Executives:

A. Lacaze	CEO and Managing Director
G. Sturzenegger	CFO (commencement date was November 1, 2014)
L. Catanzaro	CFO (cessation date was November 1, 2014)
K. Leung	VP Production (commencement date was August 1, 2014)
M. Ahmad	VP Malaysia
P. Le Roux	VP Sales & Marketing
A. Arnold	General Counsel and Company Secretary
G. Barr	VP People & Culture (cessation date was January 2, 2015)
A. Jury	VP Corporate Affairs (cessation date was September 25, 2014)
J.C. Steinmetz	Chief Operating Officer (cessation date was December 8, 2014)

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

B. Our Remuneration Philosophy

The Group's objective is to provide maximum stakeholder benefit by attracting, retaining and motivating a high quality board of directors and executive management team. Remunerating Directors and Executives fairly and appropriately, consistent with relevant employment market conditions, is an important part of achieving this goal. We align rewards to sustainable value through creating links between the achievement of organisational goals, both long and short term in nature, with the non-fixed elements of individual remuneration.

To help the Group achieve this objective, the Committee links the nature and amount of the remuneration paid to the Executives to the Group's financial and operational performance.

Total remuneration (that is, fixed remuneration plus STI and LTI) is paid at market rates except in exceptional cases where skills are scarce or particularly valuable, in which case we pay as necessary. Our market is defined by location and function, i.e. Malaysia, WA resources and the global Rare Earths market

STI awards, which create an "at risk" component are equal to approximately 50% of total fixed remuneration for senior Executives (with 25% paid in cash and 25% paid in performance rights).

LTI awards for senior Executives with TSR and operating milestone performance hurdles equal to approximately 25% of total fixed remuneration for senior Executives, and 50% of total fixed remuneration for the Chief Executive Officer.

External advisors and remuneration advice

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

- During the year, the Committee did not receive any remuneration recommendations (as defined in the *Corporations Act 2001*).

C. Role of the Nomination, Remuneration and Community Committee

The Board is responsible for determining and reviewing remuneration arrangements for Directors and Executives. The Committee assesses, on a regular basis, the appropriateness of the nature and amount of KMP remuneration. In fulfilling these duties and to support effective governance processes, the Committee:

- consists of a majority of independent Non-Executive Directors and is chaired by an independent chair;
- has unrestricted access to management and any relevant documents; and
- engages external advisers for assistance to the extent appropriate and necessary (e.g. detailing market levels of remuneration).

D. Our Executive Remuneration Framework

Objective

The Group aims to remunerate its Executives at a level commensurate with their position and responsibilities within the Group so as to:

- reward them for the Group, business unit and individual performance against agreed targets set by reference to appropriate benchmarks;
- align their interests with those of our shareholders;
- link their reward with the Group's strategic goals and performance; and
- provide total remuneration that is competitive by market standards.

Lynas Corporation Limited and Controlled Entities
Directors' Report – Remuneration Report – Audited

Structure

Executive remuneration consists of the following key elements:

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

The Group provides no retirement benefits, other than statutory superannuation.

Fixed pay

Fixed pay consists of base salary and superannuation. It is determined on an individual basis, taking into account external market benchmarks and individual factors such as capability, experience, responsibility and accountability. Fixed pay is targeted at market rates in the geographic and functional markets in which we operate.

Variable remuneration

Notwithstanding the introduction of a formal STI Plan, the Board retains ultimate discretion in relation to the payment of bonuses, options, performance rights and other incentive payments, based on the overall performance of the Group and of the individual during the year.

In summary:

<u>Fixed pay</u> = base + super	<u>Variable remuneration</u> = STI (Cash and Deferred) + LTI
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STIs

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

Our target STI for Executives is 50% of fixed pay.

The goals and measures of the STI programme (including individual, team and company performance goals and measures), the relative weightings of those measures and goals, and STI target amounts are determined and approved at the commencement of each review period by the Remuneration Committee. During the financial year ended June 30, 2015, the measures were drafted with reference to the following goals:

- **Corporate:** Operating Cashflow, Operating Margin
- **Team:** Health & Safety of Employees, Raw Water Consumption, Yield, SMP and Recovery
- **Individual:** Performance Rating

The payment of any award under the STI programme is subject to the Group achieving operating cashflow that is at or better than budgeted operating cashflow ("**STI Gateway**"). The STI Gateway was not satisfied during the financial year ended June 30, 2015. The below table shows which of the individual STI goals were achieved during the financial year ended June 30, 2015:

STI FY 2014/15 - Corporate	
STI test	Status
<u>Gateway (Operating Cash Flow)</u> (At or better than budgeted Operating Cash Flow)	Fail
Company goals:	
(1) <u>Operating Cash Flow</u> (At or better than budgeted Operating Cash Flow)	Fail
(2) <u>Operating Margin</u> (At or better than budgeted Operating Margin)	Fail
(3) <u>Health & Safety LTI</u> (Reduction in 'Lost Time Injury' when compared to last performance year)	Pass
Overall STI pay-out based on goals and achieved performance:	NIL

Lynas Corporation Limited and Controlled Entities

Directors' Report – Remuneration Report – Audited

Ex Gratia Award at the end of FY15

Notwithstanding that the STI Gateway for FY15 was not satisfied, the Board concluded after the end of FY15 that it was appropriate to make an ex gratia award to selected senior Executives, in recognition of recent achievements and as part of the Group's retention policies.

In approving the awards, the Executives' contributions to the following key performance areas were assessed.

- (a) Improved production rates.
- (b) Decreased costs.
- (c) Cash performance.
- (d) The debt rescheduling

Recognizing the importance of cash conservation, the award to senior Executives was approved as an award of performance rights. The award is in an amount equal to approximately 15% of total fixed remuneration.

The performance rights will vest after 1 year of service with no other vesting conditions. The performance rights will be valued based on the 5 day VWAP at the date of the Board's decision to approve the award, being July 28, 2015.

LTI's

Options and Performance Rights are provided to KMP and other selected employees to provide greater alignment to strategic business objectives. They have three year vesting periods, and are exercisable between three and five years after they were granted provided the award recipient is still employed with the Group (unless this requirement, in limited circumstances, is waived by the Board), and any relevant performance conditions are achieved.

A summary of the performance conditions attached to Options and Performance Rights granted during the financial year ended June 30, 2015 (in addition to the requirement that the award recipient is still employed by the Group at the end of a three year vesting period) is set out below:

- (i) 50% will be conditional on satisfaction of the following operational hurdle:

Consistency of Production – Right First Time (RFT): During the calendar year 2016, the percentage of first time conforming produced tonnes over total produced tonnes for Mt Weld and the LAMP must be at least 85% in accordance with the following sliding scale:

- (a) If the RFT is 85% or more, and less than 90%, then 50% of the RFT portion will vest.
- (b) If the RFT is 90% or more, and less than 92%, then 100% of the RFT portion will vest.
- (c) If the RFT is 92% or more, then an additional 20% of the RFT portion will vest, giving a total vested portion equal to 120% of the RFT portion.

- (ii) 50% will be conditional on the company's Total Shareholder Return (TSR) being at least at the 51st percentile of ASX 200 companies calculated over the 3-year vesting period, in accordance with the following sliding scale:

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

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

Clawback Policy

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

- (a) require a KMP to repay some or all of any STI award or LTI award granted to the KMP from July 1, 2013 ("**Relevant Award**"), to the extent such award has vested;
- (b) forfeit the reference units representing all or a part of the KMP's Relevant Award, to the extent such award remains unvested; or
- (c) withhold the payment or allocation of all or a part of the KMP's Relevant Award, to the extent such award has not been paid or given to that KMP.

Lynas Corporation Limited and Controlled Entities

Directors' Report – Remuneration Report – Audited

E. Service Agreements

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

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

Employment conditions for all other KMPs are on the following terms:

- each may give three month's written notice of their intention to resign;
- the Group may terminate the employment by providing three to six months' written notice;
- on resignation or termination (other than as a result of misconduct), unvested incentives will be treated in the same manner set out above in respect of Ms Lacaze; and
- the Group may terminate employment at any time without notice if serious misconduct has occurred.

F. Linking Remuneration and Group Performance

Prior to the financial year ended June 30, 2011, KMP remuneration (including any component that consisted of securities in the Group) was not formally linked to Group performance. The reason behind this approach was that as the Group was in a development phase it was not appropriate to link remuneration to factors such as profitability or share price. This approach has changed now that the Group is transitioning into its operational phase.

- In the financial year ended June 30, 2011, 50% of the LTI grant was subject to the achievement of a net positive operating cash flow hurdle for the six months ending December 31, 2012. That hurdle was not satisfied.
- In the financial year ended June 30, 2012, LTI grants were subject to a TSR hurdle and to project milestone hurdles related to REO capacity. Those hurdles were not satisfied.
- In the financial year ended June 30, 2013, LTI grants were also subject to a TSR hurdle and to project milestone hurdles related to REO capacity. The project milestone hurdles were not satisfied. The reference period for the TSR hurdle has not yet expired.
- In the financial year ended June 30, 2014, LTI grants were also subject to a TSR hurdle and to project milestone hurdles related to consistency of production – Right First Time. The reference period for these hurdles has not yet expired.
- In the financial year ended June 30, 2015, LTI grants were also subject to a TSR hurdle and to project milestone hurdles related to consistency of production – Right First Time, as detailed in Section D above. The reference period for these hurdles has not yet expired.

Individual performance reviews link total remuneration to individual and business unit performance. From July 1, 2012 the mix of fixed pay and variable remuneration has been adjusted by the introduction of a formal STI plan. The introduction of the STI plan reflects the transition of the Group from a development phase to an operational phase, and it recognises that we have important short term goals based on successful commissioning and ramp-up, production volumes, cash flow, costs and safety and community programmes. The STI component is intended to be in substitution for (and not in addition to) portions of remuneration that were previously paid predominantly as LTI.

During the financial year ended June 30, 2015, the STI plan consisted of one single 12-month review period, commencing on July 1, 2014. As noted above in section D, the payment of any award under the STI programme is subject to the Group achieving positive operating cash flow ("**STI Gateway**"). The STI Gateway was not satisfied.

Separately, changes in the share based remuneration from one year to the next reflect the impact of amortising the accounting value of Options and Performance Rights over their three year vesting period and the impact of forfeitures which can relate to both the current and prior periods in a given fiscal period. In certain periods, a negative value may be presented which results when the forfeitures recognised in a period are greater than the accounting amortisation expense for the current portion of the vesting period.

Lynas Corporation Limited and Controlled Entities

Directors' Report – Remuneration Report – Audited

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

	June 30, 2010	June 30, 2011	June 30, 2012	June 30, 2013	June 30, 2014	June 30, 2015
Revenue (\$ '000)	-	-	-	950	64,570	144,596
Loss before tax (\$'000)	(43,041)	(57,288)	(97,879)	(141,014)	(345,431)	(118,559)
Loss after tax (\$'000)	(43,041)	(59,086)	(87,770)	(143,555)	(345,488)	(118,685)
Shareholder funds (\$' 000)	719,857	821,994	823,161	994,645	1,034,634	1,083,898
Annual average share price	\$0.55	\$1.66	\$1.30	\$0.65	\$0.29	\$0.08
Closing share price at financial year end	\$0.55	\$1.98	\$0.85	\$0.38	\$0.13	\$0.03
Earnings Per Share (EPS)	(3.23)	(3.54)	(5.12)	(5.13)	(15.41)	(3.82)
Diluted (EPS) (CPS)	(3.23)	(3.54)	(5.12)	(5.13)	(15.41)	(3.82)

G. Non-Executive Director Remuneration

Objective

Remuneration of Non-Executive Directors ("NEDs") is set at a level that enables the Group to attract and retain talented and motivated people at a cost which is acceptable to shareholders. In setting remuneration, the Group takes into account, among other factors:

- fees paid to NEDs of companies of a similar size/industry;
- the time commitment required for NEDs to properly fulfil their duties;
- the risks and responsibilities associated with the roles; and
- the relevant commercial and industry experience required.

Structure

The Company's Constitution and the ASX Listing Rules specify that the maximum aggregate remuneration of NEDs must be determined from time to time by a general meeting. The last determination was at the AGM held on November 20, 2012, and an aggregate pool of \$1,250,000 was approved. The aggregate fees for NEDs for the period did not exceed this amount.

Components of Non-Executive Director Remuneration

Each NED receives a fee for being a Director of the Company, and (other than the Chairman of the Board) each NED receives a fee for each committee of which they are members. The NED fees, including committee fees, include statutory superannuation contributions where appropriate.

Base Fees

Base fees for NEDs for the financial year ended June 30, 2015 were:

- Chairman \$250,000 per annum;
- Non-Executive Director \$100,000 per annum.

Committee Fees

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

The remuneration for NEDs for the financial years ended June 30, 2014 and June 30, 2015 is set out in Section H of this report.

Lynas Corporation Limited and Controlled Entities
Directors' Report – Remuneration Report – Audited

H.Details of Remuneration

Year Ended June 30, 2015

Name	Short term benefits			Post-employment benefits		Total Short Term and Post-Emp Benefits	Long service leave	Long term benefits		Total
	Cash salary and fees	Other short term employee benefits	Non-monetary benefits	Termination payments	Superannuation and other pension payments			Share-based payments (net) ⁽¹⁾	Performance related % of Total	
Executive Director										
A. Lacaze	1,181,552	300,000	59,998	-	18,783	1,560,333	-	272,568	15%	1,832,901
Non-Executive Directors										
K. Conlon	140,000	-	-	-	-	140,000	-	-	-	140,000
W. Forde	173,613	-	-	-	16,105	189,718	-	-	-	189,718
M. Harding ⁽²⁾	125,000	-	-	-	9,392	134,392	-	-	-	134,392
J. Klein	115,000	-	-	-	-	115,000	-	-	-	115,000
P. Etienne ⁽³⁾	57,500	-	-	-	5,463	62,963	-	-	-	62,963
Executives										
A. Arnold	622,419	-	10,651	-	6,261	639,331	-	284,968	31%	924,299
G. Sturzenegger ⁽⁴⁾	458,220	-	25,370	-	-	483,590	-	-	-	483,590
K. Leung ⁽⁵⁾	464,939	-	27,013	-	18,783	510,735	-	107,920	17%	618,655
M. Ahmad ⁽⁶⁾	353,002	38,584	215	-	62,655	454,456	-	49,568	10%	504,024
P. Le Roux ⁽⁷⁾	423,667	-	69,671	-	57,574	550,912	-	15,832	3%	566,744
Sub-total for current Directors and Executives	4,114,912	338,584	192,918	-	195,016	4,841,430	-	730,856	13%	5,572,286
Former Non-Executive Directors										
N. Curtis ⁽⁸⁾	183,333	-	-	-	-	183,333	-	110,509	38%	293,842
Former Executives										
G. Barr ⁽⁹⁾	217,877	-	-	193,269	9,689	420,835	-	(162,603)	(63%)	258,232
L. Catanzaro ⁽¹⁰⁾	359,541	-	-	223,007	9,874	592,422	-	(1,786)	-%	590,636
A. Jury ⁽¹¹⁾	114,298	-	-	-	4,696	118,994	-	(23,809)	(25%)	95,185
J.C. Steinmetz ⁽¹²⁾	309,954	-	88,635	13,908	185,702	598,199	-	-	-	598,199
Sub-total for former Directors and Executives	1,185,003	-	88,635	430,184	209,961	1,913,783	-	(77,689)	(4%)	1,836,094
Total	5,299,915	338,584	281,553	430,184	404,977	6,755,213	-	653,167	9%	7,408,380

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

(2) Appointed Non-Executive Chairman with effect from January 1, 2015.

(3) Appointed Non-Executive Director with effect from January 1, 2015.

(4) Appointed Chief Financial Officer with effect from November 1, 2014. Prior to that, Mr. Sturzenegger was the General Manager-Finance of the Group.

(5) Appointed Vice President of Production on August 1, 2014.

(6) Appointed Executive Vice President Malaysia with effect from November 1, 2012 and has been considered to be a KMP in the current year.

(7) Appointed Executive Vice President of Sales and Marketing with effect from October 1, 2010 and has been considered to be a KMP in the current year.

(8) Ceased to be Chairman with effect from January 1, 2015 and Non-Executive Director with effect from February 1, 2015.

(9) Ceased to be Executive Vice President of People and Culture with effect from January 2, 2015.

(10) Ceased to be Chief Financial Officer with effect from January 2, 2015.

(11) Ceased to be Executive Vice President of Corporate Affairs with effect from September 25, 2014.

(12) Ceased to be Chief Operating Officer with effect from December 8, 2014.

Lynas Corporation Limited and Controlled Entities
Directors' Report – Remuneration Report – Audited
Year Ended June 30, 2014

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

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

(2) Appointed as Chief Executive Officer and Executive Director with effect from June 25, 2014, previously Non-Executive Director from January 1, 2014. Entitled to a sign-on bonus of \$100,000 under the terms of Ms Lacaze's employment contract. This is subject to Lynas shareholder approval.

(3) Ceased as Chief Executive Officer and Director with effect from June 25, 2014.

(4) This amount represents the termination payment which is payable to Eric Noyrez pursuant to the cessation of Mr Noyrez's employment as Chief Executive Officer, in accordance with his Service Agreement. The amount is payable in instalments to Mr Noyrez during the course of the financial year ending June 30, 2015. In addition to this amount, Mr Noyrez has forfeited options and performance rights with a value of \$60,872

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

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

(7) Appointed as Chief Operating Officer with effect from August 1, 2013.

(8) Represents an STI award paid in the financial year ended June 30, 2014 relating to the First Half Review Period STI Performance Gateway being satisfied for the prior year ended June 30, 2013 and approved for payment by the Board on September 13, 2013.

Lynas Corporation Limited and Controlled Entities

Directors' Report – Remuneration Report – Audited

I. KMP equity holdings

(i) Shareholdings

The following table outlines the shares held directly, indirectly and beneficially by directors and KMP as at June 30, 2015.

Name	Balance at beginning of period	Purchased	Granted	On exercise of options	Other	Balance at end of period	Held nominally at end of period
A. Lacaze	82,500	948,476	-	-	-	1,030,976	-
K. Conlon	262,258	593,922	-	-	-	856,180	-
P. Etienne ⁽¹⁾	-	-	-	-	-	-	-
W. Forde	1,161,184	414,709	-	-	-	1,575,893	-
M. Harding ⁽²⁾	-	-	-	-	-	-	-
J. Klein	2,082,236	743,657	-	-	-	2,825,893	-
A. Arnold	34,401	12,287	-	-	-	46,688	-
G. Sturzenegger ⁽³⁾	-	-	-	-	-	-	-
K. Leung ⁽⁴⁾	-	-	-	-	-	-	-
M. Ahmad ⁽⁵⁾	100,000	40,000	-	-	-	140,000	-
P. Le Roux ⁽⁶⁾	-	-	-	-	-	-	-
Total	3,722,579	2,753,051	-	-	-	6,475,630	

(1) Appointed as a Director with effect from January 1, 2015.

(2) Appointed as Chairman with effect from January 1, 2015.

(3) Commenced as Chief Financial Officer with effect from November 1, 2014.

(4) Appointed Vice President of Production on August 1, 2014.

(5) Appointed Executive Vice President Malaysia with effect from November 1, 2012 and has been considered to be a KMP in the current year.

(6) Appointed Executive Vice President of Sales and Marketing with effect from October 1, 2010 and has been considered to be a KMP in the current year.

(ii) Share Based Remuneration – Options and Performance Rights

The following table lists any options and performance rights which are still to vest, or have yet to expire, as at 30 June 2015.

Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per Option at valuation date
July 1, 2010	1,000,000	July 1, 2013	July 1, 2015	\$ 0.66	\$ 0.24
August 19, 2010	4,500,000	August 19, 2013	August 19, 2015	\$ 1.15	\$ 0.34
August 19, 2010	1,350,000	August 19, 2013	August 19, 2015	\$ 1.15	\$ 0.66
October 1, 2010	1,000,000	October 1, 2013	October 1, 2015	\$ 1.60	\$ 0.48
September 25, 2012	679,758	September 24, 2015	September 24, 2017	\$ 1.02	\$ 0.26
September 25, 2012*	432,489	September 24, 2015	September 24, 2017	\$ 0.00	\$ 0.72
September 23, 2013*	579,663	September 23, 2016	September 23, 2018	\$ 0.00	\$ 0.41
September 23, 2013*	1,237,127	September 23, 2016	September 23, 2018	\$ 0.00	\$ 0.41
September 23, 2013*	1,030,940	September 23, 2016	September 23, 2018	\$ 0.00	\$ 0.31
September 23, 2014*	5,150,943	September 23, 2017 ⁽¹⁾	September 23, 2019	\$ 0.00	\$ 0.116
September 23, 2014*	4,292,452	September 23, 2017 ⁽¹⁾	September 23, 2019	\$ 0.00	\$ 0.096
November 28, 2014 ⁽²⁾	862,069	September 23, 2015 ⁽¹⁾	September 23, 2017	\$ 0.00	\$ 0.059
November 28, 2014 ⁽²⁾	1,086,957	September 30, 2015 ⁽¹⁾	September 30, 2017	\$ 0.00	\$ 0.059
November 28, 2014 ⁽²⁾	3,396,227	September 23, 2017 ⁽¹⁾	September 23, 2019	\$ 0.00	\$ 0.059
November 28, 2014 ⁽²⁾	2,830,189	September 23, 2017 ⁽¹⁾	September 23, 2019	\$ 0.00	\$ 0.031
Refer footnote ⁽³⁾	4,464,286	May 6, 2016 ⁽¹⁾	May 6, 2018	\$ 0.00	Refer footnote ⁽³⁾
Total	33,893,100				

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

(1) Performance Rights Series Y, Z, AA, AB, AC, AD and AE.

(2) Performance Rights Series AA, AB, AC and AD were approved by the Board on September 23 and September 30, 2014 subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 28, 2014. Accordingly, those Performance rights were valued as at November 28, 2014.

(3) The proposed issuance of Performance Rights Series AE was approved by the Board on May 6, 2015, subject to shareholder approval, and shareholder approval is expected to be sought at the Lynas AGM on November 23, 2015. A provisional value per option of \$0.0448 has been used as at 30 June 2015. This will be revalued on the date of shareholder approval.

Lynas Corporation Limited and Controlled Entities

Directors' Report – Remuneration Report – Audited

Fair value of Options

The fair value of each Option and Performance Right is estimated on the date the Options are granted using a Black Scholes valuation model. The following assumptions were considered in the valuation of Options and Performance Rights granted during the year ended June 30, 2015:

	Series Y	Series Z	Series AA	Series AB	Series AC	Series AD	Series AE
Valuation date							
5 day VWAP	\$0.116	\$0.096	\$0.059	\$0.059	\$0.059	\$0.059	
Exercise price	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	Refer
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	
Expected volatility	87.01%	87.01%	73.28%	73.28%	73.28%	73.28%	footnote (1)
Risk-free Rate	2.83%	2.83%	2.40%	2.40%	2.40%	2.40%	
Life of Option	5 years	5 years	3 years	3 years	5 years	5 years	

(1) Performance Rights Series AE were approved by the Board on May 6, 2015, subject to shareholder approval, and shareholder approval is expected to be sought at the Lynas AGM on November 23, 2015. Accordingly, those Performance rights have been valued as at September 30, 2014. A provisional value per option of \$0.0448 has been used as at 30 June 2015. This will be revalued on the date of shareholder approval.

No dividends have been paid in the past and so it is not appropriate to estimate future possible dividends in arriving at the fair values. The life of the Options is based on either a three-year expiry or a five-year expiry from date of grant (as specified above) and is therefore not necessarily indicative of exercise patterns that may occur.

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

Name	Number of Options and performance rights	Grant date	Fair value per Instrument at valuation date	Exercise price per Instrument	First exercise date	Last exercise or Expiry date
A. Lacaze ⁽¹⁾	862,069	November 28, 2014	\$0.059	\$0.00	September 23, 2015	September 23, 2017
A. Lacaze ⁽¹⁾	1,086,957	November 28, 2014	\$0.059	\$0.00	September 30, 2015	September 30, 2017
A. Lacaze ⁽¹⁾	3,396,227	November 28, 2014	\$0.059	\$0.00	September 23, 2017	September 23, 2019
A. Lacaze ⁽¹⁾	2,830,189	November 28, 2014	\$0.031	\$0.00	September 23, 2017	September 23, 2019
A. Lacaze ⁽²⁾	4,464,286	Refer footnote ⁽²⁾	Refer footnote ⁽²⁾	\$0.00	May 6, 2016	May 6, 2018
K. Leung	1,896,227	September 23, 2014	\$0.116	\$0.00	September 23, 2017	September 23, 2019
K. Leung	1,580,189	September 23, 2014	\$0.096	\$0.00	September 23, 2017	September 23, 2019
M. Ahmad	452,830	September 23, 2014	\$0.116	\$0.00	September 23, 2017	September 23, 2019
M. Ahmad	377,358	September 23, 2014	\$0.096	\$0.00	September 23, 2017	September 23, 2019
A. Arnold*	1,896,226	September 23, 2014	\$0.116	\$0.00	September 23, 2017	September 23, 2019
A. Arnold	1,580,189	September 23, 2014	\$0.096	\$0.00	September 23, 2017	September 23, 2019
Former KMP						
J.C. Steinmetz ⁽³⁾	1,896,226	September 23, 2014	\$0.116	\$0.00	September 23, 2017	September 23, 2019
J.C. Steinmetz ⁽³⁾	1,580,189	September 23, 2014	\$0.096	\$0.00	September 23, 2017	September 23, 2019
Total	23,899,162					

(1) Four series of performance rights granted to A Lacaze were approved by the Board on September 23 and September 30, 2014 subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 28, 2014.

(2) One series of performance rights granted to A Lacaze were approved by the Board on May 6, 2015 subject to shareholder approval. Shareholder approval is expected to be sought at the Lynas AGM on November 23, 2015. A provisional value per option of \$0.0448 has been used as at 30 June 2015. This will be revalued on the date of shareholder approval.

(3) The performance rights granted to J.C. Steinmetz were forfeited after he ceased to be Chief Operating Officer effective December 8, 2014.

Except as specified in the table above, all Options or Performance Rights granted for the benefit of Directors and the Executives have three-year vesting periods. The Options and Performance Rights are exercisable between three and five years after the Options have been granted, subject to achievement of the relevant performance hurdles.

Lynas Corporation Limited and Controlled Entities

Directors' Report – Remuneration Report – Audited

The following tables outline the Options and Performance Rights granted for the benefit of Directors and the KMP during the 2015 and 2014 financial years and those Options which have vested at each respective year-end.

June 30, 2015	Balance at beginning of period	Granted	Grant Date	Options exercised/ cancelled/ forfeited/ other	Options expired without exercise	Net change	Balance at end of period	Amount vested and exercisable at June 30, 2015	Amount vested and not exercisable at June 30, 2015
A. Lacaze ⁽¹⁾	-	12,639,728	Refer footnote (1)	-	-	12,639,728	12,639,728	-	-
K. Conlon	-	-	-	-	-	-	-	-	-
P Etienne ⁽²⁾	-	-	-	-	-	-	-	-	-
W. Forde	2,150,000	-	-	-	(1,400,000)	(1,400,000)	750,000	750,000	-
M. Harding ⁽³⁾	-	-	-	-	-	-	-	-	-
J. Klein	1,700,000	-	-	-	(1,100,000)	(1,100,000)	600,000	600,000	-
A. Arnold	5,172,378	3,476,415	Sep 23, 2014	(467,500)	(2,400,000)	608,915	5,781,293	750,000	-
G. Sturzenegger ⁽⁴⁾	-	-	-	-	-	-	-	-	-
K. Leung ⁽⁵⁾	107,213	3,476,416	Sep 23, 2014	-	-	3,583,629	3,583,629	-	-
M. Ahmad ⁽⁶⁾	288,178	830,188	Sep 23, 2014	(130,000)	-	700,188	988,366	-	-
P. Le Roux ⁽⁷⁾	1,156,589	-	-	(45,000)	-	(45,000)	1,111,589	1,000,000	-
Former KMP									
G. Barr ⁽⁸⁾	1,851,080	-	-	(1,362,419)	-	(1,362,419)	488,661	-	-
L. Catanzaro ⁽⁹⁾	1,689,132	-	-	(1,689,132)	-	(1,689,132)	-	-	-
N. Curtis ⁽¹⁰⁾	18,500,000	-	-	(6,500,000)	(12,000,000)	(18,500,000)	-	-	-
A. Jury ⁽¹¹⁾	256,544	-	-	(256,544)	-	(256,544)	-	-	-
J.C. Steinmetz ⁽¹²⁾	-	3,476,415	Sep 23, 2014	(3,476,415)	-	-	-	-	-
Total	32,871,114	23,899,162		(13,927,010)	(16,900,000)	(6,927,848)	25,943,266	3,100,000	-

(1) 8,175,442 performance rights granted to A. Lacaze were approved by the Board on September 23 and September 30, 2014, subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 28, 2014. The proposed issuance of 4,464,286 performance rights granted to A. Lacaze was approved by the Board on May 6, 2015 subject to shareholder approval, and shareholder approval is expected to be sought at the Lynas AGM on November 23, 2015.

(2) Appointed as a Director with effect from January 1, 2015.

(3) Appointed as Chairman with effect from January 1, 2015.

(4) Commenced as Chief Financial Officer with effect from November 1, 2014.

(5) Appointed Vice President of Production on August 1, 2014.

(6) Appointed Executive Vice President Malaysia with effect from November 1, 2012 and has been considered to be a KMP in the current year.

(7) Appointed Executive Vice President of Sales and Marketing with effect from October 1, 2010 and has been considered to be a KMP in the current year.

(8) Ceased as Vice President of People and Culture with effect from January 2, 2015.

(9) Ceased as Chief Financial Officer with effect from November 1, 2014.

(10) Acted as Chairman until January 1, 2015. Resigned as a Non-Executive Director with effect from February 1, 2015.

(11) Ceased as Vice President of Corporate Affairs with effect from January 2, 2015.

(12) Ceased as Chief Operating Officer with effect from December 8, 2014.

June 30, 2014	Balance at beginning of period	Granted	Grant Date	Options /Rights exercised/ cancelled/ forfeited/ other	Options expired without exercise	Net change	Balance at end of period	Amount vested and exercisable at June 30, 2014	Amount vested and not exercisable at June 30, 2014
A. Arnold	7,142,402	1,026,177	Sep 23 2013	(996,201)	(2,000,000)	(1,970,024)	5,172,378	3,150,000	-
G. Barr	2,199,806	1,026,177	Sep 23 2013	(924,903)	(450,000)	(348,726)	1,851,080	-	-
L. Catanzaro	2,453,172	462,546	Sep 23 2013	(1,226,586)	-	(764,040)	1,689,132	-	-
K. Conlon	-	-	-	-	-	-	-	-	-
N. Curtis	25,500,000	-	-	(2,000,000)	(5,000,000)	(7,000,000)	18,500,000	16,500,000	-
J. Klein	2,500,000	-	-	-	(800,000)	(800,000)	1,700,000	1,700,000	-
A. Lacaze ⁽¹⁾	-	-	-	-	-	-	-	-	-
W. Forde	3,250,000	-	-	-	(1,100,000)	(1,100,000)	2,150,000	2,150,000	-
A. Jury	-	256,544	Sep 23 2013	-	-	256,544	256,544	-	-
J.C. Steinmetz ⁽²⁾	-	-	-	-	-	-	-	-	-
Former KMP									
D. Davidson ⁽³⁾	2,500,000	-	-	-	(800,000)	(800,000)	1,700,000	1,700,000	-
E. Noyrez ⁽⁴⁾	9,812,853	2,802,840	Nov 29 2013 ⁽⁴⁾	(6,115,693)	-	(3,312,853)	6,500,000	6,500,000	-
Z. Switkowski ⁽⁵⁾	-	-	-	-	-	-	-	-	-
Total	55,358,233	5,574,284		(11,263,383)	(10,150,000)	(15,839,099)	39,519,134	31,700,000	-

(1) Appointed as Chief Executive Officer and an Executive Director with effect from June 25, 2014, previously Non-Executive Director from January 1, 2014. As announced on June 25, 2014, subject to shareholder approval, A. Lacaze is entitled to a sign-on bonus of performance rights of \$100,000.

(2) Appointed as Chief Operating Officer with effect from August 1 2013.

(3) Resigned as a Director with effect from August 20, 2013.

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

(5) Resigned as a Director with effect from August 20, 2013.

Lynas Corporation Limited and Controlled Entities

Directors' Report

Subsequent events

On August 17, 2015 the Company announced it had agreed on a long term debt structure with its current debt providers and bondholders.

Japan Australia Rare Earths B.V. (JARE) loan facility

The new maturity date of this facility is June 30, 2018. Interest is paid into a restricted bank account in the name of Lynas. Interest liabilities will only be paid to the lenders to the extent that, from June 30, 2016 onwards, there is a total cash balance (unrestricted and restricted funds) in excess of AUD60m. The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business. The Company has agreed an interest regime which provides Lynas with the ability to reduce the effective interest rate on the JARE facility from 7% per annum to a floor of 2.8% per annum over time. The initial interest rate is unchanged at 7% per annum, however the new framework sets specific targets that, if met, will effect a cascading decrease in the interest rate payable on the facility.

The Principal Repayments due prior to maturity under the JARE facility have been adjusted significantly.

<i>Terms in place at 30 June 2015</i>		<i>New terms announced August 17, 2015</i>	
19 January 2014	USD10m (paid)	19 January 2014	USD10m (paid)
2 October 2014	USD10m (paid)	2 October 2014	USD10m (paid)
30 September 2015	USD30m	30 June 2016	USD2m
21 December 2015	USD20m	21 December 2016	USD5m
31 March 2016	USD20m	30 June 2017	USD15m
30 June 2016	USD135m	21 December 2017	USD30m
		30 June 2018	USD153m

Under the new agreement, Lynas has the ability to reduce the effective interest rate on the JARE facility from 7% to a minimum floor of 2.8% over time. This is based on meeting certain milestones as shown below.

(a) Production Target

Cumulative NdPr Production from 1 July 2015		Interest reduction when production target achieved	Interest penalty when production target not achieved
31 December 2015	1,860 tonnes	0.5%	0.25%
30 June 2016	3,840 tonnes	0.5%	Nil
31 December 2016	5,940 tonnes	0.5%	0.25%
30 June 2017	8,040 tonnes	0.25%	0.25%
31 December 2017	10,440 tonnes	0.25%	0.25%

If the target of 3,840 tonnes is not met by 30 June 2016, Lynas agrees to start up SX5 Train 4 production. Lynas is continuously assessing the appropriate time to start up SX5 Train 4 which is largely dependent on market conditions.

Scheduled Repayments

Each time a scheduled repayment is fully paid on or before its scheduled repayment date, the interest rate decreases by 0.3% per annum effective from the day after the repayment is made.

Principal Prepayments

If, at any time on or before 21 December 2016, the total repayment and prepayment amount (including the USD20m already repaid by 2 October 2014) is equal to or greater than USD50m, the interest rate decreases by 1.0%. An additional 0.5% reduction applies if, at any time on or before 30 June 2017, the total repayment and prepayment amount (including the USD20m already repaid by 2 October 2014) is equal to or greater than USD70m. In the alternative, if, at any time on or before 30 June 2017, the total repayment and prepayment amount (including the USD20m already repaid by 2 October 2014) is equal to or greater than USD50m, the interest rate decreases by 0.4%.

The previous "Phase 2 Completion Test" and any potential requirement for early repayments arising from that test are deleted.

Mt Kellett convertible bonds

The maturity of the bonds has been extended from July 25, 2016 to September 30, 2018.

The interest coupon on the bondholder facility remains at 2.75% for the duration of the loan. The interest payment dates are set at 30 June and 31 December each year. Interest payable on the Bonds in respect of the interest periods ending 31 March, 30 June, 30 September, 31 December 2015 and 31 March 2016 are deferred until 30 June 2016 without penalty.

The convertible bond facility contains the same mechanism as the JARE facility for payment of interest into restricted bank accounts in the name of Lynas. Interest liabilities will only be paid to the lenders to the extent that there is a total cash balance (unrestricted and restricted funds) in excess of AUD60m after June 30, 2016. The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business.

As part of the agreement, the Company has issued warrants to bondholders for 174,365,466 shares at a strike price of \$0.038 per share. These warrants will expire on September 30, 2018.

With the exception of the above, there have been no other events subsequent to June 30, 2015 that would require accrual or disclosure in this financial report.

Lynas Corporation Limited and Controlled Entities

Directors' Report

The Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors

Mike Harding
Chairman

A handwritten signature in black ink that reads "D. M. Harding". The signature is written in a cursive style with a horizontal line underlining the name.

Sydney
September 21, 2015

Lynas Corporation Limited and Controlled Entities

Directors' Declaration

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial report is in compliance with International Financial Reporting Standards, as stated in note 2.1 to the financial report;
- (c) in the Directors' opinion, the attached financial report and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
- (d) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

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

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 34 to the financial report will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

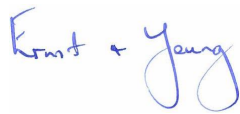
On behalf of the Directors

A handwritten signature in black ink, appearing to read "D. M. Harding". The signature is written in a cursive style with a horizontal line underneath the name.

Mike Harding
Chairman
Sydney, September 21, 2015

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

In relation to our audit of the financial report of Lynas Corporation Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Graham Ezzy
Partner
Sydney
21 September 2015

Independent auditor's report to the members of Lynas Corporation Limited

Report on the financial report

We have audited the accompanying financial report of Lynas Corporation Limited which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

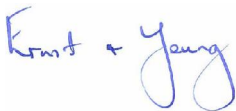
- a. the financial report of Lynas Corporation Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Lynas Corporation Limited for the year ended 30 June 2015, complies with section 300A of the Corporations Act 2001.



Ernst & Young



Graham Ezzy
Partner
Sydney
21 September 2015

Lynas Corporation Limited and Controlled Entities

Consolidated Statement of Profit or Loss and Comprehensive Income

For the year ended

In A\$'000	Note	June 30,	
		2015	2014
Revenue		144,596	64,570
Cost of sales*		(168,345)	(77,679)
Gross loss		(23,749)	(13,109)
Other income	7	133	20,398
General and administration expenses*		(40,920)	(125,102)
Restructuring expenses	9	-	(3,823)
Impairment expenses	10	(16,741)	(196,384)
Loss from operating activities		(81,277)	(318,020)
Financial income	12	508	1,966
Financial expenses	12	(37,790)	(29,377)
Net financial expenses		(37,282)	(27,411)
Loss before income tax		(118,559)	(345,431)
Income tax expense	13	(126)	(57)
Loss for the year		(118,685)	(345,488)
Other comprehensive (loss) income for the period net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	15	(78,362)	(20,315)
Total other comprehensive (loss) income for the year, net of income tax		(78,362)	(20,315)
Total comprehensive loss for the year attributable to equity holders of the Company		(197,047)	(365,803)
Loss per share			
Basic and diluted loss per share (cents per share)	27	(3.82)	(15.41)

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

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

Lynas Corporation Limited and Controlled Entities

Consolidated Statement of Financial Position

As at

In A\$'000	Note	June 30,	
		2015	2014
Assets			
Cash and cash equivalents	16	51,973	38,144
Trade and other receivables	17	6,032	9,586
Current tax receivables		-	24
Prepayments		3,146	3,865
Inventories	18	59,511	64,427
Total current assets		120,662	116,046
Inventories	18	2,329	8,976
Property, plant and equipment	21	658,353	669,075
Deferred exploration, evaluation and development expenditure	22	45,784	46,857
Intangible assets – software		207	350
Other non-current assets	20	18,163	11,042
Total non-current assets		724,836	736,300
Total assets		845,498	852,346
Liabilities			
Trade and other payables	23	57,841	31,953
Borrowings	24	267,799	122,094
Employee benefits	25	2,393	2,733
Current tax payable		22	-
Provisions	26	-	10,210
Other provisions	9	-	3,823
Total current liabilities		328,055	170,813
Finance Lease Liabilities	23	1,261	1,381
Borrowings	24	278,368	321,477
Provisions	26	54,356	56,340
Employee benefits	25	227	295
Total non-current liabilities		334,212	379,493
Total liabilities		662,267	550,306
Net assets		183,231	302,040
Equity			
Share capital	27	1,083,898	1,034,634
Accumulated losses		(894,864)	(776,179)
Reserves	27	(5,803)	43,585
Total equity attributable to the equity holders of the Company		183,231	302,040

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

Lynas Corporation Limited and Controlled Entities

Consolidated Statement of Changes in Equity

	Note	Share capital	Accumulated deficit	Foreign currency translation reserve	Equity settled employee benefits reserve	Option Reserve	Other reserves	Total
In A\$'000								
Balance at the beginning of the year		1,034,634	(776,179)	(19,432)	34,274	-	28,743	302,040
Other comprehensive income (loss) for the period	15	-	-	(78,362)	-	-	-	(78,362)
Total income (loss) for the period		-	(118,685)	-	-	-	-	(118,685)
Total comprehensive income (loss) for the year		-	(118,685)	(78,362)	-	-	-	(197,047)
Exercise of options and performance rights, net of issue costs	27	11	-	-	-	-	-	11
Issue of shares and options from equity raising, net of issue costs	27	49,253	-	-	-	28,143	-	77,396
Issue of options								
Employee remuneration settled through share-based payments	27	-	-	-	831	-	-	831
Balance at June 30, 2015		1,083,898	(894,864)	(97,794)	35,105	28,143	28,743	183,231
Balance at the beginning of the year		994,645	(430,691)	883	35,128	-	28,743	628,708
Other comprehensive income (loss) for the period	15	-	-	(20,315)	-	-	-	(20,315)
Total income (loss) for the period		-	(345,488)	-	-	-	-	(345,488)
Total comprehensive income (loss) for the year		-	(345,488)	(20,315)	-	-	-	(365,803)
Exercise of options, net of issue costs	27	16	-	-	-	-	-	16
Issue of shares, net of issue costs	27	39,973	-	-	-	-	-	39,973
Employee remuneration settled through share-based payments	27	-	-	-	(854)	-	-	(854)
Balance at June 30, 2014		1,034,634	(776,179)	(19,432)	34,274	-	28,743	302,040

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

Lynas Corporation Limited and Controlled Entities

Consolidated Statement of Cash Flows

For the year ended

In A\$'000	Note	June 30,	
		2015	2014
Cash flows from operating activities			
Receipts from customers		155,300	58,598
Receipt of government grants		-	14,082
Payments to suppliers and employees		(183,663)	(173,484)
Royalties paid		(3,524)	(2,269)
Income taxes (paid)		(60)	(135)
Net cash flows (used in) operating activities	19	(31,947)	(103,208)
Cash flows from investing activities			
Payment for property, plant and equipment		(10,017)	(17,241)
Payment for intangible assets		(6)	(135)
Security bonds paid		-	(6,845)
Security bonds refunded		385	12,819
Receipt from sale of available for sale financial assets		-	2,703
Proceeds from sale of property, plant and equipment		-	105
Net cash (used in) investing activities		(9,638)	(8,594)
Cash flows from financing activities			
Interest received		379	2,457
Interest and other financing costs paid		(15,069)	(22,960)
Proceeds from the issue of share capital		82,977	42,079
Payment of transaction costs – Issue of shares		(5,062)	(2,106)
Proceeds from the issue of share capital resulting from the exercise of options		-	16
Repayment of long-term borrowing (JARE loan facility)		(11,371)	(11,270)
Net cash from financing activities		51,854	8,216
Net increase (decrease) in cash and cash equivalents		10,269	(103,586)
Cash and cash equivalents at the beginning of the year		38,144	141,371
Effect of exchange rate fluctuations (net) on cash held		3,560	359
Closing cash and cash equivalents	16	51,973	38,144

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

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

1. Reporting entity

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

The financial report of Lynas Corporation Limited as at and for the year ended June 30, 2015 comprises the Company and its subsidiaries (together referred to as the "Group").

The Group is principally engaged in the extraction and processing of rare earth minerals, primarily in Australia and Malaysia.

The address of the registered office of the Company is Level 1, 7 Tully Road, East Perth WA 6004, Australia.

2. Basis of presentation

2.1 Statement of compliance

The financial report is a general purpose financial report and has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

The financial report also complies with International Financial Reporting Standards and Interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial report was approved by the Board of Directors (the "Directors") on September 21, 2015.

2.2 Going concern

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

The Board has reached the view that this is appropriate after considering a number of key factors affecting the business. These include the continuing extremely low prices for Rare Earths products experienced in the first quarter of FY16 and the possibility that these low prices could continue through FY16, continuing improvements in cost performance and the recently announced restructuring of the company's debt facilities.

At June 30, 2015 the Group has net current liabilities of \$207.4m, primarily arising due to the scheduled repayment of debt falling due in the following 12-month period. Whilst this reflected the position at June 30, 2015, the effect of the subsequent refinancing of debt post year end as outlined below means that at the time these financial statements were approved, the Group had net current assets.

The directors have prepared a cashflow forecast which indicates that the Group will have sufficient cashflows to meet all commitments and working capital requirements for the 12-month period from the date of signing this report. The Group's operations have demonstrated the ability to generate net positive cash inflows. It is the intention of the directors to finance future operations solely with cashflows from operating activities considering its update on borrowings below.

Borrowings

Full details of the Group's material debt facilities are set out in note 24 Borrowings and include both the JARE loan facility and the Mt Kellett convertible bonds.

As set out in that note 24 Borrowings and note 37 Subsequent Events, the Company have reached amended agreements on its long term debt structure with its debt providers. The maturity dates of the JARE loan facility and the Mt Kellett convertible bond have been extended to 2018.

An amended principal repayment schedule for the JARE loan facility under the amended agreement is set out in that note. The table illustrates how repayments required have been adjusted significantly in favour of the Company.

2.3 Basis of measurement

The financial report has been prepared under the historical cost convention except certain components of inventory which are measured at net realisable value, derivatives and certain available for sale financial assets (being listed securities) which are measured at fair value and certain non-current assets that are presented on a revalued amount. The methods used to measure fair values are discussed further in note 5.

Information as disclosed in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the current year is for the 12 month period ended June 30, 2015. Information for the comparative year is for the 12 month period ended June 30, 2014.

2.4 Presentation currency

The financial report of the Company and the Group is presented in Australian Dollars ("AUD"), which is both the Company's and the Group's presentation currency.

2.5 Rounding of amounts

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, in relation to the "rounding off" of amounts. Amounts in the financial report have been rounded off in accordance with the Class Order relief to the nearest thousand dollars, or in certain cases, the nearest dollar.

2.6 Use of estimates and judgements

The preparation of the financial report requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses and disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both the current and future years.

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

Information about the significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most material effect on the amounts recognised in the financial report are described in note 4.

2.7 Reclassification of comparative information

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

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in this financial report and have been applied consistently by all Group entities.

3.1 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Company or the Group. Control is achieved when the Company or Group has power over the investee, is exposed, or has the rights to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the financial report from the date control (or effective control) commences until the date that control ceases. As per note 30 all entities within the Group are 100% owned and controlled.

The Group has adopted AASB 3 *Business Combinations* (2008) and AASB 127 *Consolidated and Separate Financial Statement* (2008) under which the acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the acquisition, including the fair value of any contingent consideration and share-based payment awards (as measured in accordance with AASB 2 *Share Based Payment*) of the acquiree that are mandatorily replaced as a result of the transaction. Transaction costs that the Group incurs in connection with an acquisition are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, irrespective of the extent of any non-controlling interests. Non-controlling interests are initially recognised at their proportionate share of the fair value of the net assets acquired.

During the measurement year an acquirer can report provisional information for a business combination if by the end of the reporting year in which the combination occurs the accounting is incomplete. The measurement year, however, ends at the earlier of when the acquirer has received all of the necessary information to determine the fair values or one year from the date of the acquisition.

(b) Transactions eliminated on consolidation

Intra-group balances and unrealised items of income and expense arising from intra-group transactions are eliminated in preparing the financial report. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same manner as gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

(a) Functional and presentation currency

Items included in the financial report of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of the respective entities at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency of the respective entities at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency of the respective entities at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognised in the statement of comprehensive income as a component of the profit or loss.

(c) Foreign operations

The results and financial position of those entities that have a functional currency different from the presentation currency of the Group are translated into the Group's presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date of the statement of financial position;
- income and expense items for each profit or loss item are translated at average exchange rates;
- items of other comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

(d) Changes in functional currency

Any change in a Group company's functional currency is applied prospectively from the date of the change. All items are translated into the new functional currency using the exchange rate at the date of the change. The resultant translated amounts for non-monetary items are thereafter treated as their historical cost.

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

Following the issue of the Mt Kellett convertible bonds, the primary economic environment in which the Company operates was changed. Management performed a functional currency review and concluded that the functional currency of the Company should change prospectively to the United States dollar ("USD"), effective as of January 24, 2012. Prior to this date the functional currency of the Company was AUD.

3.3 Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, receivables, available for sale financial assets, trade and other payables, interest bearing borrowings and compound instruments.

A non-derivative financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Non-derivative financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Non-derivative financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described further.

Non-derivative financial instruments are recognised on a gross basis unless a current and legally enforceable right to off-set exists and the Group intends to either settle the instrument net or realise the asset and liability simultaneously.

Upon initial acquisition the Group classifies its financial instruments in one of the following categories, which is dependent on the purpose for which the financial instruments were acquired.

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, restricted cash and other short-term highly liquid investments with maturities of less than three months. Bank overdrafts are included within borrowings and are classified as current liabilities on the statement of financial position except where these are repayable on demand, in which case they are included separately as a component of current liabilities. In the statement of cash flows, overdrafts are included as a component of cash and cash equivalents.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for instruments with maturities greater than 12 months from the reporting date, which are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables (including related party receivables) which are stated at their cost less impairment losses.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest over the relevant years. The effective interest method results in an interest rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or, where appropriate, a shorter period to the net amount of the financial instrument.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Available-for-sale financial assets are measured at fair value on initial recognition plus transaction costs. Subsequent to initial recognition, the assets are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the statement of comprehensive income as a component of the profit or loss.

(e) Other liabilities

Other liabilities comprise all non-derivative financial liabilities that are not disclosed as liabilities at fair value through profit or loss. Other liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The Group's other liabilities comprise trade and other payables and interest bearing borrowings, including compound instruments and those with related parties. The Group's other liabilities are measured as follows:

(i) Trade and other payables

Subsequent to initial recognition trade and other payables are stated at amortised cost using the effective interest method.

(ii) Interest bearing borrowings including related party borrowings

Subsequent to initial recognition interest bearing loans and borrowings are measured at amortised cost using the effective interest method.

(f) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, with the number of shares to be issued being fixed.

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

The liability component of a compound financial instrument is recognised initially at the fair value of a similar financial liability that does not have the equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the financial liability component. Any directly attributable transaction costs are then allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to the initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognised in the statement of comprehensive income as a component of the profit or loss. On conversion the financial liability is reclassified to equity and no gain or loss is recognised in the statement of comprehensive income.

3.4 Derivative financial instruments

A derivative financial instrument is recognised if the Group becomes a party to the contractual provisions of an instrument at the trade date.

Derivative financial instruments are initially recognised at fair value (which includes, where applicable, consideration of credit risk), with transaction costs being expensed as incurred. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised in the statement of comprehensive income as a component of the profit or loss unless the derivative financial instruments qualify for hedge accounting. Where a derivative financial instrument qualifies for hedge accounting, recognition of any resulting gain or loss depends on the nature of the hedging relationship (see further).

Derivative financial instruments are recognised on a gross basis unless a current and legally enforceable right to off-set exists.

Derivative financial assets are derecognised if the Group's contractual right to the cash flows from the instrument expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset.

Derivative financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

(a) Cash flow hedges

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognised directly in equity as a component of other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the statement of comprehensive income as a component of the profit or loss for the year.

If a hedging instrument no longer meets the criteria for hedge accounting or it expires, is sold, terminated or exercised, then hedge accounting is discontinued prospectively. At this point in time, the cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In all other cases the amount recognised in equity is transferred within the statement of comprehensive income in the same year that the hedged item affects this statement and is recognised as part of financial income or expenses. If the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred within the statement of comprehensive income and is recognised as part of financial income or expenses in the profit or loss.

(b) Fair value hedges

Changes in the fair value of a derivative financial instrument designated as a fair value hedge are recognised in the statement of comprehensive income as a component of the profit or loss in financial income or expenses together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(c) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the following conditions are met:

- the economic characteristics and risks of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value through profit or loss.

At the time of initial recognition of the embedded derivative, an equal adjustment is also recognised against the host contract. The adjustment against the host contract is amortised over the remaining life of the host contract using the effective interest method.

Any embedded derivatives that are separated are measured at fair value with changes in fair value recognised through net financial expense in the statement of comprehensive income as a component of the profit or loss.

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

3.5 Inventories

(a) Raw materials, work in progress and finished goods

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based either on the first in first out ("FIFO") or weighted average principles and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured or refined inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory expected to be sold or consumed within the next 12 months is classified as current, with amounts expected to be consumed or sold after this time being classified as non-current.

(b) Engineering and maintenance materials

Engineering and maintenance materials (representing either critical or long order components but excluding rotatable spares) are measured at the lower of cost and net realisable value. The cost of these inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is determined with reference to the cost of replacement of such items in the ordinary course of business compared to the current market prices.

3.6 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (if any).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of property, plant and equipment acquired in a business combination is determined by reference to its fair value at the date of acquisition. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the cost of that equipment.

(b) Assets under construction

Assets under construction are transferred to the appropriate asset category when they are ready for their intended use. Assets under construction are not depreciated but tested for impairment at least annually or when there is an indication of impairment.

(c) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an item of property, plant and equipment are capitalised until such time as the assets are substantially ready for their intended use. The interest rate used equates to the effective interest on debt where general borrowings are used or the relevant interest rate where specific borrowings are used to finance the construction.

(d) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

(e) Depreciation

Depreciation is recognised in the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) using a method that reflects the pattern in which the economic benefits embodied within the asset are consumed. Generally this is on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment.

The estimated useful lives for the material classes of property, plant and equipment are as follows:

Leasehold land	30 to 99 years	Buildings	5 to 30 years
Plant and Equipment	2 to 30 years	Fixtures and fittings	2 to 15 years
Leasehold improvements	15 to 30 years	Motor vehicles	8 years

Depreciation methods, useful lives and residual values are reassessed on an annual basis.

Gains and losses on the disposal of items of property, plant and equipment are determined by comparing the proceeds (if any) at the time of disposal with the net carrying amount of the asset.

3.7 Mineral exploration, evaluation and development expenditure

(a) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Exploration and evaluation expenditure includes:

- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the mineral resource;
- surveying transportation and infrastructure requirements;

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- conducting market and finance studies;
- administration costs that are directly attributable to a specific exploration area; and
- licensing costs.

These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area of interest, or where activities in the area have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated costs in relation to an abandoned area of interest are written off in full in the statement of comprehensive income as a component of the profit or loss in the period in which the decision to abandon the area is made.

(b) Development expenditure

Once an area of interest has been established as commercially viable and technically feasible, expenditure other than that relating to land, buildings and plant and equipment is capitalised as development expenditure. Development expenditure includes previously capitalised exploration and evaluation expenditure, pre-production development expenditure and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

When an area of interest is abandoned or the Directors decide that it is not commercially viable or technically feasible, any accumulated costs in respect of that area are written off in full in the statement of comprehensive income as a component of the profit or loss in the period in which the decision to abandon the area is made to the extent that they will not be recoverable in the future.

Development assets are assessed for impairment if the facts and circumstance suggest that the carrying amount exceed the recoverable amount. For the purpose of impairment testing, development assets are allocated to the cash-generating units ("CGUs") to which the development activity relates.

(c) Deferred stripping

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development or pre-production stripping. The directly attributable costs associated with these activities are capitalised as a component of development costs. Capitalisation of development stripping ceases and amortisation of those capitalised costs commences upon extraction of ore. Amortisation of capitalised development stripping costs occurs on a straight line basis with reference to the life of mine of the relevant area of interest.

Removal of waste material normally continues through the life of a mine. This activity is referred to as production stripping and commences upon the extraction of ore.

(d) Amortisation of development

Amortisation of development is recognised either in the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) on a units of production basis which aims to recognise cost proportionally to the depletion of the economically recoverable mineral resources. Costs are amortised from the commencement of commercial production.

3.8 Intangible assets

(a) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technological knowledge and understanding, is recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technologically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

Intangible assets arising from development activities are measured at cost less accumulated amortisation and accumulated impairment losses (if any).

(b) Other intangible assets

Other intangible assets comprise internally developed software (which is capitalised in accordance with the Group's policy in respect of Research and Development as outlined at note 3.8(a)). Other intangible assets have finite useful lives and are carried at cost less accumulated amortisation and impairment losses (if any).

(c) Subsequent expenditure

Subsequent expenditure in respect of intangible assets is capitalised only when the expenditure increases the future economic benefits embodied in the specific asset to which the expenditure relates and it can be reliably measured. All other expenditure, including expenditure on internally generated goodwill and other intangibles, is recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

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(d) Amortisation

Amortisation is recognised in either the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and indefinite life trademarks, from the date that the intangible assets are available for use. The estimated useful lives for the material classes of intangible assets are as follows:

Software/technology - 4 to 5 years

3.9 Impairment

The carrying amounts of the Group's assets are reviewed regularly and at least annually to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the statement of comprehensive income as a component of the profit or loss.

(a) Impairment of loans and receivables and held-to-maturity financial assets

The recoverable amount of the Group's loans and receivables and held-to-maturity financial assets carried at amortised cost is calculated with reference to the present value of the estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at the date of initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment losses on individual instruments that are considered significant are determined on an individual basis through an evaluation of the specific instruments' exposures. For trade receivables which are not significant on an individual basis, impairment is assessed on a portfolio basis taking into consideration the number of days overdue and the historical loss experiences on a portfolio with a similar number of days overdue.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in respect of interest or principal repayment; or
- observable data indicating that there is a measureable decrease in the estimated future cash flows from a portfolio.

(b) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. If any such indicators exist then the asset or CGU's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amounts are estimated at least annually and whenever there is an indication that they may be impaired.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income as a component of the profit or loss. Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other non-financial assets in the CGU on a pro-rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In assessing the fair value less cost to sell, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. The methods used to determine fair value include a discounted future cash flow analysis and adjusted EBITDA (forecasted) multiplied by a relevant market indexed multiple.

In respect of assets other than goodwill, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's revised carrying amount will not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised.

3.10 Assets and liabilities classified as held for sale

Assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets or components of a disposal group are re-measured in accordance with the Group's accounting policies. Thereafter the assets (or disposal groups) are measured at the lower of their carrying amount or fair value less costs to sell. Upon reclassification the Group ceases to depreciate or amortise non-current assets classified as held for sale. Any impairment loss on a disposal group is first allocated to goodwill and then to the remaining assets on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses incurred on the initial classification as being held for sale and subsequent gains or losses on re-measurement are recognised in the statement of comprehensive income as a component of the profit or loss. Gains are not recognised in excess of any prior cumulative impairment loss.

3.11 Employee benefits

(a) Pension and superannuation obligations

A defined contribution pension and superannuation plan is a plan under which the employee and the Group pay fixed contributions to a separate entity. The Group has no legal or constructive obligation to pay further contributions in relation to an employee's service in the current and prior years. The contributions are recognised in the statement of comprehensive income as a component of the profit or loss as and when they fall due.

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(b) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed in the statement of comprehensive income as a component of the profit or loss as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus plans and outstanding annual leave balances if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(c) Other long-term employee benefits

The liability for long service leave for which settlement can be deferred beyond 12 months from the balance date is measured as the present value of expected future payments to be made in respect of services provided by employees. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(d) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

(e) Incentive compensation plans

The Group recognises a liability and associated expense for incentive compensation plans based on a formula that takes into consideration certain threshold targets and the associated measures of profitability. The Group recognises a provision when it is contractually obligated or when there is a past practice that has created a constructive obligation to its employees.

3.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision for the passage of time is recognised as a financial expense in the statement of comprehensive income as a component of the profit or loss.

(a) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(b) Business closure and rationalisation

A provision for business closure and rationalisation is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

(c) Rehabilitation

The mining/extraction and refining/processing activities of the Group give rise to obligations for asset and site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies using current restoration standards and techniques. Provisions for the cost of each rehabilitation programme are recognised at the time that the environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The value of the provision is progressively increased over time as the effect of discounting unwinds. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of rehabilitation activities for the Group's mining operations is recognised as a component of "development expenditure", whereas those relating to its refining operations are recognised as a component of either "buildings" or "plant and equipment". Amounts capitalised are depreciated or amortised accordingly.

Where rehabilitation is expected to be conducted systematically over the life of the operation, rather than at the time of closure, a provision is made for the present obligation or estimated outstanding continuous rehabilitation work at each balance sheet date with the costs recognised in the statement of comprehensive income as a component of the profit or loss in line with the remaining future cash flows.

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, changes to the estimated lives of the associated operations, new regulatory requirements and revisions to discount rates. Changes to the rehabilitation liability are added or deducted from the related rehabilitation asset and amortised accordingly.

(d) Onerous Contracts

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

3.13 Royalties

Royalties are treated as taxation arrangements when they have the characteristics of a tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described in

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note 3.20(a) for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions (as outlined in note 3.12) and included as part of the cost of goods sold in the statement of comprehensive income as a component of profit or loss.

3.14 Dividends

Dividends to the Group's shareholders are recognised as a liability in the Group's statement of financial position in the period in which the dividends are declared.

3.15 Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where equity instruments are reacquired by the Group, for example, as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the statement of comprehensive income and the consideration paid including any directly attributable incremental costs (net of income taxes) is directly recognised in equity.

3.16 Share-based payment

Share-based remuneration benefits are provided to employees via a variety of schemes which are further set out in note 31.

The fair values of the options granted under these various schemes are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is measured to reflect the expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and production targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to become exercisable. The employee benefits expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income as a component of profit or loss, with a corresponding adjustment to equity.

3.17 Revenue

(a) Sale of goods

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

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

(b) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for an item which is to be expensed are recognised in the statement of comprehensive income on a systematic basis in the same years in which the expenses are recognised or, for expenses already incurred the grants are recognised in the year in which they become receivable. Grants that compensate the Group for the cost of purchasing, constructing or otherwise acquiring a long-term asset are recognised as a reduction in the cost of that asset and included in the statement of comprehensive income as a component of depreciation expense in accordance with the Group's depreciation policy.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Royalties

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

3.18 Lease payments

Minimum lease payments made under finance leases are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges which are recognised in the statement of comprehensive income as a component of the profit or loss are allocated to each year during the lease term so as to produce a constant rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for in the years in which the payments are incurred.

Payments made under operating leases are recognised in the statement of comprehensive income as a component of the profit or loss on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent lease payments arising under operating leases are recognised as an expense in the year in which the payments are incurred.

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In the event that lease incentives are received to enter into an operating lease, such incentives are deferred and recognised as a liability. The aggregated benefits of the lease incentives are recognised as a reduction to the lease expenses on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.19 Financial income and expenses

Financial income comprises interest income, foreign currency gains and gains on derivative financial instruments in respect of financing activities that are recognised in the statement of comprehensive income as a component of the profit or loss. Interest income is recognised as it accrues using the effective interest method.

Financial expenses comprise interest expense, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables) and losses in respect of financing activities on derivative instruments that are recognised in the statement of comprehensive income as a component of the profit or loss. All borrowing costs not qualifying for capitalisation are recognised in the statement of comprehensive income as a component of the profit or loss using the effective interest method.

3.20 Income tax

(a) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income as a component of the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised with the associated items on a net basis.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method of providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future and the Group is in a position to control the timing of the reversal of the temporary differences. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time the liability to pay the related dividend is recognised. Deferred income tax assets and liabilities in the same jurisdiction are offset in the statement of financial position only to the extent that there is a legally enforceable right to offset current tax assets and current tax liabilities and the deferred balances relate to taxes levied by the same taxing authority and are expected either to be settled on a net basis or realised simultaneously.

(b) Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from July 1, 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Lynas Corporation Limited. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Entities within the tax-consolidated group have entered into a tax sharing agreement with the Company. The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the Company default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

3.21 Sales tax, value added tax and goods and services tax

All amounts (including cash flows) are shown exclusive of sales tax, value added tax ("VAT") and goods and services tax ("GST") to the extent the taxes are reclaimable, except for receivables and payables that are stated inclusive of sales tax, VAT and GST.

3.22 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor – finance leases

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases.

(b) The Group as lessee – finance leases

Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included within loans and borrowings as a finance lease obligation. Subsequent to initial recognition, the liability is accounted for in accordance with the accounting policy described at note 3.3(f) and the asset is accounted for in accordance with the accounting policy applicable to that asset.

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3.23 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

(b) Diluted earnings per share

Diluted earnings per share adjusts the amount used in the determination of the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share from continuing operations.

3.24 Segment reporting

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

3.25 Company entity financial information

The financial information for the Company entity as disclosed in note 35 has been prepared on the same basis as that applied by the Group, except as set out below:

(a) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial information of the Company. Dividends received from associates are recognised in the statement of comprehensive income as a component of profit or loss, rather than being deducted from the carrying amount of these investments.

(b) Effect of tax consolidation

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group, are accounted for by the Company rather than by the members of the tax-consolidated group themselves.

3.26 New and revised standards and interpretations

(a) Standards and Interpretations affecting amounts reported.

The following new and revised Standards and Interpretations have been adopted in the current year.

- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*.
- Interpretation 21 *Levies*
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*
- AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities [AASB 1, 3, 7, 10, 12, 107, 112, 124, 127, 132, 134 and 139]*
- AASB 2013-7 *Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policy Holders [AASB 1038]*
- AASB 1031 *Materiality*
- Annual Improvements 2010-2012 Cycle
- Annual Improvements 2011-2013 Cycle
- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part A and Part B)*
- AASB 2014-1 *Amendments to Australian Accounting Standards – Defined Benefit Plans: Employee Contributions*
- AASB 2014-2 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*

Their adoption has not had any significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

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(b) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, the following Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for the annual reporting period beginning on	Expected to be initially applied in the financial year ending
AASB 9 <i>Financial Instruments</i>	January 1, 2018	June 30, 2019
AASB 14 <i>Interim standard on regulatory deferral accounts</i>	January 1, 2016	June 30, 2017
AASB 15 <i>Revenue from Contracts with Customers</i>	January 1, 2017	June 30, 2018
AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i>	Part C: January 1, 2015	Part C: June 30, 2016
AASB 2014-3 <i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of interests in Joint Operations</i>	January 1, 2016	June 30, 2017
AASB 2014-4 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	January 1, 2016	June 30, 2017
AASB 2014-9 <i>Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i>	January 1, 2016	June 30, 2017
AASB 2014-10 <i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	January 1, 2016	June 30, 2017
AASB 2015.5 <i>Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28</i>	January 1, 2016	June 30, 2017
AASB 2015-1 <i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle</i>	January 1, 2016	June 30, 2017
AASB 2015-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	January 1, 2016	June 30, 2017
AASB 2015-3 <i>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality</i>	July 1, 2015	June 30, 2016

The Directors anticipate that the above amendments and interpretations will not have a material impact on the financial report of the Group in the year or period of initial application.

4. Critical accounting estimates and assumptions

In the process of applying the Group's accounting policies, management has made certain estimates and assumptions about the carrying values of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. Management has not made any significant judgements apart from those involving estimations (as discussed further). The key assumptions concerning the future and other key sources of uncertainty in respect of estimates at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are as listed below.

4.1 Reserve estimates and mine life

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining tenements. In order to calculate reserves, estimates and assumptions are required to be formulated about a range of geological, technical and economic factors including quantities, grades, production techniques, recovery rates, production costs, transportation costs, refining costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of the ore bodies or field to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgement and calculation to interpret the data.

As the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including:

- asset carrying values may be affected due to changes in the estimated future cash flows; and
- depreciation and amortisation charges in the statement of comprehensive income may change as result of the change in the useful economic lives of assets.

4.2 Income taxes

The Group is subject to income taxes in multiple jurisdictions which require significant judgement to be exercised in determining the Group's provision for income taxes. There are a number of transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Current tax liabilities and assets are recognised at the amount expected to be paid to or recovered from the taxation authorities.

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

4.3 Realisation of deferred tax assets

The Group assesses the recoverability of deferred tax assets with reference to estimates of future taxable income. To the extent that actual taxable income differs from management's estimate of future taxable income, the value of recognised deferred tax assets may be affected. Deferred tax assets have been recognised to offset deferred tax liabilities to the extent that the deferred tax assets and liabilities are expected to be realised in the same jurisdiction and reporting period. Deferred tax assets have also been recognised based on management's best estimate of the recoverability of these assets against future taxable income. Deferred income tax assets and liabilities in the same jurisdiction are off-set in the statement of financial position only to the extent that there is a legally enforceable right to off-set current tax assets and current tax liabilities and the deferred balances relate to taxes levied by the same taxing authority and are expected either to be settled on a net basis or realised simultaneously.

4.4 Impairment of non-financial assets

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

4.5 Exploration, evaluation and development expenditure

The Group's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the statement of comprehensive income.

Development activities commence after project sanctioning by the appropriate level of management and the Board. Judgement is applied by management in determining when a project is economically viable. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the statement of comprehensive income.

4.6 Restoration and rehabilitation expenditure

The Group's accounting policy for its restoration and rehabilitation closure provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination; and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting both the closure and rehabilitation asset and the provision.

5. Determination of fair values

A number of the Group's accounting policies and associated disclosures require the determination of fair values for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information regarding the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

5.1 Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Given the short-term nature of trade receivables the carrying amount is a reasonable approximation of fair value.

5.2 Investments in equity securities

The fair value of investments in listed equity securities is determined by reference to their quoted bid price at the reporting date.

5.3 Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates for a similar instrument at the measurement date.

The fair value of commodity and other price derivatives is based on a valuation model. The valuation model (which includes where relevant the consideration of credit risk) discounts the estimated future cash flows based on the terms and maturity of each contract using forward curves and market interest rates at the reporting date.

5.4 Non-derivative financial liabilities

The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated by discounting the future contractual cash flows at the current market interest rates that are available for similar financial instruments. We consider these inputs to be level 2 fair value measurements as described in Note 28.6

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Notes to Financial Statements For the year ended June 30, 2015

6. Segment reporting

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

At year end, the Group's CODM are the Board of Directors of the Company, the Chief Executive Officer, the Chief Financial Officer, the VP Production and the VP Sales & Marketing. Information reported to the Group's CODM for the purposes of resource allocation and assessment of performance currently focuses on the operation of the Group's integrated rare earth extraction and process facilities.

The Group has only one reportable segment under AASB 8 being its Rare Earth Operations. The CODM do not review the business activities of the Group based on geography.

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

Revenues by geographical location, based on invoicing as a percentage of total revenues, comprise: Japan 51%, China 23%, Vietnam 16%, France 7% and other 3% (2014: Japan 58%, China 22.1%, France 10.1% and other 9.8%) . The majority of the Group's non-current assets are located in Malaysia.

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**Notes to Financial Statements
For the year ended June 30, 2015**

	Note	For the year ended June 2015			For the year ended June 30, 2014		
		Rare Earth operations	Corporate/ Unallocated	Total Continuing Operations	Rare Earth operations	Corporate/ Unallocated	Total Continuing Operations
In A\$'000							
Business segment reporting							
Revenue		144,596	-	144,596	64,570	-	64,570
Cost of sales		(168,345)	-	(168,345)	(77,679)	-	(77,679)
Gross profit		(23,749)	-	(23,749)	(13,109)	-	(13,109)
Expenses and other income		(30,091)	(10,696)	(40,787)	(114,022)	5,495	(108,527)
Impairments		(16,741)	-	(16,741)	(196,384)	-	(196,384)
Earnings before interest and tax ("EBIT")		(70,581)	(10,696)	(81,277)	(323,515)	5,495	(318,020)
Financial income				508			1,966
Financial expenses				(37,790)			(29,377)
Profit (loss) before income tax				(118,559)			(345,431)
Income tax benefit (expense)				(126)			(57)
Profit (loss) for the year				(118,685)			(345,488)
EBIT		(70,581)	(10,696)	(81,277)	(323,515)	5,495	(318,020)
Depreciation and amortisation	18	44,452	1,041	45,493	36,607	403	37,010
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		(26,129)	(9,655)	(35,784)	(286,908)	5,898	(281,010)
Reconciliation of EBITDA to Adjusted EBITDA							
Included in EBITDA:							
Impairment charge – property plant and equipment & other	10	12,031	-	12,031	193,223	-	193,223
Impairment charge – inventory	10	4,710	-	4,710	3,161	-	3,161
Other income	7	-	(133)	(133)	-	(20,398)	(20,398)
Restructuring provision	9	-	-	-	-	3,823	3,823
Non-cash employee remuneration settled through share based payments comprising:							
Share based payments expense for the period	31.1	-	1,748	1,748	-	2,400	2,400
Impact of options and performance rights forfeited during the period	31.1	-	(917)	(917)	-	(3,254)	(3,254)
Adjusted EBITDA		(9,388)	(8,957)	(18,345)	(90,524)	(11,531)	(102,055)
Total assets		836,696	8,802	845,498	811,821	40,525	852,346
Total liabilities		(136,477)	(525,790)	(662,267)	(104,907)	(445,399)	(550,306)

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Notes to Financial Statements For the year ended June 30, 2015

7. Other income

In A\$'000	For the year ended June 30,	
	2015	2014
Government grants	-	19,497
Gain on disposal of available for sale – financial assets	133	901
Total other income	133	20,398

In the prior year, the Company received research and development (R&D) rebate of \$14.1 million from the Australian Taxation Office (ATO) principally in relation to the development of the Mt Weld concentration and processing plant in the year ended June 30, 2013. The R&D rebate that is related to the year ended June 30, 2014 amounted to \$0.6m and was claimed as a tax offset. It was non-refundable because the respective sales turnover exceeded the threshold of \$20 million.

The Company is assessing the amount spent on R&D during the year ended June 30, 2015 that may be eligible for R&D claim.

8. General and administration expenses

In A\$'000	For the year ended June 30,	
	2015	2014
Employee and production costs net of costs recovered through production	25,640	94,359
Depreciation expenses net of cost recovered through production	12,535	10,744
Other	2,745	19,999
Total general and administration expenses	40,920	125,102

8.1 Employee costs

The following items are gross employee costs before recoveries included in general and administration expenses:

In A\$'000	For the year ended June 30,	
	2015	2014
Wages and salaries	37,381	41,172
Superannuation and pension contributions	863	1,467
Employee remuneration settled through share-based payments (note 31)	831	(854)
Other	605	1,867
Total employee costs	39,680	43,652

9. Restructuring expenses

In A\$'000	For the year ended June 30,	
	2015	2014
Employee costs	-	1,970
Asset costs	-	676
Premises break out costs	-	932
Other	-	245
Total restructuring expenses	-	3,823

The restructuring expenses in 2014 related to amounts associated with the head office relocation and Group-wide redundancies as per the ASX announcement dated July 2, 2014.

10. Impairment

In A\$'000	Note	For the year ended June 30,	
		2015	2014
Impairment loss – inventory	18	4,710	3,161
Impairment loss - property, plant and equipment	21	12,031	193,223
Total other expenses		16,741	196,384

A review on the carrying value of inventory and property, plant and equipment was completed in both years.

In the prior year, the cost and performance of the Phase 2 assets were used to assess whether the carrying value ascribed to the Phase 1 assets represented fair value. As a result, the LAMP Phase 1 assets have been written down by \$190.0 million to the assessed replacement cost.

In the current year, a further \$16.7m was written off in relation to obsolete inventory, spare parts and reverse osmosis plant.

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

11. Auditor's remuneration

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

In \$A	For the year ended June 30,	
	2015	2014
Auditor's remuneration to Ernst & Young (Australia), comprising:		
Audit fees	241,575	317,437
Tax fees	42,924	275,191
Other fees*	175,000	10,900
Total auditor's remuneration Ernst & Young (Australia)	460,499	603,528

* Relates to due diligence services

Auditor's remuneration to Ernst & Young (other locations), comprising:

Audit fees	170,000	68,000
Other fees	3,469	10,000
Total auditor's remuneration Ernst & Young (other locations)	173,469	78,000

12. Financial income and expenses

In A\$'000	For the year ended June 30,	
	2015	2014
Interest income on cash and cash equivalents*	508	1,966
Total financial income	508	1,966
Interest expense on JARE loan facility*	(17,669)	(8,003)
<i>Interest expense on financial liabilities measured at amortised cost*:</i>		
Mt Kellett convertible bonds	(8,951)	(7,459)
Amortisation of deferred transaction costs - Mt Kellett convertible bonds	(144)	(132)
Amortisation of Mt Kellett equity conversion option	(12,122)	(10,308)
Financing transaction costs and fees	(2,783)	(1,992)
Net foreign currency exchange gain (loss)	3,879	(1,483)
Total financial expenses	(37,790)	(29,377)
Net financial income (expense)	(37,282)	(27,411)

* refer to note 24 for more information

13. Income taxes

In A\$'000	For the year ended June 30,	
	2015	2014
Current tax		
Current tax expense in respect of the current year	126	55
Adjustments recognised in the current year in relation to the current tax in prior years	-	2
	126	57
Deferred tax		
Deferred tax (benefit) expense recognised in the year	-	-
Total income tax (benefit) expense relating to the continuing operations	126	57

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

13.1 Income tax recognised in profit (loss)

In A\$'000	For the year ended June 30,	
	2015	2014
Loss before tax for continuing operations	(118,559)	(345,431)
Income tax benefit calculated at 30% (2014: 30%)	(35,568)	(103,629)
Add (deduct):		
R&D tax offset not included in assessable income	-	(5,849)
Effect of pioneer status (tax holiday) in Malaysia	48,626	39,543
Effect of expenses that are not deductible in determining taxable profit	(34,129)	10,402
Effect of foreign exchange gains and losses	(31,050)	4,795
Effect of unused tax losses not recognised as deferred tax assets	7,397	41,508
Effect of temporary differences not recognised as deferred tax assets	34,887	13,797
Foreign tax paid on profits attributable to foreign permanent establishments	-	57
Effect of different tax rate of subsidiaries and branches	9,709	-
Other adjustments	254	(567)
Total current year income tax (benefit) expense	126	57

13.2 Income tax recognised directly in equity

In A\$'000	For the year ended June 30,	
	2015	2014
Deferred tax	-	-
Share issue costs	-	-
Total income tax (benefit) expense recognised directly in equity	-	-

13.3 Income tax recognised directly in other comprehensive income

In A\$'000	For the year ended June 30,	
	2015	2014
Deferred tax	-	-
Available for sale – financial assets	-	-
Revaluation of deferred tax assets and liabilities through foreign currency translation reserve	-	-
Total income tax (benefit) expense recognised directly in other comprehensive income	-	-

14. Deferred tax assets and liabilities

14.1 Deferred tax balances

In A\$'000	Balance at July 1, 2014	Recognised in Profit or loss	Recognised in equity	Recognised in OCI	Balance at June 30, 2015
Temporary differences					
Inventory	(2,141)	-	-	-	(2,141)
Deferred exploration, evaluation and development expenditure	(1,571)	(8,622)	-	-	(10,193)
Property plant and equipment	474	9,489	-	-	9,963
Available for sale – financial assets	-	-	-	-	-
Borrowings	131	42,996	-	-	43,127
Share-based payments	(88)	-	-	-	(88)
Costs of equity and debt raisings	2,022	1,505	-	-	3,527
Trade payables	-	56	-	-	56
Provisions	-	7,898	-	-	7,898
Other	1,173	-	-	-	1,173
	-	53,322	-	-	53,322
Unused tax losses and credits					
Tax losses	-	(53,322)	-	-	(53,322)
	-	-	-	-	-

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

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

14.2 Unrecognised deferred tax assets

In A\$'000	As at June 30,	
	2015	2014
Deductible temporary differences and unused tax losses for which no deferred tax assets have been recognised are attributable to the following:		
Tax losses – revenue in nature	371,944	345,104
Tax losses – capital in nature	2,145	2,330
Deductible temporary differences	183,780	63,510
	557,869	410,944

The Group's unused tax losses of a revenue nature for which no deferred tax assets have been recognised relate to Australia (2015: \$176.7, 2014: \$149.9 m), Malaysia (2015: \$194.0m, 2014: \$194.0m) and Malawi (2015: \$1.2 m, 2014: \$1.2 m). At June 30, 2015 it was not probable that the Group would have future taxable profits in these jurisdictions against which these tax losses can be utilised. The potential tax benefit of these tax losses to the Group is \$101.9m (2014: \$93.8m).

The Group's unused tax losses of a capital nature for which no deferred tax assets have been recognised relate to Australia (2015: \$2.1m, 2014: \$2.3 m). At June 30, 2015 it was not probable that the Group would have future taxable profits in Australia against which these tax losses can be utilised. The potential tax benefit of these tax losses and temporary differences to the Group is \$0.6m (2014: \$0.7m).

The Group's deductible temporary differences for which no deferred tax assets have been recognised relate to Australia (2015: \$147.5m, 2014: \$30.7m) and Malaysia (2015: \$36.3m, 2014: \$32.8m). At June 30, 2015 it was not probable that the Group would have future taxable profits in these jurisdictions against which these deductible temporary differences can be utilised. The potential tax benefit of these deductible temporary differences to the Group is \$53.3m (2014: \$17.4m).

15. Other comprehensive income

Within the statement of comprehensive income the Group has disclosed certain items of other comprehensive income net of the associated income tax expense or benefit. The pre-tax amount of each of these items and the associated tax effect is as follows:

In A\$'000	For the year ended June 30,					
	2015			2014		
	Pre-tax	Tax effect	Total	Pre-tax	Tax effect	Total
Exchange differences on translating foreign operations	(78,362)	-	(78,362)	(20,315)	-	(20,315)
Total other comprehensive income	(78,362)	-	(78,362)	(20,315)	-	(20,315)

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Notes to Financial Statements For the year ended June 30, 2015

16. Cash and cash equivalents

In A\$'000	As at June 30,	
	2015	2014
Cash at bank and on hand	31,335	33,289
Restricted cash	20,638	4,855
Total cash and cash equivalents	51,973	38,144

Restricted cash represents funds provided under the JARE loan facility and Mt. Kellett convertible notes (refer to note 24 Borrowings), which is available to fund interest payment that is due to JARE and Mt. Kellett.

Pursuant to a binding term sheets dated March 12, 2015, the Senior Lender under the Group's JARE loan facility and the convertible bondholders led by Mount Kellett agreed to reduce cash flow burden on the Group by agreeing to deposit each interest payment that is due in calendar year 2015 into the Group's restricted bank account, with the payments available, at the lenders' discretion, for reuse in the Lynas business between April 2015 to March 2016.

As mentioned in Note 24 Borrowings and announcement dated August 17, 2015, interest liabilities will only be paid to lenders to the extent that there is a total cash balance (unrestricted and restricted funds) in excess of \$60m.

17. Trade and other receivables

In A\$'000	As at June 30,	
	2015	2014
Trade receivables	4,325	7,795
Other receivables	1,707	1,791
Total current trade and other receivables	6,032	9,586

The Group's exposure to credit risk is primarily in its trade receivables. Credit risk is assessed on a customer by customer basis and includes a credit analysis of each customer, negotiated payment terms, and payment history. As at June 30, 2015, no trade receivables were past due or impaired (none past due or impaired as at June 30, 2014).

18. Inventories

In A\$'000	As at June 30,	
	2015	2014
Raw materials and consumables	15,083	33,081
Work in progress	37,401	33,392
Finished goods	9,356	6,930
Total inventories	61,840	73,403
Current inventories	59,511	64,427
Non-current inventories	2,329	8,976
Total inventories	61,840	73,403

During the year ended June 30, 2015 inventories of \$173.0m (2014: \$77.7m) were recognised as an expense. \$168.3m of which were included in 'cost of sales' and the remaining \$4.7m relates to impairment of obsolete inventory. The Group also reversed, within 'cost of sales', prior year's write-down to net realisable value of \$3.2m.

The Group recognised depreciation on its property, plant and equipment and amortisation on its deferred exploration, evaluation and development expenditure and intangible assets for the years ended June 30, 2015 and 2014 respectively in the following categories:

In A\$'000	Recognised in General and Administration Expense		Recognised in Inventory		Total	
	2015	2014	2015	2014	2015	2014
Property, plant and equipment	11,434	21,428	26,577	16,011	38,011	37,439
Deferred exploration and evaluation expenditure	560	797	-	-	560	797
Intangibles	540	185	-	-	540	185
Total	12,535	22,410	26,577	16,011	39,111	38,421

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 \$33.0 million in the year ended June 30, 2015 (June 30, 2014: \$14.6 million).

During the year ended June 30, 2015 the Group recognised royalties payable to the Western Australian Government totalling \$3.2 million (year ended June 30, 2014: \$3.1 million). Royalties arise on the shipment of the Group's concentrate from Australia to Malaysia.

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Notes to Financial Statements For the year ended June 30, 2015

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

For the year ended

In A\$'000	Note	June 30,	
		2015	2014
Profit (loss) for the year		(118,685)	(345,488)
Adjustments for:			
Depreciation and amortisation		39,111	37,030
Employee remuneration settled through share-based payments		831	(854)
Impairment loss on property, plant and equipment and other	10	12,031	193,223
Impairment loss on inventories	10	4,710	3,161
Net financial (income) expenses	12	37,282	27,411
Gain on disposal of available for sale - financial assets	7	(133)	(901)
Income tax (benefit) expense	13	126	57
Other Provisions	9	-	2,584
Income taxes (paid) received		-	166
Change in trade and other receivables		4,273	(9,830)
Change in inventories		(4,810)	(4,991)
Change in trade and other payables		9,667	9,878
Change in other assets and liabilities		46	-
Change in provisions and employee benefits		(16,425)	(9,745)
Change in deferred income		-	(5,415)
Foreign exchange		29	506
Net cash from (used in) operating activities		(31,947)	(103,208)

20. Other non-current assets

In A\$'000	As at June 30,	
	2015	2014
Security deposits – banking facilities and other, Malaysia	4,243	3,951
Security deposits – banking facilities and other, Australia	850	786
Security deposits – AELB, Malaysia	13,070	6,305
	18,163	11,042

Local banking facilities relate both to cash provided for security bonds issued to secure the mining tenements at Mount Weld and a restricted deposit pledged as collateral for bank facilities in Australia and Malaysia. The weighted average annual interest rate in Australia was 2.96% (2014: 3.95%) and the weighted average annual interest rate in Malaysia was 3.25% (2014: 3.25%).

During the year the Group recorded an increase of \$6.8 million (2014: \$3.0 million) in deposits to the Malaysian Government's Atomic Energy Licencing Board ("AELB"). These deposits form a component of a total USD50 million of instalments due in accordance with the conditions underlying the granting of the Temporary Operating Licence to the Group for the LAMP in Malaysia. Please refer to note 33 for the residual commitment to the AELB.

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21. Property, plant and equipment

In A\$'000	Leasehold land	Buildings plant and equipment	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
As at June 30, 2015							
Cost	58,243	870,546	8,697	681	6,851	20,834	965,852
Accumulated impairment losses	-	(196,322)	(371)	(54)	(249)	(7,748)	(204,744)
Accumulated depreciation	(3,834)	(92,015)	(4,302)	(481)	-	(2,123)	(102,755)
Carrying amount	54,409	582,209	4,024	146	6,602	10,963	658,353
As at June 30, 2014							
Cost	55,658	832,344	8,803	958	8,604	20,129	926,496
Accumulated impairment losses	-	(187,726)	(30)	(174)	(191)	(7,404)	(195,525)
Accumulated depreciation	(2,475)	(53,351)	(4,278)	(409)	-	(1,383)	(61,896)
Carrying amount	53,183	591,267	4,495	375	8,413	11,342	669,075
Cost at the beginning of the year	55,658	832,344	8,803	958	8,604	20,129	926,496
Accumulated depreciation and impairment losses at the beginning of the year	(2,475)	(241,077)	(4,308)	(583)	(191)	(8,787)	(257,421)
Carrying amount at the beginning of the year	53,183	591,267	4,495	375	8,413	11,342	669,075
Additions	-	907	16	30	8,921	-	9,874
Disposals	-	-	(249)	(123)	-	-	(372)
Depreciation for the year	(1,995)	(34,913)	(393)	(126)	-	(584)	(38,011)
Impairment loss for the year	-	(11,719)	-	-	(312)	-	(12,031)
Transfers of assets under construction	-	10,494	115	-	(10,609)	-	-
Transfers from (to) inventory	-	5,281	-	-	-	-	5,281
Change in rehabilitation obligations (note 26)	-	-	-	-	-	-	-
Effect of movements in exchange rates	3,221	20,892	40	(10)	189	205	24,537
Carrying amount at June 30, 2015	54,409	582,209	4,024	146	6,602	10,963	658,353
Cost at the beginning of the year	46,597	592,325	8,628	1,197	249,791	19,696	918,234
Accumulated depreciation and impairment losses at the beginning of the year	(1,549)	(25,734)	(3,188)	(508)	(6,313)	(607)	(37,899)
Carrying amount at the beginning of the year	45,048	566,591	5,440	689	243,478	19,089	880,335
Additions	-	5,730	102	-	8,125	-	13,957
Capitalisation of borrowing costs	-	-	-	-	6,771	-	6,771
Depreciation for the year	(1,021)	(34,351)	(1,118)	(106)	-	(843)	(37,439)
Impairment loss for the year	-	(185,819)	-	-	-	(7,404)	(193,223)
Transfers of assets under construction	-	235,388	-	-	(236,699)	1,311	-
Transfers from (to) inventory	-	23,192	-	-	-	-	23,192
Change in rehabilitation obligations (note 26)	10,468	-	-	-	-	-	10,468
Effect of movements in exchange rates	(1,312)	(19,464)	71	(208)	(13,262)	(811)	(34,986)
Carrying amount at June 30, 2014	53,183	591,267	4,495	375	8,413	11,342	669,075

The transfers from inventory relate to items categorised as spares to the value of \$5.3m (2014: \$1.2m) paid for as a component of the LAMP Phase 2 construction. No "organics" have been transferred from inventories this year (2014: \$22.0m).

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

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22. Deferred exploration, evaluation and development expenditure

In A\$'000	Exploration and evaluation expenditure	Development expenditure	Pre-production stripping	Rehabilitation Asset	Total
As at June 30, 2015					
Cost	21,304	17,543	4,078	24,602	67,527
Accumulated impairment losses	(14,483)	(3,640)	-	-	(18,123)
Accumulated amortisation	(1,498)	(1,138)	(198)	(786)	(3,620)
Carrying amount	5,323	12,765	3,880	23,816	45,784
As at June 30, 2014					
Cost	20,944	17,543	4,078	24,602	67,167
Accumulated impairment losses	(14,483)	(3,641)	-	-	(18,124)
Accumulated amortisation	(1,234)	(509)	(117)	(326)	(2,186)
Carrying amount	5,227	13,393	3,961	24,276	46,857
Cost at the beginning of the year	20,944	17,543	4,078	24,602	67,167
Accumulated amortisation and impairment losses at the beginning of the year	(15,717)	(4,150)	(117)	(326)	(20,310)
Carrying amount at the beginning of the year	5,227	13,393	3,961	24,276	46,857
Additions	360	-	-	-	360
Amortisation for the year	(264)	(628)	(81)	(460)	(1,433)
Change in rehabilitation obligations	-	-	-	-	-
Carrying amount at June 30, 2015	5,323	12,765	3,880	23,816	45,784
Cost at the beginning of the year	20,944	17,543	4,078	24,602	67,167
Accumulated amortisation and impairment losses at the beginning of the year	(15,530)	(3,919)	(64)	-	(19,513)
Carrying amount at the beginning of the year	5,414	13,624	4,014	24,602	47,654
Additions	-	-	-	-	-
Amortisation for the year	(187)	(231)	(53)	(326)	(797)
Change in rehabilitation obligations	-	-	-	-	-
Carrying amount at June 30, 2014	5,227	13,393	3,961	24,276	46,857

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

23. Trade and other payables

In A\$'000	As at June 30,	
	2015	2014
Trade payables	19,065	15,597
Accrued expenses	15,509	12,023
Interest payable	19,104	3,203
Other payables	5,424	2,511
Total trade and other payables	59,102	33,334
Current	57,841	31,953
Non-current	1,261	1,381
Total trade and other payables	59,102	33,334

Trade and other payables are non-interest bearing and are normally settled on 60 day terms. Trade and other payables include amounts in relation to Phase 2 of the Rare Earth Project (2015: \$1.4 million; 2014: \$2.7 million).

Interest is payable to JARE and Mt. Kellett. Refer to Note 24 Borrowings for further details.

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24. Borrowings

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 28.

In A\$'000	As at June 30,	
	2015	2014
Current borrowings		
JARE loan facility	267,799	122,094
Non-current borrowings		
JARE loan facility	-	106,168
Mt Kellett convertible bonds	278,368	215,309
Total borrowings ⁽¹⁾	546,167	443,571
JARE loan facility	267,799	228,262
Total JARE loan facility carrying amount	267,799	228,262
Principal value of Mt Kellett convertible bonds ⁽²⁾	293,910	238,879
Equity component	(15,420)	(23,335)
Unamortised transaction costs	(122)	(235)
Total financial liability carrying amount	278,368	215,309

(1) There has been no additional drawdown under the loan facilities. However, due to the strengthening of the USD against the AUD, total borrowings in AUD have increased from the prior year. Total principal borrowings in USD have in fact reduced from USD440m as at June 30, 2014 to USD430m as at June 30, 2015.

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

Japan Australia Rare Earths B.V. (JARE) loan facility

The JARE loan facility for USD225 million was received from a special purpose company established by Sojitz Corporation and Japan, Oil, Gas and Metals National Corporation ("JOGMEC"). The proceeds of the JARE loan facility funded capital expenditure required for Phase 2 of the Rare Earths Project, enabling the Company to increase planned production capacity of Rare Earth Oxide ("REO") to 22,000 tonnes per annum from the expected Phase 1 production capacity of 11,000 tonnes per annum.

The 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.

Interest on the principal accrues daily on the basis of the actual number of days based on a 360 day year and is payable semiannually. The rate of interest for the first quarter of the year was the LIBOR published semi-annual rate plus a margin of 5.25%. For the remaining 3 quarters, rate of interest increased to a nominal rate of 7%.

Pursuant to a binding term sheet dated March 12, 2015, the Senior Lender and Lynas agreed to reduce the cash flow burden of the JARE loan facility on Lynas, including by deferring the repayments previously due on March 31, 2015 and June 30, 2015 until June 30, 2016. The Senior Lender and Lynas also agreed that each interest payment that is due in calendar year 2015 will be deposited into a restricted bank account, with the payments available, at the lender's discretion, for reuse in the Lynas business.

During the current year, the principal repayment due on September 30, 2014 was paid by its due date.

On August 17, 2015 the Company announced that it had agreed on a long term debt structure with its debt providers. The new maturity date of this facility is June 30, 2018. Interest is paid into a restricted bank account in the name of Lynas. Interest liabilities will only be paid to the lenders to the extent that, from June 30 2016 onwards, there is a total cash balance (unrestricted and restricted funds) in excess of AUD60m. The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business. The Company has agreed an interest regime which provides Lynas with the ability to reduce the effective interest rate on the JARE facility from 7% per annum to a floor of 2.8% per annum over time. The initial interest rate is unchanged at 7% per annum, however the new framework sets specific targets that, if met, will effect a cascading decrease in the interest rate payable on the facility.

The Principal Repayments due prior to maturity under the JARE facility have been adjusted significantly.

Facility in place at 30 June 2015		New facility announced August 17, 2015	
19 January 2014	USD10m (paid)	19 January 2014	USD10m (paid)
2 October 2014	USD10m (paid)	2 October 2014	USD10m (paid)
30 September 2015	USD30m	30 June 2016	USD2m
21 December 2015	USD20m	21 December 2016	USD5m
31 March 2016	USD20m	30 June 2017	USD15m
30 June 2016	USD135m	21 December 2017	USD30m
		30 June 2018	USD153m

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Under the new agreement, Lynas has the ability to reduce the effective interest rate on the JARE facility from 7% to a minimum floor of 2.8% over time. This is based on meeting certain milestones as shown below.

(a) Production Target

Cumulative NdPr Production from 1 July 2015		Interest reduction when production target achieved	Interest penalty when production target not achieved
31 December 2015	1,860 tonnes	0.5%	0.25%
30 June 2016	3,840 tonnes	0.5%	Nil
31 December 2016	5,940 tonnes	0.5%	0.25%
30 June 2017	8,040 tonnes	0.25%	0.25%
31 December 2017	10,440 tonnes	0.25%	0.25%

If the target of 3,840 tonnes is not met by June 30, 2016, Lynas agrees to start up SX5 Train 4 production. Lynas is continuously assessing the appropriate time to start up SX5 Train 4 which is largely dependent on market conditions.

Scheduled Repayments

Each time a scheduled repayment is fully paid on or before its scheduled repayment date, the interest rate decreases by 0.3% per annum effective from the day after the repayment is made.

Principal Prepayments

If, at any time on or before December 21, 2016, the total repayment and prepayment amount (including the USD20m already repaid by October 2, 2014) is equal to or greater than USD50m, the interest rate decreases by 1.0%. An additional 0.5% reduction applies if, at any time on or before June 30, 2017, the total repayment and prepayment amount (including the USD20m already repaid by October 2, 2014) is equal to or greater than USD70m. In the alternative, if, at any time on or before June 30, 2017, the total repayment and prepayment amount (including the USD20m already repaid by October 2, 2014) is equal to or greater than USD50m, the interest rate decreases by 0.4%.

The previous "Phase 2 Completion Test" and any potential requirement for early repayments arising from that test are deleted.

First Ranking Securities

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

Mt Kellett convertible bonds

On January 24, 2012, the Company executed binding documentation for a USD225 million unsecured convertible bonds issue (the "Convertible Bonds") with Mt Kellett Capital Management ("Mt Kellett"), a US-based investment firm. Initially funding for the Convertible Bonds was received on January 25, 2012 (USD50 million) with the final payment of USD175 million being received on February 28, 2012. None of the Convertible Bonds had been converted into shares as at the end of the financial year.

The Convertible Bonds are unsecured. Each bond entitled the holder to convert to one share at a conversion price of AUD0.5634 per share (at a set exchange rate of USD1.00 = AUD0.9533). Conversion may occur at any time between July 25, 2012 and the maturity date. The conversion price may be adjusted as a result of certain equity related transactions such as the issue of shares, payment of dividends, rights issues or redemptions.

Interest is payable quarterly on the Convertible Bonds at 2.75% per annum. Pursuant to a binding term sheet dated March 12, 2015, Lynas and the Convertible bondholders led by Mount Kellett agreed to reduce the cash flow burden of the Convertible Bonds on Lynas by agreeing that each interest payment that is due in calendar year 2015 will be deposited into a restricted bank account, with the payments available, at the lender's discretion, for reuse in the Lynas business.

On August 17, 2015 the Company announced that it had agreed on a long term debt structure with its bondholders. The maturity of the bonds has been extended from July 25, 2016 to September 30, 2018.

The interest coupon on the bondholder facility remains at 2.75% for the duration of the loan. The interest payment dates are set at 30 June and 31 December each year. Interest payable on the Bonds in respect of the interest periods ending 31 March, 30 June, 30 September, 31 December 2015 and 31 March 2016 are deferred until 30 June 2016 without penalty.

The convertible bond facility contains the same mechanism as the JARE facility for payment of interest into restricted bank accounts in the name of Lynas. Interest liabilities will only be paid to the lenders to the extent that there is a total cash balance (unrestricted and restricted funds) in excess of AUD60m after June 30, 2016. The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business.

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Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	As at June 30, 2015		As at June 30, 2014	
				Face value (USD '000)	Carrying amount (AUD '000)	Face value (USD '000)	Carrying amount (AUD '000)
JARE loan facility	USD	7.00%	2016**	205,000	267,799	215,000	228,262
Mt Kellett convertible bonds*	USD	2.75%	2016**	225,000	278,368	225,000	215,309
				430,000	546,167	440,000	443,571

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

** The maturity dates in the above table were the maturity dates as at June 30, 2015. After the balance date, those maturity dates were extended to 2018, as described above.

Nominal interest rates

	Average for the year ended June 30, 2015			Average for the year ended June 30, 2014		
	Base rate	Margin	Total rate	Base rate	Margin	Total rate
JARE loan facility	1.32%	5.32%	6.64%	0.38%	5.25%	5.63%
Mt Kellett convertible bonds	2.75%	-	2.75%	2.75%	-	2.75%

25. Employee benefits

In A\$'000	As at June 30,	
	2015	2014
Provision for annual leave	827	1,731
Provision for long service leave	320	592
Other	1,473	705
Total employee benefits	2,620	3,028
Current	2,393	2,733
Non-current	227	295
Total employee benefits	2,620	3,028

26. Provisions

In A\$'000	Restoration and rehabilitation	Onerous contracts	Total
Balance at the beginning of the year	52,166	14,384	66,550
Provisions made during the year	-	27,602	27,602
Provision utilised during the year	-	(309)	(309)
Provision reversed during the year	-	(34,642)	(34,642)
Provisions allocated to Trade Creditors & Other Payables	-	(7,035)	(7,035)
Effects of foreign exchange movement	1,273	-	1,273
Effects of discounting	917	-	917
Balance at June 30, 2015	54,356	-	54,356
Current	-	-	-
Non-current	54,356	-	54,356
Total provisions at June 30, 2015	54,356	-	54,356
Current	-	10,210	10,210
Non-current	52,166	4,174	56,340
Total provisions at June 30, 2014	52,166	14,384	66,550

Restoration and Rehabilitation

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

An initial provision of \$16.3 million was established during 2013 in respect of the Group's future costs to decommission, restore and rehabilitate the LAMP in Malaysia. These costs arise from the ongoing construction and operation of Phase 1 of the LAMP. The provision was recognised following the successful commissioning of the Phase 1 operations at the LAMP during June 2013. Subsequent to the commencement of commissioning of Phase 2 of the LAMP in Malaysia in the 2014 financial year, an independent assessment of site rehabilitation and restoration was performed which resulted in the Group increasing this provision to \$27.5 million. Upon cessation of operations, the site including the processing assets, ancillary facilities, utilities and the onsite storage facility will be decommissioned and any

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

The provision for the restoration and rehabilitation of the Mount Weld mining operations and concentration plant site remains unchanged from June 30, 2014.

For the provision at the LAMP, a corresponding increase in property plant and equipment has been recognised on the Group's balance sheet. Reference should be made to notes 21 and 22 respectively for details on the corresponding assets at the LAMP and Mount Weld. The unwinding of the effect of discounting of the provision is recognised as a finance cost.

Onerous contracts

The provision for onerous contracts represents the expected value of obligations arising under 'take or pay' clauses of non-cancellable supply agreements that the Group is currently contracted to. The provision at June 30, 2014 represented management's estimate of the value of materials that the Group would be unable to take under these contracts over the life of the agreement as well as the unpaid value of materials not delivered under the agreement through to June 30, 2014.

During the year, the Group continued to review this provision and has been increasing it based on production output and usage rates. Subsequent to reaching a new agreement with the supplier, most of the provision had been reversed with the balance of \$7m allocated to Trade and Other Payables. Refer to the ASX announcement on July 17, 2015 for more details.

27. Equity and reserves

27.1 Share capital

	As at June 30,			
	2015		2014	
	Number of shares '000	A\$'000	Number of shares '000	A\$'000
Balance at the beginning of the year	2,333,661	1,034,634	1,960,801	994,645
Issue of shares pursuant to Institutional Share Placement ("ISP")	150,000	9,150	106,195	12,000
Issue of shares pursuant to Share Purchase Plan ("SPP")	887,072	54,099	266,181	30,079
Issue of shares pursuant to exercised options	125	11	484	16
Issue of shares pursuant to exercised performance rights	374	-	-	-
Equity raising costs	-	(13,996)	-	(2,106)
Balance at June 30	3,371,232	1,083,898	2,333,661	1,034,634

All issued ordinary shares are fully paid and have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share. All shares rank equally with regard to the Group's residual assets in the event of a wind-up.

Further detail regarding the issue of shares on option conversion is provided in note 31.

27.2 Reserves

In A\$'000	As at June 30,	
	2015	2014
Equity settled employee benefits	35,105	34,274
Foreign currency translation	(97,794)	(19,432)
Options	28,143	-
Other	28,743	28,743
Balance at June 30	(5,803)	43,585

The equity settled employee benefits reserve relates to share options granted by the Group to its employees under the employee share option plan. Further information about share-based payments to employees is set out in note 31.

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

Option reserve includes options issued as part of the rights issue that was completed in October 2014.

The other reserve represents the equity component of the USD225 million unsecured Mt Kellett convertible bonds issued in 2012, net of the associated deferred tax (see note 24).

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27.3 Earnings / (loss) per share

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

In A\$'000	As at June 30,	
	2015	2014
Net loss attributed to ordinary shareholders (in A\$'000)	(118,685)	(345,488)
Loss used in calculating basic and diluted loss per share (in A\$'000)	(118,685)	(345,488)
Number of shares ('000)		
Weighted average number of ordinary shares used in calculating basic loss per share:	3,106,712	1,992,714
Basic loss per share (cents per share)	(3.82)	(15.41)
Diluted loss per share (cents per share)	(3.82)	(15.41)

2014 EPS has been restated to take account the extra shares issued arising from 2015 equity raisings and its theoretical ex-rights fair value per share.

27.4 Capital management

The Directors are responsible for monitoring and managing the Group's capital structure.

The Directors' policy is to maintain an acceptable capital base to promote the confidence of the Group's financiers and creditors and to sustain the future development of the business. The Directors monitor the Group's financial position to ensure that it complies at all times with its financial and other covenants as set out in its financing arrangements.

In order to maintain or adjust the capital structure, the Directors may elect to take a number of measures including, for example, to dispose of assets or operating segments of the business, to alter its short to medium term plans in respect of capital projects and working capital levels, or to re-balance the level of equity and external debt in place.

Capital comprises share capital, external debt and reserves.

28. Financial risk management

28.1 Overview

This note presents information about the Group's exposure to market risk, credit risk and liquidity risk, and, where applicable, the Group's objectives, policies and procedures for managing these risks.

Exposure to market, credit and liquidity risks arise in the normal course of the Group's business. The Directors and management of the Group have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Directors have established a treasury policy that identifies risks faced by the Group and sets out policies and procedures to mitigate those risks. Monthly consolidated treasury reports are prepared for the Directors, who ensure compliance with the Group's risk management policies and procedures.

28.2 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's cash flows or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

(a) Foreign exchange risk

As a result of the Group's international operations, foreign exchange risk exposures exist on purchases, assets and borrowings that are denominated in foreign currencies (i.e. currencies other than the functional currency of each of the Group's operating entities). The currencies in which these transactions are primarily denominated are the AUD, USD and the Malaysian Ringgit ("MYR").

The Group takes advantage of natural offsets to the extent possible. Therefore, when commercially feasible, the Group borrows in the same currencies in which cash flows from operations are generated. Generally the Group does not use forward exchange contracts to hedge residual foreign exchange risk arising from receipts and payments denominated in foreign currencies. However, when considered appropriate the Group may enter into forward exchange contracts to hedge foreign exchange risk arising from specific transactions.

The Group's primary exposure to foreign exchange risk is on the translation of net assets of Group entities which are denominated in currencies other than AUD, which is the Group's presentation currency. The impact of movements in exchange rates is recognised primarily in the other comprehensive income component of the Group's statement of comprehensive income.

Certain subsidiaries within the Group are exposed to foreign exchange risk on purchases denominated in currencies that are not the functional currency of that subsidiary. In these circumstances, a change in exchange rates would impact the net operating profit recognised in the profit or loss component of the Group's statement of comprehensive income.

Effective from January 24, 2012, the functional currency of Lynas Corporation Limited (the Parent) changed from AUD to USD, following the issue of the USD225 million Mt Kellett convertible bonds.

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Exposure to foreign exchange risk

The Group's members are exposed to foreign exchange risk on financial assets and financial liabilities that are denominated in foreign currencies i.e. currencies other than the functional currency of each member of the group. Whilst a member of the group with MYR as its functional currency is exposed to USD and AUD, another member with USD as its functional currency is exposed to AUD. This exposure on financial assets and liabilities by currency, which has potential impact on the profit or loss component of the statement of comprehensive income, is detailed below:

In A\$'000	AUD	USD	Total
June 30, 2015			
Cash and cash equivalents	1,759	19,348	21,107
Trade and other receivables	-	5,547	5,547
Trade and other payables	-	(8,089)	(8,089)
Total exposure	1,759	16,806	18,565
June 30, 2014			
Cash and cash equivalents	428	1,123	1,551
Trade and other receivables	-	7,554	7,554
Trade and other payables	-	(4,264)	(4,264)
Total exposure	428	4,413	4,841

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

In '000	MYR	USD
June 30, 2015		
Net asset exposure – local currency	1,418,095	957,459
June 30, 2014		
Net asset exposure – local currency	1,616,364	931,287

Significant exchange rates

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

	Average rate for the year ended June 30,		Closing rate as at June 30,	
	2015	2014	2015	2014
AUD/USD	0.8434	0.9119	0.7655	0.9419
AUD/MYR	2.8807	2.9514	2.8905	3.0247
USD/MYR	3.4194	3.2363	3.7764	3.2113

Sensitivity analysis

A change in exchange rates would impact future payments and receipts on the Group's financial assets and liabilities denominated in differing currencies to each respective member of the Group's functional currency. A 10% strengthening or weakening of these currencies against the respective Group member's functional currency, at the reporting date, would have increased (decreased) the reported profit or loss for the year by the amounts shown. This analysis assumes that all other variables, in particular interest rates, remain constant. The same basis has been applied for all periods presented.

In A\$'000	Increase/(Decrease) in Profit After Tax For the year ended June 30, 2015		Increase/(Decrease) in Profit After Tax For the year ended June 30, 2014	
	10 % Strengthening	10% Weakening	10% Strengthening	10% Weakening
	USD	1,681	(1,681)	815
AUD	176	(176)	279	(279)

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

In A\$'000	Increase/(Decrease) in Equity For the year ended June 30, 2015		Increase/(Decrease) in Equity For the year ended June 30, 2014	
	10 % Strengthening	10% Weakening	10% Strengthening	10% Weakening
	MYR	48,967	(48,967)	53,349
USD	76,590	(76,890)	60,283	(60,283)

(c) Interest rate risk

The Group's interest rate risk arises from long-term borrowings at both fixed and floating rates and deposits which earn interest at floating rates. Borrowings and deposits at floating rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group's primary exposure is to both floating and fixed interest rates on borrowings in Australia denominated in USD.

Interest rate risk on borrowings is partially offset by the Group as it has a component of its cash deposits in both floating and fixed rate accounts.

The following table sets out the Group's interest rate risk re-pricing profile:

In A\$'000	Total	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
June 30, 2015						
Fixed rate instruments						
Loans and borrowings	-	-	-	-	-	-
Mt Kellett convertible bonds	(293,926)	-	-	(293,926)	-	-
Total fixed rate instruments	(293,926)	-	-	(293,926)	-	-
Floating rate instruments						
Cash and cash equivalents	51,973	51,973	-	-	-	-
Other non-current assets	5,093	5,093	-	-	-	-
JARE loan facility	(267,799)	-	(267,799)	-	-	-
Total variable rate instruments	(210,733)	57,066	(267,799)	-	-	-
Total	(504,659)	57,066	(267,799)	(293,926)	-	-
June 30, 2014						
Fixed rate instruments						
Loans and borrowings	-	-	-	-	-	-
Mt Kellett convertible bonds	(238,879)	-	-	-	(238,879)	-
Total fixed rate instruments	(238,879)	-	-	-	(238,879)	-
Floating rate instruments						
Cash and cash equivalents	38,144	38,144	-	-	-	-
Other non-current assets	4,737	4,737	-	-	-	-
JARE loan facility	(228,262)	(228,262)	-	-	-	-
Total variable rate instruments	(185,381)	(185,381)	-	-	-	-
Total	(424,260)	(185,381)	-	-	(238,879)	-

The Group's sensitivity to interest rate risk can be expressed in two ways:

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Fair value sensitivity analysis

A change in interest rates impacts the fair value of the Group's fixed rate borrowings. Given all debt instruments are carried at amortised cost, a change in interest rates would not impact the statement of comprehensive income as a component of the profit or loss or the statement of financial position.

Cash flow sensitivity analysis

A change in interest rates would have an impact on future interest payments and receipts on the Group's floating rate assets and liabilities. An increase or decrease in interest rates of 50 basis points at the reporting date would negatively or positively impact both the statement of financial position and profit or loss through the statement of comprehensive income by the amounts shown, based on the assets and liabilities held at the reporting date and a one year time frame. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for comparative periods.

In A\$'000	For the year ended 30 June	
	2015	2014
50 basis point parallel increase in interest rates	(1,054)	(927)
50 basis point parallel decrease in interest rates	1,054	927

(c) Commodity and other price risk

Commodity and other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

28.3 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and related entities.

The Group's exposure to credit risk is primarily in its trade and other receivables and is influenced mainly by the individual characteristics of each customer. Demographically there are no material concentrations of credit risk.

28.4 Liquidity risk

Liquidity risk is the risk that the Group will not meet its contractual obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities as and when they fall due and comply with covenants under both normal and stressed conditions.

The Group evaluates its liquidity requirements on an on-going basis and ensures that it has sufficient cash on demand to meet expected operating expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following table sets out contractual cash flows for all financial liabilities including derivatives.

In A\$'000	Weighted average effective interest rate	Total	1 month or less	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
June 30, 2015							
Non-derivative financial liabilities							
Trade and other payables	N/A	54,705	54,705	-	-	-	-
<i>Loans and borrowings</i>							
JARE loan facility	7.00%	282,929	-	39,190	243,739	-	-
Mt Kellett convertible bonds	(1)	302,817	-	2,223	6,668	293,926	-
Total		640,451	54,705	41,413	250,407	293,926	-
June 30, 2014							
Non-derivative financial liabilities							
Trade and other payables	N/A	32,888	32,888	-	-	-	-
<i>Loans and borrowings</i>							
JARE loan facility	5.58%	244,560	-	43,536	127,424	73,600	-
Mt Kellett convertible bonds	(1)	253,330	-	1,806	5,419	246,105	-
Total		530,778	32,888	45,342	132,843	319,705	-

(1) The cash coupon on the instrument of 2.75% is payable on the \$US225 million principal. The weighted average effective interest rate is 8.07% on the Mt Kellett convertible bonds. This rate is impacted by the unwinding of the equity component of the instrument which is recognised as a component of the Group's net financing expenses.

Refer to notes 2.2, 24 and 37 with respect to the events subsequent to June 30, 2015 which address the Group's year end liquidity requirements.

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28.5 Classification and fair values

In A\$'000	Fair value through the profit and loss	Available for sale	Cash, loans & receivables	Other liabilities	Total carrying amount	Total fair value
June 30, 2015						
Assets						
Cash and cash equivalents	-	-	51,973	-	51,973	51,973
Trade and other receivables	-	-	9,281	-	9,281	9,281
Other assets	-	-	18,163	-	18,163	18,163
Total assets	-	-	79,417	-	79,417	79,417
Liabilities						
Trade and other payables	-	-	-	59,090	59,090	59,090
Current tax payable	-	-	22	-	22	22
<i>Loans and borrowings</i>						
JARE loan facility	-	-	-	267,799	267,799	267,799
Mt Kellett convertible bonds	-	-	-	278,368	278,368	278,368
Total liabilities	-	-	22	605,257	605,279	605,279
June 30, 2014						
Assets						
Cash and cash equivalents	-	-	38,144	-	38,144	38,144
Trade and other receivables	-	-	13,479	-	13,479	13,479
Investments	-	-	-	-	-	-
Other assets	-	-	11,042	-	11,042	11,042
Total assets	-	-	62,665	-	62,665	62,665
Liabilities						
Trade and other payables	-	-	-	34,573	34,573	34,573
<i>Loans and borrowings</i>						
Current tax payable	-	-	15	-	15	15
JARE loan facility	-	-	-	228,262	228,262	228,262
Mt Kellett convertible bonds	-	-	-	215,309	215,309	215,309
Total liabilities	-	-	15	478,144	478,159	478,159

The Group did not have any financial assets or financial liabilities classified as fair value through profit or loss at June 30, 2015 (June 30, 2014: none).

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

28.6 Fair value measurements recognised in the statement of comprehensive income

Subsequent to initial recognition, the Group measures financial instruments at fair value grouped into the following levels based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at June 30, 2015, the Group did not hold any available for sale financial assets (June 30, 2014: none) that were classified as Level 1 financial instruments. The Group did not hold any level 2 or level 3 financial instruments as at June 30, 2015 (June 30, 2014: none).

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29. Related parties

29.1 Key management personnel compensation

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

In A\$	For the year ended 30 June	
	2015	2014
Short-term employee benefits	5,920,052	5,748,587
Post-employment benefits	404,877	304,893
Other long-term benefits	-	13,452
Termination benefits	430,184	1,239,189
Share-based payments	653,167	217,003
Total compensation paid to key management personnel	7,408,380	7,523,124

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

The Share-based payments amount represents the cumulative impact of amortising the accounting value of options and performance rights over their three year vesting period including the impact of forfeitures recognised during the period. At times, a negative value may be presented which results from the forfeitures recognised in the period (which may relate also to earlier periods) are greater than the accounting expense for the current portion of the vesting period.

29.2 Other related party transactions

Lynas Corporation Limited is the ultimate controlling party of the Group. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

30. Group entities

Name of Group entity	Principal activity	Country of incorporation	Ownership interest as at June 30,	
			2015	2014
Lynas Malaysia Sdn Bhd	Operation and development of advanced material processing plant	Malaysia	100%	100%
Lynas Services Pty Ltd*	Provision of corporate services	Australia	100%	100%
Mount Weld Holdings Pty Ltd*	Holding company	Australia	100%	100%
Mount Weld Mining Pty Ltd*	Development of mining areas of interest and operation of concentration plant	Australia	100%	100%
Mount Weld Rare Earths Pty Ltd*	Dormant	Australia	100%	100%
Lynas Africa Holdings Pty Ltd*	Holding company	Australia	100%	100%
Lynas Africa Ltd	Mineral exploration	Malawi	100%	100%

* Entity has entered into a deed of cross guarantee with Lynas Corporation Limited pursuant to ASIC Class Order 98/1418 and is relieved from the requirement to prepare and lodge an audited financial report, as discussed in note 34. Entity is also a member of the tax-consolidated group.

31. Employee share option plan

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

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

Employee Share Trust ("EST")

Options and Performance Rights that are issued for the benefit of selected Executives are issued for market value to the Lynas EST. At the same time, the EST makes an advance to the Executive equivalent to the value of the Options and/or Performance Rights to enable the Executive to subscribe for an equivalent number of units in the EST. There is no net cash impact for the Group arising from those arrangements.

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Notes to Financial Statements For the year ended June 30, 2015

31.1 Movements in employee share options and performance rights during the year

	For the year ended June 30, 2015		For the year ended June 30, 2014	
	Number of options ('000)	Weighted average exercise price (\$)	Number of options ('000)	Weighted average exercise price (\$)
Balance at beginning of year	49,035	0.81	72,485	0.87
Granted during the year	25,560	0.00	7,439	0.00
Expired during the year	(15,828)	0.89	(18,000)	0.70
Exercised during the year	(374)	0.00	(484)	0.03
Forfeited during the year	(24,500)	0.66	(12,404)	1.56
Balance at end of year	33,893	0.29	49,035	0.81
Exercisable at end of year	7,850	1.14	38,769	0.83

During the year ended June 30, 2015 the Group recognised a net expense of \$0.8 million within the profit and loss component of the statement of comprehensive income (2014: net benefit \$0.9 million). The net expense during the year ended June 30, 2015 included the reversal of expenses totalling \$0.9 million associated with the forfeitures of 33% of the outstanding options issued on September 25, 2012, 33% of the specific performance rights issued on September 25, 2012 and 67% of the specific performance rights issued on September 23, 2013. These forfeitures were resulting from the pro-rated shares of resigned employees.

31.2 Listed options and employee options and performance rights exercised during the year

The following non-employee listed options were exercised during year ended June 30, 2015:

Exercise date	Number exercised	Share price at exercise date (\$)	Exercise price (\$)
November 5, 2014	25,769	0.06	0.09
November 13, 2014	500	0.06	0.09
November 14, 2014	55	0.06	0.09
November 18, 2014	505	0.06	0.09
November 26, 2014	50,000	0.06	0.09
January 20, 2015	982	0.05	0.09
February 3, 2015	2,684	0.04	0.09
February 10, 2015	32,632	0.05	0.09
February 19, 2015	1,072	0.05	0.09
March 3, 2015	1,785	0.05	0.09
March 17, 2015	8,211	0.05	0.09
June 29, 2015	594	0.03	0.09
	124,789		

The following employee performance rights were exercised during year ended June 30, 2015:

Exercise date	Number exercised	Share price at exercise date (\$)	Exercise price (\$)
August 12, 2014	140,000	0.16	0.00
October 1, 2014	4,651	0.08	0.00
May 17, 2015	229,309	0.04	0.00
	373,960		

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

The share options outstanding at the end of the year had a weighted average exercise price of \$0.29 (2014: \$0.78) and a weighted average remaining contractual life of 1,036 days (2014: 497 days).

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31.4 Options and performance rights issued in the period

The following table summarises the performance conditions attached to Options and Performance Rights issued during the financial year ended June 30, 2015 with respect to the performance of the Group's employees during the financial year ended June 30, 2014:

	Vesting schedule	For grants made in FY2015 (related to FY14 performance)
TSR hurdle (50%) (performance against ASX 200 companies)	50% of the TSR portion will vest for:	51 st percentile performance
	100% of the TSR portion will vest for:	76 th percentile performance
	Pro-rata vesting will occur between each of the above points	
RFT hurdle (50%) (consistency of production measured in calendar year 2016)	Vesting schedule	For grants made in FY2015 (related to FY14 performance)
	50% of the RFT portion will vest for:	If the RFT is 85% or more, and less than 90%
	100% of the RFT portion will vest for:	If the RFT is 90% or more, and less than 92%
	Additional 20% of the RFT portion, giving a total of 120% of the RFT portion:	If the RFT is 92% or more

In accordance with the Group's policy that governs trading of the Company's shares by Directors and employees, Directors and employees are not permitted to hedge their options or performance rights before the options vest.

The weighted average fair value of the share options granted during the financial year is \$157,203 (2014:\$ 394,676). Options were priced using a Monte Carlo methodology. Where relevant the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past three years and peer volatility.

	Series Y	Series Z	Series AA	Series AB	Series AC	Series AD	Series AE
Grant date share price (\$)	\$0.116	\$0.096	\$0.059	\$0.059	\$0.059	\$0.059	
Exercise price	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	Refer
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	
Expected volatility	87.01%	87.01%	73.28%	73.28%	73.28%	73.28%	footnote
Risk-free Rate	2.83%	2.83%	2.40%	2.40%	2.40%	2.40%	(1)
Life of Option	5 years	5 years	3 years	3 years	5 years	5 years	

(1) Performance Rights Series AE were approved by the Board on May 6, 2015, subject to shareholder approval, and shareholder approval is expected to be sought at the Lynas AGM on November 23, 2015. Accordingly, a provisional value per option of \$0.0448 has been used as at 30 June 2015. This will be revalued on the date of shareholder approval.

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

The following table lists any options and performance rights which are still to vest, or have yet to expire.

Series	Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
G	July 1, 2010	1,000,000	July 1, 2013	July 1, 2015	\$ 0.66	\$ 0.24
H	August 19, 2010	4,500,000	August 19, 2013	August 19, 2015	\$ 1.15	\$ 0.34
J	October 1, 2010	1,000,000	October 1, 2013	October 1, 2015	\$ 1.60	\$ 0.48
K	August 19, 2010	1,350,000	August 19, 2013	August 19, 2015	\$ 1.15	\$ 0.66
T	September 25, 2012	679,758	September 24, 2015	September 24, 2017	\$ 1.02	\$ 0.26
U	September 25, 2012*	432,489	September 24, 2015	September 24, 2017	\$ 0.00	\$ 0.72
V	September 23, 2013*	579,663	September 23, 2016	September 23, 2018	\$ 0.00	\$ 0.41
W	September 23, 2013*	1,237,127	September 23, 2016	September 23, 2018	\$ 0.00	\$ 0.41
X	September 23, 2013*	1,030,940	September 23, 2016	September 23, 2018	\$ 0.00	\$ 0.31
Y	September 23, 2014*	5,150,943	September 23, 2017	September 23, 2019	\$ 0.00	\$ 0.116
Z	September 23, 2014*	4,292,452	September 23, 2017	September 23, 2019	\$ 0.00	\$ 0.096
AA	November 28, 2014*(1)	862,069	September 23, 2015	September 23, 2017	\$ 0.00	\$ 0.059
AB	November 28, 2014*(1)	1,086,957	September 30, 2015	September 30, 2017	\$ 0.00	\$ 0.059
AC	November 28, 2014*(1)	3,396,277	September 23, 2017	September 23, 2019	\$ 0.00	\$ 0.059
AD	November 28, 2014*(1)	2,830,189	September 23, 2017	September 23, 2019	\$ 0.00	\$ 0.031
AE	Refer to footnote *(2)	4,464,286	May 6, 2016	May 6, 2018	\$ 0.00	Refer footnote (2)
Total		33,893,100				

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

(1) Performance Rights Series AA, AB, AC and AD were approved by the Board on September 23 and September 30, 2014 subject to shareholder approval, and subsequently approved by the shareholders of the Company at the AGM on November 28, 2014. Accordingly, those Performance rights were valued as at November 28, 2014.

(2) One series of performance rights granted to A Lacaze were approved by the Board on September 30, 2014 subject to shareholder approval and subject to performance conditions that have now been satisfied. Shareholder approval is expected to be sought at the Lynas AGM on November 23, 2015. A provisional value per option of \$0.0448 has been used as at 30 June 2015. This will be revalued on the date of shareholder approval.

32. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In A\$'000	As at June 30,	
	2015	2014
Less than one year	3,746	3,503
Between one and five years	11,557	9,517
More than five years	3,090	7,125
Total	18,393	20,145

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

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33. Capital commitments

There were no outstanding commitments which are not disclosed in the consolidated financial report of the Group as at June 30, 2015 other than:

Exploration commitments

In A\$'000	As at June 30,	
	2015	2014
Less than one year	336	311
Between one and five years	1,098	1,203
More than five years	2,520	3,039
Total	3,954	4,553

These include commitments relating to tenement lease rentals and the minimum expenditure requirements of the Department of Mines and Petroleum attaching to the tenements and are subject to re-negotiation upon expiry of the exploration leases or when application for a mining licence is made. These are necessary in order to maintain the tenements in which the Group and other parties are involved. All parties are committed to meet the conditions under which the tenements were granted in accordance with the relevant mining legislation.

Capital commitments

In A\$'000	As at June 30,	
	2015	2014
Less than one year	1,848	436
Total	1,848	436

At June 30, 2015 capital commitments relate to on-going capital project costs in Malaysia. All remaining Phase 1 and Phase 2 retention costs in Malaysia and Mt Weld are fully accrued at year-end.

Other commitments

In A\$'000	As at June 30,	
	2015	2014
Less than one year	21,339	8,822
Between one and five years	35,618	34,769
More than five years	-	-
Total	56,957	43,591

Lynas is required to pay in instalments, a total of USD50 million to the Malaysia's Atomic Energy Licensing Board (AELB) in accordance with the conditions underlying the granting of Lynas' Full Operating Stage License for the LAMP in Gebeng Malaysia. During the year Lynas has transferred \$0.5 million (2014: \$3.0 million) to AELB (refer to note 20).

34. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated August 13, 1998, the wholly-owned Australian subsidiaries of Lynas Corporation Limited are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Director's reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up event occurs under any other provision of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound-up.

The subsidiaries in addition to the Company subject to the deed are specified in note 30.

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A statement of comprehensive income and statement of financial position, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee is presented as follows:

Statement of Financial Position

In A\$'000	As at June 30,	
	2015	2014 Restated
Assets		
Cash and cash equivalents	26,793	33,328
Trade and other receivables	70,406	7,849
Inventories	19,479	30,126
Total current assets	116,678	71,303
Inventories	2,329	8,976
Property, plant and equipment	103,659	114,339
Deferred exploration, evaluation and development expenditure	45,784	46,857
Intangible assets – software	164	286
Investments in subsidiaries*	375,080	375,080
Other assets*	166,384	7,041
Total non-current assets	693,400	552,579
Total assets	810,078	623,882
Liabilities		
Trade and other payables	26,977	12,658
Borrowings	267,799	122,094
Employee benefits	2,213	4,992
Total current liabilities	296,989	139,744
Trade and other payables	-	52
Provisions	24,760	24,681
Employee benefits	227	295
Borrowings	278,368	321,477
Total non-current liabilities	303,355	346,505
Total liabilities	600,344	486,249
Net assets	209,734	137,633
Equity		
Share capital	1,083,898	1,034,634
Accumulated deficit*	(1,034,358)	(972,839)
Reserves	160,194	75,838
Total equity	209,734	137,633
Statement of comprehensive income		
Revenue	61,793	57,175
Cost of sales	(77,801)	(46,976)
Gross Profit	(16,008)	10,199
Other income	4	20,398
Provision against investments/intercompany balances*	(2,314)	(665,085)
General and administration expenses	(2,572)	(33,084)
Other expenses	-	(123)
Profit (loss) from operating activities	(20,890)	(667,695)
Financial income	178	1,799
Financial expenses	(40,763)	(33,918)
Net financial income (expenses)	(40,585)	(32,119)
Profit (loss) before income tax	(61,475)	(699,814)
Income tax benefit (expense)	(44)	(363)
Profit (loss) for the year from continuing operations	(61,519)	(700,177)
Other comprehensive income, net of income tax		
Exchange differences on foreign currency transactions	(3,012)	5,344
Gain (loss) on available for sale financial assets	-	-
Total other comprehensive profit (loss) for the year, net of income tax	(3,012)	5,344
Total comprehensive income (loss) for the year	(64,531)	(694,833)

* Refer to note 35 Parent Entity Information for further details

Lynas Corporation Limited and Controlled Entities

Notes to Financial Statements For the year ended June 30, 2015

35. Parent entity information

<i>In A\$'000</i>	As at June 30,	
	2015	2014 Restated
Current assets	22,167	5,432
Total assets*	863,966	571,371
Current liabilities	(286,902)	(88,154)
Total liabilities	(563,683)	(446,790)
Net assets	300,283	124,581
Share capital	1,083,898	1,034,634
Accumulated deficit*	(1,076,248)	(1,033,487)
Reserves	292,633	123,434
Total shareholders' equity	300,283	124,581
Profit (loss) of the Company*	(42,761)	(881,131)
Total comprehensive income (loss) of the parent Company	(42,761)	(881,131)

* 2014 comparative balances have been restated to show a provision against intercompany loans of \$843.9m recorded in the parent company. The consolidated financial statements of the Group are unaffected by this restatement.

36. Contingencies

Litigation and legal proceedings

As a result of its operations the Group has certain contingent liabilities related to certain litigation and legal proceedings. The Group has determined that the possibility of a material outflow related to these contingent liabilities is remote.

Security and guarantee arrangements

Certain members of the Group have entered into guarantee and security arrangements in respect of the Group's indebtedness as described in note 24.

37. Subsequent events

On August 17, 2015 the Company announced it had agreed on a long term debt structure with its current debt providers and bondholders. Refer to Note 24 Borrowings for more information.