10 March 2016

# Lynas Half Year Results

Lynas Corporation Limited ("Lynas") (ASX:LYC, OTC:LYSDY) today released its Financial Report for the half year ending December 31, 2015.

Sales volumes in the half year to December 31, 2015 grew by 62% compared to the half year to December 31, 2014, reflecting continued improvement in production rates, consistent demand for NdPr products, and quality improvements for Cerium and Lanthanum products. Revenue growth at 43%, which was lower than the volume growth, reflected the historically low Rare Earth prices during the period.

The loss from operating activities decreased by $49.2 million, to $39.8 million for the half year ended December 31, 2015. On an adjusted EBITDA basis (refer to note 6 to the Financial Report for the basis of this measure) the Group reported a loss of $15.4 million (2014: $57.7 million) in the half year ended December 31, 2015.

The key achievements through the half-year period include:

- Positive operating cashflow (sales receipts less production and administration costs) for three consecutive quarters commencing from the June 2015 quarter
- The Group successfully negotiated the extension of both of its debt facilities until mid-2018, reflecting the on-going support of both lender groups
- Production of NdPr for the half year ending December 31, 2015 of 1,916 tonnes exceeded the JARE debt facility target of 1,860 tonnes. Therefore, the interest rate under the JARE debt facility reduced from 7.0% per annum to 6.5% per annum with effect from January 1, 2016
- Although the rare earths market remained challenging throughout the half year ending December 31, 2015, Lynas gained strong support from the strategic relationships it has developed with customers who are leaders in their own market segments, in Japan, China and Europe
- Mt Weld continued to operate efficiently throughout the period and with the planned commissioning of the Tailings Storage Facility 2 in the fourth quarter of FY2016, is well placed to implement further improvements in water recycling efficiencies and environmental sustainability
- The Company-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of December 2015 at 1.3 per million hours worked
- A new Resource and Reserves statement for Mt Weld was announced October 2015, confirming the physical robustness and quality of the Mt Weld deposit and confirming that the Ore Reserves present more than 25 years of economic, continuous operations based on the estimated production of 22,000 tonnes per annum REO finished products
- On October 9, 2015, the High Court of Malaya in Kuantan dismissed with costs the remaining challenge to Lynas' operating licences by persons associated with the Save



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Malaysia Stop Lynas group (SMSL). Each court challenge that has been lodged in relation to Lynas' operating licences has been dismissed and no appeals are pending.

The full value of these improvements has been offset by the significant reduction in realised prices from the sale of the company's products. Over the half year, Lynas reported stable production rates and increased sales volume. Despite this, cash flow was essentially break even due to the extremely low market prices for its products.

As advised in the Quarterly Report for the period ending December 31, 2015, released on January 27, 2016, Lynas has announced that the fourth production line for NdPr (SX5 Train 4) will be commissioned in the March 2016 quarter. This will bring NdPr production capacity to 100% of design allowing Lynas to make the next step up in performance. Production output from this train will ramp up slowly over the coming months.

As indicated in that Quarterly Report, there will be an increase in working capital and cash costs associated with the start-up of Train 4, during the March 2016 quarter. This increase is related to the first fill of organics and other material in the batteries and the operation of the train for at least one month prior to initial production output.

In addition there will be a short term effect on production of ready for sale NdPr as approximately 80 tonnes of finished product will be consumed in seeding the new production line. We expect that about 150 tonnes of early production will be off specification (for Pr) as the batteries reach equilibrium.

The start-up of Train 4 is proceeding well.

However, we expect that, compared to the performance in the first 2 quarters of FY2016, there will be a reduction in total ready for sale production and a reduction in cash flow during the March quarter.

The benefits of the capacity increase are expected to be seen in increased production output and cash flow in the June quarter.

The global rare earths market in the half-year was difficult for all participants. Market pricing throughout the period was extremely low, with NdPr prices remaining US$10-$11/kg lower than average levels experienced in 2014 and early 2015.

For Lynas, further increasing production volume of NdPr, and continuing tight control of costs is essential to operating successfully in this very difficult market.

Despite these extremely challenging market conditions the company believes that the underlying market dynamics remain favourable to Lynas and the work done to improve production and costs during this time will deliver a robust foundation for future success.

Please see complete results for the half year ended December 31, 2015 in the attached Interim Unaudited Condensed Consolidated Financial Report.

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Andrew Arnold
Company Secretary

ACN 009 066 648

and

Controlled Entities

# Interim Unaudited Condensed Consolidated Financial Report

For the half year ended December 31, 2015

## Corporate Directory Information

**ABN 27 009 066 648**

**Directors**

Mike Harding
Amanda Lacaze
William (Liam) Forde
Kathleen Conlon
Jake Klein
Philippe Etienne

**Company Secretaries**

Andrew Arnold
Ivo Polovineo

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**Auditors**

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Sydney NSW 2000

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## Directors' Report

The Board of Directors (the "Board" or the "Directors") of Lynas Corporation Limited (the "Company") and its subsidiaries (together referred to as the "Group") submit their report for the half year ended December 31, 2015.

**Directors**

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

| | |
|---|---|
| Mike Harding – | Chairman |
| Amanda Lacaze – | Managing Director |
| William (Liam) Forde – | Non-Executive Director |
| Kathleen Conlon – | Non-Executive Director |
| Jake Klein – | Non-Executive Director |
| Philippe Etienne – | Non-Executive Director |

**Basis of preparation of financial statements**

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

**Financial performance**
For the half year ended

| | December 31, | |
|---|---|---|
| In A$ Million | **2015** | **2014** |
| Revenue | 93.2 | 65.0 |
| Cost of sales | (119.5) | (96.5) |
| **Gross profit (loss)** | **(26.3)** | **(31.5)** |
| General and administration expenses | (11.4) | (49.4) |
| Other expenses | (2.1) | (8.1) |
| **Profit (loss) from operating activities** | **(39.8)** | **(89.0)** |
| Financial income | 0.1 | 5.7 |
| Financial expenses | (26.4) | (20.2) |
| **Net financial income (expenses)** | **(26.3)** | **(14.5)** |
| **Profit (loss) before income tax** | **(66.1)** | **(103.5)** |

Sales volumes in the half year to December 31, 2015 grew by 62% compared to the half year to December 31, 2014 reflecting continued improvement in production rates, consistent demand for NdPr products, and quality improvements for Cerium and Lanthanum products. Revenue growth at 43%, which was lower than the volume growth, reflected the historically low Rare Earth prices during the period.

Market pricing, for all products, throughout the half-year was extremely low, with NdPr prices remaining US$10-$11/kg lower than average levels experienced in 2014 and early 2015.

Gross loss for the period was $26.3 million (2014: $31.5million) reflecting the fixed nature of many production costs, which were not fully recovered in selling prices.

The loss from operating activities decreased by $49.2 million, to $39.8 million for the half year ended December 31, 2015. On an adjusted EBITDA basis (refer to note 6 to the Financial Report for the basis of this measure) the Group reported a loss of $15.4 million (2014: $57.7 million) in the half year ended December 31, 2015.

The primary drivers of the decrease in the general and administrative expenses are efficiency gains due to the streamlining of the organization including the elimination of the HQ operations in Sydney and an increase in production recovery.

Consistent with the half year ended December 31, 2014 the other expenses during the half-year ended December 31, 2015 include mainly assets and inventory write-offs.

Net financial expenses increased by $11.8 million, to $26.3 million for the half year ended December 31, 2015. $11.5 million of the increase resulted from the revaluation of foreign currency bank accounts and exchange loss on foreign currency transactions.

## Directors’ Report

**Cash flow**

For the half year ended

| In A$ Million | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Net Operating Cash flow | 6.7 | (15.9) |
| Net Investing Cash flow | (6.4) | (3.8) |
| Net Financing Cash flow | 0.1 | 50.9 |
| **Net cash flow** | **0.4** | **31.2** |

Overall, net cash flows have decreased by $30.8 million from a net cash inflow of $31.2 million for the half year ended December 31, 2014 to a net cash inflow of $0.4 million for the half year ended December 31, 2015. This reflects our focus on sustaining the business through operating cash flow rather than raising additional capital.

**Operating cash flows**

During the period, the Group’s cash receipts from sales were $105.7 million (December 31, 2014: $78.0 million). Net operating cash flows improved by $22.6 million to achieve inflows of $6.7 million for the half year ended December 31, 2015, compared to outflows of $15.9 million for the half year ended December 31, 2014. This reflects increased sales volumes, improvements achieved in production recoveries and continued focus on cost management.

**Investing cash flows**

Net investing cash outflows increased by $2.6 million, or 68%, to $6.4 million for the half year ended December 31, 2015, compared with $3.8 million for the half year ended December 31, 2014. Expenditure during the current half year was mainly on the second tailings storage facility at Mt Weld.

**Financing cash flows**

Net financing cash flows have decreased significantly by $50.8 million as there have been no capital raising activities carried out during the current half-year.

**Financial position**
**As at**

| In A$ Million | December 31, 2015 | June 30, 2015 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 53.6 | 52.0 |
| Inventories | 48.1 | 61.8 |
| Property, plant and equipment | 605.2 | 658.4 |
| Deferred exploration, evaluation and development expenditure | 45.1 | 45.8 |
| Other assets | 30.6 | 27.5 |
| **Total assets** | **782.6** | **845.5** |
| **Liabilities** | | |
| Borrowings | 573.5 | 546.2 |
| Other liabilities | 140.9 | 116.1 |
| **Total liabilities** | **714.4** | **662.3** |
| **Net assets** | **68.3** | **183.2** |

## Directors' Report

**Financial position (continued)**
**As at**

| In A$ Million | December 31, 2015 | June 30, 2015 |
|---|---|---|
| **Equity** | | |
| Share capital | 1,088.5 | 1,083.9 |
| Retained earnings (accumulated deficit) | (961.0) | (894.9) |
| Reserves | (59.2) | (5.8) |
| **Total equity** | **68.3** | **183.2** |

The overall net assets of the Group decreased by $114.9 million in the half year ended December 31, 2015.

Cash and cash equivalents at December 31, 2015 comprise $20.1 million (June 30, 2015: $31.4 million) of unrestricted cash and $33.5 million (June 30, 2015: $20.6 million) of restricted cash. Interest on the JARE loan facility 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 $60m. The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business. Similarly, interest on the convertible bond facility 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 $60m. The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business.

Inventory has reduced by $13.7 million, or 22% to $48.1 million at December 31, 2015 compared to $61.8 million at June 30, 2015. Holdings of raw materials and consumables were $16.8 million versus $15.1 million at June 30, 2015. Finished goods have decreased by $4.2 million to $5.2 million at December 31, 2015. However, during the half year ended December 31, 2015 the Group recognised write-downs on inventories held to their net realisable value totalling $1.3 million driven by lower market prices. Work in progress inventory was reduced by $11.3 million to $26.1 million at December 31, 2015. As at December 31, 2015 the Group holds 2,811 tonnes of processed concentrate containing 1,083 tonnes of REO bagged and ready for export at its Mt Weld operations.

Property, plant and equipment decreased by $53.2 million, or 8%, to $605.2 million at December 31, 2015. The decrease during the period is largely driven by the foreign currency translation as a result of weakening of the Malaysian ringgit against the Australian dollar ($39.0 million) and depreciation charged during the period ($20.3 million).

Borrowings of $573.5 million consists of the USD205 million JARE loan facility and the USD225 million liability component of the convertible bonds revalued in Australian dollars at the December 31, 2015 exchange rate. The convertible bonds are issued to a group of funds led by Mt Kellett Capital Management. The significant increase during the period is driven by the strengthening of the US dollar against the Australian dollar.

The decrease in reserves of $53.4 million during the current period is contributed by the unfavourable movement in the foreign currency translation ($57.6 million) offset by the fair value of warrants issued ($3.3 million) and expense for employee performance rights ($0.9 million).

### Capital structure

At the start of the half year ended December 31, 2015, the Group had 3,371,232,303 ordinary shares on issue. During the half year ended December 31, 2015 an additional 117,206,066 shares were issued as follows:

| | Number |
|---|---|
| Shares on issue June 30, 2015 | 3,371,232,303 |
| Issue of shares pursuant to settlement of liability | 116,076,858 |
| Issue of shares pursuant to exercise of listed options | 1,129,208 |
| Shares on issue December 31, 2015 | 3,488,438,369 |

In addition to the ordinary shares on issue there were 98,327,088 unlisted options and performance rights, 225,000,000 unlisted convertible bonds on issue with a conversion price of $0.5634 (at a set exchange rate of USD1.00 = $0.9533) and 174,365,466 unlisted warrants with exercise price of $0.038 each.

### Review of operations

Highlights during the half year ended December 31, 2015 include:

- Despite continued very low rare earth prices, operating cashflow (sales receipts less production and administration costs) has been positive for three consecutive quarters commencing from the June 2015 quarter.
- The Group successfully negotiated the extension of both of its debt facilities until mid-2018, reflecting the on-going support of both lender groups.
- Production of NdPr for the half year ending December 31, 2015 of 1,916 tonnes exceeded the JARE debt facility target of 1,860 tonnes. Therefore, the interest rate under the JARE debt facility reduced from 7.0% per annum to 6.5% per annum with effect from 1 January 2016.

## Directors' Report

- Although the rare earth market remained challenging throughout the half year ending December 31, 2015, Lynas gained strong support from the strategic relationships it has developed with customers who are leaders in their own market segments, in Japan, China and Europe.
- Mt Weld continued to operate efficiently throughout the period and with the planned commissioning of the Tailings Storage Facility 2 in the fourth quarter of FY2016, we are well placed to implement further improvements in water recycling efficiencies and environmental sustainability.
- The Company-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of December 2015 at 1.3 per million hours worked.
- A new Resource and Reserves statement for Mt Weld was announced in October 2015, confirming the physical robustness and quality of the Mt Weld deposit and that the Ore Reserves present more than 25 years of economic, continuous operations based on the estimated production of 22,000 tonnes per annum REO finished products
- On October 9, 2015 the High Court of Malaya in Kuantan dismissed with costs the remaining challenge to Lynas' operating licences by persons associated with the Save Malaysia Stop Lynas group (SMSL). Each court challenge that has been lodged in relation to Lynas' operating licences has been dismissed and no appeals are pending.

Lynas has implemented extensive processes to ensure that production is safe for employees, safe for the environment and community and secure for its customers. In addition to maintaining a low Lost Time Injury Frequency Rate as mentioned above, the Company achieved an excellent safety record with the Company-wide 12-month rolling Lost Time Injury Frequency Rate as at the end of December 2015 at 1.3 per million hours worked.

The Company sustained one lost time injury in Malaysia and none in Australia during the half year ended December 31, 2015.

Lynas actively manages all parts of our operations to meet best practice safety benchmarks and industry leading environmental standards. This is a crucial part of our commitment to the communities in which we operate.

Environmental performance is also increasingly important to our marketing success. There is growing global demand for manufacturers to provide assurance of the provenance and environmental practices of their inputs. This is particularly so for many of our customers who use our products in environmentally significant applications. Therefore careful stewardship of environmental standards is important throughout our operations. By using Lynas products, our customers can be confident of their environmental positioning.

### Western Australia operations

The Mt Weld Concentration Plant continued to operate on a campaign basis, synchronised to demand from the LAMP.

Innovative thinking from the technical and operating team has led to significant improvements in efficiency. Significant container volumes have been shifted from road to rail delivering substantial cost savings.

Li High and Li Medium ore, both of which had previously been considered unsuitable for processing, were successfully processed leading to greater use of ore in the current stockpiles. The team also progressively implemented cost effective and novel solutions for improved water management. The updated Mineral Resource and Ore Reserves statement released on 5 October 2015 confirms the physical robustness and the quality of the Mt Weld deposit. The Mineral Resource and Ore Reserves have not significantly changed despite updated inputs, most notably a reduction of 50% in the assumed selling price. The latest review announced on 5 October 2015 confirms that the Ore Reserves represent more than 25 years of economic, continuous operations based on the estimated production of 22,000 tonnes per annum REO of finished products.

Construction on the second Tailings Storage Facility (TSF2) was completed in December 2015. Commission date of TSF2 is expected to be in the fourth quarter of FY16.

The next mining campaign, previously scheduled to have commenced in FY16 has been deferred into FY17. This is possible due to a combination of actions including: the treatment of stockpiled Li ore in the feed blend, increased recoveries and a change in the mine plan which will target ore below the current pit deferring the overburden removal required for the lateral expansion of the pit.

### Malaysia operations

Production performance during the half-year was stable and controlled, and delivered consistently high quality end product. NdPr production was in line with the assets commissioned, i.e. 75% of design, and in excess of the JARE facility target for the period of 1,860 tonnes. The production team has also delivered substantial improvements in Cerium (Ce) and Lanthanum (La) product quality. The program of plant repairs and modifications to improve plant capacity, reliability and recoveries continued with good results.

The Cracking and Leaching (C&L) kilns have continued to operate at above design rates. Debottlenecking of the filtration capacity in the Phase 2 plant occurred during the half year, using a different configuration of existing equipment. This duplicates the changes already made to the Phase 1 plant. After the end of the period, the Group announced its intention to start-up the fourth and final separation train in SX5. Once complete all operating capacity will be commissioned and operating. The start-up of SX5 Train 4 will result in additional costs in the 3rd quarter and will also have a short term effect on production of ready for sale NdPr as some production will be consumed to seed the new production line. The benefits of this are expected to be seen in increased production rates in the 4th quarter.

In Product Finishing (PF), the focus has been on improving product quality including eliminating sources of potential contamination, improving rejection of impurities (Zn, Al, $P_2O_5$, Na) in pre-treatment, precipitation and washing stages, improved tunnel furnace combustion and temperature control and improved calcination of La.

## Directors' Report

Ready for Sale by Tonnage

| | FY15 | Q1 FY16 | Q2 FY16 | YTD FY16 |
|---|---|---|---|---|
| Ready for Sale Production Volume Total | 8,799 REOt | 3,171 REOt | 3,166 REOt | 6,337 REOt |
| Ready for Sale Production Volume NdPr | 2,258 REOt | 968 REOt | 937 REOt | 1,905 REOt |

*Note: The above table sets out "ready for sale" tonnes. The JARE facility NdPr production targets referred to on the previous page are based on "production" tonnes. There is usually approximately a 2 day gap between "production" tonnes and "ready for sale" tonnes while a final certificate of analysis is prepared for the product.*

The 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.

### Malawi operations

Since fiscal year 2012, no further capital investment has been made on the Kangankunde Rare Earths ("KGK") resource development in Malawi and the project remains on hold.

### Strategic Marketing and Sales

Market pricing, for all products, throughout the half-year was extremely low, with NdPr prices remaining US$10-$11/kg lower than average levels experienced in 2014 and early 2015.

Whilst all rare earth producers, inside and outside China, face extremely challenging market conditions, it is likely that several underlying market dynamics will lead to positive market change favourable to Lynas over time:

- Rare Earths provide the best technologies for fast developing Green applications where quality and environmental assurance from mine to customer is important. Lynas offers assurance and traceability of all products.
- Rare Earths products can be differentiated based on quality and performance. Lynas is working with customers to innovate and improve functionality.
- Market growth is dependent on end users and product formulators developing confidence in supply and price reliability. Lynas can offer both of these via long term contracts tailored to customer needs.
- Many customers are seeking to diversify their supply chains. In mid-2015, Molycorp filed for Chapter 11 protection and has announced the mothballing of the Mountain Pass facility which strengthens Lynas' market position as an alternate supply source.
- The current price volatility is difficult for all market participants. It has been estimated by industry bodies that at current prices, 90% of Chinese producers are unprofitable which could lead to some Chinese separators reducing output.

Sales by Tonnage and Value

| | FY15 | Q1 FY16 | Q2 FY16 | YTD FY16 |
|---|---|---|---|---|
| Sales Volume (REOt) | 7,883 | 2,691 | 3,082 | 5,773 |
| Cash Receipts From Customers (AUD) | 155.3m | 55.4m | 50.3m | 105.7m |

Sales volumes continued to increase reflecting stable production rates, consistent demand for NdPr products and quality improvements for Cerium and Lanthanum products. This allowed us to acquire new customers and address new applications. This business development, supported by technical improvements and product customizations, will continue through the coming quarters and should result in Lynas securing better value for our Cerium and Lanthanum products.

### Loss per share

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Basic loss per share (cents per share) | (1.90) | (3.64) |
| Diluted loss per share (cents per share) | (1.90) | (3.64) |

### Dividends

There were no dividends declared or paid during the half year ended December 31, 2015 (2014: nil) and no dividends have been declared or paid since December 31, 2015.

### Risk management

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

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

## Directors' Report

**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 earth 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 the last financial year, 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 earth produced in China and a reduction in realised prices outside of China.

The table below illustrates how NdPr prices have moved over calendar year 2015:

| | Jan-15 | Feb-15 | Mar-15 | Apr-15 | May-15 | Jun-15 | Jul-15 | Aug-15 | Sep-15 | Oct-15 | Nov-15 | Dec-15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NdPr wo VAT USD/kg | 39.4 | 41.6 | 43.4 | 40.9 | 40.3 | 37.3 | 33.8 | 30.4 | 30.5 | 33.4 | 34.5 | 34.4 |
| Base 100 | 100 | 106 | 110 | 104 | 102 | 95 | 86 | 77 | 77 | 85 | 88 | 87 |

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 and a half years:

| | 6 mths to 31-Dec-15 | 30-Jun-15 | 30-Jun-14 | 30-Jun-13 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| USD/AUD | 0.7232 | 0.8382 | 0.9187 | 1.0239 |

Lynas is also exposed to fluctuations in the Chinese yuan against the US dollar. A devaluation in the yuan would increase attractiveness in Chinese exports and China's internal supply.

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

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

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

## Directors' Report

The future principal repayments due prior to maturity under the JARE loan facility are as follows:

| Repayment date | Repayment amount (USD) |
|---|---|
| 30 June 2016 | 2m |
| 21 December 2016 | 5m |
| 30 June 2017 | 15m |
| 21 December 2017 | 30m |
| 30 June 2018 | 153m |

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 will be due for repayment on September 30, 2018.

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

In the event significant uncertainty arises in relation to Lynas' ability to fully repay, refinance or reschedule the outstanding balances of the JARE loan facility and the 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.

*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 the financial statements for the year ended June 30, 2015. 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.

**Environmental regulation and performance**

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

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

**Significant changes in the state of affairs**

Except as disclosed in the review of results and operations, and subsequent events (note 20), there have been no significant changes in the state of affairs of the Group during the current reporting period.

**Auditor's independence declaration**

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

**Rounding of amounts**

The Company is of a kind referred to in 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 million, thousand dollars, or in certain cases, the nearest dollar.

## Directors' Report

**Subsequent events**

The Group has announced its intention to start-up the fourth and final separation train in SX5 in the 3rd quarter of this financial year. This will bring NdPr production capacity to 100% of design. Production output from this train will ramp up slowly over the coming months. Within the 3rd quarter of this financial year, there will be an increase in working capital and cash costs associated with the start-up of the train. This increase is related to the first fill of organics and other material in the batteries and the operation of the train for at least one month prior to initial production output. In addition there will be a short term effect on production of ready for sale NdPr as some production will be consumed to seed the new production line. The benefits of this are expected to be seen in increased production rates in the 4th quarter.

With the exception of the above, there have been no other events subsequent to December 31, 2015 that would require accrual or disclosure in the interim unaudited condensed consolidated financial statements.

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

On behalf of the Directors

Mike Harding
Chairman
Sydney, March 10, 2016

## Directors' Declaration

The Directors declare that:

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

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

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

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

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

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

On behalf of the Board

Mike Harding
Chairman
Sydney, March 10, 2016

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

As lead auditor for the review of Lynas Corporation Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Ernst & Young

Graham Ezzy

Graham Ezzy
Partner
10 March 2016

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

**For the half year ended**

| In A$'000 | Note | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| Revenue | | 93,159 | 65,048 |
| Cost of sales | | (119,446) | (96,458) |
| **Gross profit (loss)** | | (26,287) | (31,410) |
| General and administration expenses | | (11,419) | (49,426) |
| Other expenses | | (2,079) | (8,115) |
| **Profit (loss) from operating activities** | | **(39,785)** | **(88,951)** |
| Financial income | 7 | 107 | 5,737 |
| Financial expenses | 7 | (26,374) | (20,235) |
| **Net financial (expenses) income** | | **(26,267)** | **(14,498)** |
| **Profit (loss) before income tax** | | **(66,052)** | **(103,449)** |
| Income tax (expense) benefit | 8 | (40) | (62) |
| **Profit (loss) for the period** | | **(66,092)** | **(103,511)** |
| **Other comprehensive income (loss) for the period net of income tax that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences on translating foreign operations | | (57,596) | (38,690) |
| **Total other comprehensive loss for the period, net of income tax** | | **(57,596)** | **(38,690)** |
| **Total comprehensive loss for the period attributable to equity holders of the Company** | | **(123,688)** | **(142,201)** |
| **Loss per share** | | | |
| Basic loss per share (cents per share) | 16 | (1.90) | (3.64) |
| Diluted loss per share (cents per share) | 16 | (1.90) | (3.64) |

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

## Interim Unaudited Condensed Consolidated Statement of Financial Position

**As at**

| In A$'000 | Note | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 9 | 53,635 | 51,973 |
| Trade and other receivables | 10 | 1,844 | 6,032 |
| Prepayments | | 1,110 | 3,146 |
| Inventories | 11 | 47,827 | 59,511 |
| **Total current assets** | | **104,416** | **120,662** |
| Inventories | 11 | 245 | 2,329 |
| Property, plant and equipment | 12 | 605,243 | 658,353 |
| Deferred exploration, evaluation and development expenditure | | 45,086 | 45,784 |
| Intangible assets - software | | 151 | 207 |
| Other non-current assets | | 27,480 | 18,163 |
| **Total non-current assets** | | **678,205** | **724,836** |
| **Total assets** | | **782,621** | **845,498** |
| **Liabilities** | | | |
| Interest payable | | 35,855 | 19,104 |
| Trade and other payables | 13 | 45,042 | 38,737 |
| Borrowings | 14 | 9,592 | 267,799 |
| Employee benefits | | 2,449 | 2,393 |
| Deferred income | | 2,168 | - |
| Provisions | 15 | 500 | - |
| Current tax payable | | 7 | 22 |
| **Total current liabilities** | | **95,613** | **328,055** |
| Trade and other payables | 13 | 1,090 | 1,261 |
| Borrowings | 14 | 563,877 | 278,368 |
| Provisions | 15 | 53,590 | 54,356 |
| Employee benefits | 17 | 198 | 227 |
| **Total non-current liabilities** | | **618,755** | **334,212** |
| **Total liabilities** | | **714,368** | **662,267** |
| **Net assets** | | **68,253** | **183,231** |
| **Equity** | | | |
| Share capital | 16 | 1,088,469 | 1,083,898 |
| Accumulated deficit | | (960,956) | (894,864) |
| Reserves | | (59,260) | (5,803) |
| **Total equity attributable to equity holders of the Company** | | **68,253** | **183,231** |

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

Lynas CORPORATION LTD

## Interim Unaudited Condensed Consolidated Statement of Changes in Equity

| In A$'000 | Note | Share capital | Accumulated Deficit | Foreign currency translation reserve | Equity settled employee benefits reserve | Option and Warrant reserve | Other reserves | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at July 1, 2015** | | 1,083,898 | (894,864) | (97,794) | 35,105 | 28,143 | 28,743 | 183,231 |
| Other comprehensive income (loss) for the period | | - | - | (57,596) | - | - | - | (57,596) |
| Total income (loss) for the period | | - | (66,092) | - | - | - | - | (66,092) |
| Total comprehensive income (loss) for the period | | - | **(66,092)** | **(57,596)** | - | - | - | **(123,688)** |
| Exercise of options, net of issue costs | 17 | 160 | - | - | - | (59) | - | 101 |
| Issue of shares and equity options from equity raising, net of issue costs | | - | - | - | - | - | - | - |
| Issue of warrants | 18 | - | - | - | - | 3,313 | | 3,313 |
| Issue of shares pursuant to settlement of liability | | 4,411 | - | - | - | - | | 4,411 |
| Employee remuneration settled through share based payments | 17 | - | - | - | 885 | - | - | 885 |
| **Balance at December 31, 2015** | | **1,088,469** | **(960,956)** | **(155,390)** | **35,990** | **31,397** | **28,743** | **68,253** |
| **Balance at July 1, 2014** | | 1,034,634 | (776,179) | (19,432) | 34,274 | - | 28,743 | 302,040 |
| Other comprehensive income (loss) for the period | | - | - | (38,690) | - | - | - | (38,690) |
| Total income (loss) for the period | | - | (103,511) | - | - | - | - | (103,511) |
| Total comprehensive income (loss) for the period | | - | **(103,511)** | **(38,690)** | - | | - | **(142,201)** |
| Exercise of options, net of issue costs | | 7 | - | - | - | - | - | 7 |
| Issue of shares and equity options from equity raising, net of issue costs | | 49,247 | - | - | - | - | 28,132 | 77,379 |
| Employee remuneration settled through share based payments | | - | - | - | 322 | - | - | 322 |
| **Balance at December 31, 2014** | | **1,083,888** | **(879,690)** | **(58,122)** | **34,596** | **-** | **56,875** | **237,547** |

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

## Interim Unaudited Condensed Consolidated Statement of Cash Flows

**For the half year ended**

| In A$'000 | Note | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| **Cash flows from (used in) operating activities** | | | |
| Receipts from customers | | 105,692 | 78,046 |
| Payments to suppliers and employees | | (96,557) | (91,402) |
| Royalties paid | | (2,384) | (2,513) |
| Income taxes (paid) received | | (46) | (29) |
| **Net cash from (used in) operating activities** | | **6,705** | **(15,898)** |
| **Cash flows from (used in) investing activities** | | | |
| Payment for property, plant and equipment | | (6,565) | (4,094) |
| Proceeds from sale of property, plant and equipment | | 33 | - |
| Payment for intangible assets | | - | (6) |
| Security bonds paid | | (12) | (35) |
| Security bonds refunded | | 165 | 382 |
| **Net cash from (used in) investing activities** | | **(6,379)** | **(3,753)** |
| **Cash flows from (used in) financing activities** | | | |
| Interest received | | 44 | 204 |
| Interest and other financing costs paid | | (41) | (14,977) |
| Proceeds from the issue of share capital | | - | 82,966 |
| Payment of transaction costs – issue of share capital | | - | (5,062) |
| Proceeds from the issue of share capital resulting from the exercise of options | | 102 | 7 |
| Repayment of long-term borrowing (JARE facility) | | - | (12,261) |
| **Net cash from (used in) financing activities** | | **105** | **50,877** |
| **Net increase (decrease) in cash and cash equivalents** | | 431 | 31,226 |
| Cash and cash equivalents at the beginning of the period | | 51,973 | 38,144 |
| Effect of exchange rate fluctuations on cash held | | 1,231 | 1,410 |
| **Cash and cash equivalents at end of the period** | 9 | **53,635** | **70,780** |

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

## Notes to the Interim Unaudited Condensed Consolidated Financial Statements
**For the half year ended December 31, 2015**

### 1. Reporting entity

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

The interim unaudited condensed consolidated financial statements of the Company as at and for the half year ended December 31, 2015 comprise the Company and its subsidiaries (together referred to as the “Group”).

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

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

### 2. Basis of preparation

#### 2.1 Statement of compliance

The interim unaudited condensed consolidated financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*. The unaudited condensed consolidated financial statements also comply with International Financial Reporting Standards and Interpretations (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) where relevant. The disclosures required in these interim unaudited condensed consolidated financial statements are less extensive than the disclosure requirements for annual financial statements. The interim unaudited condensed consolidated financial statements should be read in conjunction with the annual financial report of the Group for the year ended June 30, 2015.

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

#### 2.2 Going concern

The interim unaudited condensed consolidated financial statements have been prepared using the going concern assumption.

The directors have concluded that this is appropriate after considering a number of key assumptions affecting the business. These include the continuing extremely low prices for rare earth products experienced in the first half of FY 2016 and the possibility that these low prices may continue in the second half. Other key assumptions include forecast production volumes, foreign currency exchange rates, favourable regulatory environments in both jurisdictions and continuing efficiencies in cost performance.

#### 2.3 Basis of measurement

The interim unaudited condensed consolidated financial statements have been prepared under the historical cost convention except for certain components of inventory which are measured at net realisable value, derivatives which are measured at fair value and certain non-current assets that are presented on a revalued amount.

#### 2.4 Presentation currency

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

#### 2.5 Rounding of Amounts

The Company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, in relation to the “rounding off” of amounts. Amounts in the interim unaudited condensed consolidated financial statements 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 Reclassification of comparative information

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

#### 2.7 Accounting policies and recently issued accounting pronouncements

The accounting policies applied by the Group in these interim unaudited condensed consolidated financial statements are the same as those applied by the Group in the annual financial statements for the year ended June 30, 2015. None of the standards and amendments which became mandatory for the first time in the interim reporting period commencing July 1, 2015 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

### (a) Accounting standards and interpretations issued but not yet effective

The Australian Accounting Standards issued but not yet mandatory for the December 31, 2015 interim reporting period have not been adopted by the Group in the preparation of this inter financial report and are set out below:

- AASB 2014-3 *Amendments to Australia Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11]*
- AASB 2014-4 *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)*
- AASB1057 *Application of Australian Accounting Standards*
- AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*
- AASB 2014-10 *Amends to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*
- AASB 2015-2 *Amendments to Australia Accounting Standards – Disclosure Initiative: Amendments to AASB 101*
- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*
- AASB 2015-4 *Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with Foreign Parent*
- AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception*
- AASB 2015-9 *Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB8, AASB 133 and AASB 10557]*

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

### (b) Standards and Interpretations in issue not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2015 reporting periods. The Group has not adopted these new standards and interpretations. The Directors have not yet assessed whether their adoption will have a material impact on the financial report of the Group on future financial statements.

## 3. Use of estimates and judgements

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

The key assumptions concerning the future and other key sources of uncertainty in respect of estimates at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are consistent to those as disclosed in the annual financial report for the year ended June 30, 2015.

## 4. Seasonality

The Group's operations are currently not exposed to material changes due to seasonality.

## 5. Financial risk management

Exposure to market risk (including currency risk, interest rate risk and commodity prices), credit risk and liquidity risk arises in the normal course of the Group's business. During the half year ended December 31, 2015, the Group continued to apply the risk management objectives and policies that were disclosed in the annual financial report of the Group for the year ended June 30, 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.

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 and ramp up of the Group's integrated rare earth extraction and process facilities.

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

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

Lynas CORPORATION LTD

## Notes to the interim unaudited condensed consolidated financial statements
## For the half year ended December 31, 2015

| In A$'000 | Note | For the half year ended December 31, 2015 Rare Earth operations | Corporate/ unallocated | Total continuing operations | For the half year ended December 31, 2014 Rare Earth operations | Corporate/ unallocated | Total continuing operations |
|---|---|---|---|---|---|---|---|
| **Business segment reporting** | | | | | | | |
| Revenue | | 93,159 | - | 93,159 | 65,048 | - | 65,048 |
| Cost of sales | | (119,446) | - | (119,446) | (96,458) | - | (96,458) |
| **Gross profit (loss)** | | **(26,287)** | **-** | **(26,287)** | **(31,410)** | **-** | **(31,410)** |
| Expenses and other income | | (4,846) | (6,573) | (11,419) | (53,261) | (4,280) | (57,541) |
| Impairment | | (2,079) | - | (2,079) | - | - | - |
| **Earnings before interest and tax ("EBIT")** | | **(33,212)** | **(6,573)** | **(39,785)** | **(84,671)** | **(4,280)** | **(88,951)** |
| Financial income | 7 | | | 107 | | | 5,737 |
| Financial expenses | 7 | | | (26,374) | | | (20,235) |
| **Profit (loss) before income tax** | | | | **(66,052)** | | | **(103,449)** |
| Income tax benefit (expense) | 8 | | | (40) | | | (62) |
| **Profit (loss) for the year** | | | | **(66,092)** | | | **(103,511)** |

**Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")**

| In A$'000 | Note | 2015 Rare Earth operations | Corporate/ unallocated | Total continuing operations | 2014 Rare Earth operations | Corporate/ unallocated | Total continuing operations |
|---|---|---|---|---|---|---|---|
| EBIT | | (33,212) | (6,573) | (39,785) | (84,671) | (4,280) | (88,951) |
| Depreciation and amortisation | | 20,657 | 740 | 21,397 | 23,574 | 358 | 23,932 |
| **Earnings before interest, tax, depreciation and amortisation ("EBITDA")** | | **(12,555)** | **(5,833)** | **(18,388)** | **(61,097)** | **(3,922)** | **(65,019)** |
| Included in EBITDA: | | | | | | | |
| Write-off of property, plant and equipment | 12 | 761 | - | 761 | 5,917 | 249 | 6,166 |
| Impairment charge – inventory | 11 | 1,318 | - | 1,318 | 840 | - | 840 |
| Receipt of government grants | | - | - | - | - | - | - |
| Non-cash employee remuneration settled through share based payments comprising: | | | | | | | |
| - Share based payments expense for the period | 17 | - | 885 | 885 | - | 1,594 | 1,594 |
| - Impact of options and performance rights forfeited during the period | 17 | - | - | - | - | (1,271) | (1,271) |
| **Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA")** | | **(10,476)** | **(4,948)** | **(15,424)** | **(47,876)** | **(3,350)** | **(57,690)** |

Lynas CORPORATION LTD

## Notes to the interim unaudited condensed consolidated financial statements
## For the half year ended December 31, 2015

### 7. Financial income and expenses

| In A$'000 | For the half year ended December 31, 2015 | 2014 |
|---|---|---|
| Interest income on cash and cash equivalents | 107 | 307 |
| Net foreign currency exchange gain | - | 5,430 |
| **Financial income** | **107** | **5,737** |
| Interest expense on JARE Facility | (11,156) | (8,035) |
| Interest expense on financial liabilities measured at amortised cost | | |
| Mt Kellett convertible bonds | (4,718) | (4,417) |
| Amortisation of deferred transaction costs - Mt Kellett convertible bonds | (524) | (40) |
| Unwinding of discount on Mt Kellett convertible bonds | (3,373) | (5,641) |
| Net foreign currency exchange loss | (6,097) | - |
| Financing transaction costs and fees | (506) | (2,102) |
| **Financial expenses** | **(26,374)** | **(20,235)** |
| **Net financial expenses** | **(26,267)** | **(14,498)** |

### 8. Income tax

The significant driver of the difference between income tax benefit / expense calculated at 30% (2014: 30%) and actual tax expense is due to unrecognised tax losses that are not recognised as deferred tax assets in Australia, Malaysia and Malawi. These unrecognised tax losses will be recognised when it becomes probable that the Group will have future taxable profits in these jurisdictions against which these tax losses can be utilised.

### 9. Cash and cash equivalents

**As at**

| In A$'000 | December 31, 2015 | June 30, 2015 |
|---|---|---|
| Cash at bank and on hand | 20,135 | 31,335 |
| Restricted cash | 33,500 | 20,638 |
| **Total cash and cash equivalents** | **53,635** | **51,973** |

Interests on the JARE loan facility and the Mt Kellett convertible bond are 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 $60m. The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business.

### 10. Trade and other receivables

**As at**

| In A$'000 | December 31, 2015 | June 30, 2015 |
|---|---|---|
| Trade receivables | 578 | 4,325 |
| Other receivables | 1,266 | 1,707 |
| **Total trade and other receivables** | **1,844** | **6,032** |

The Group's exposure to credit risk is primarily in its trade receivables. Credit risk is assessed on a customer by customer basis and includes a credit analysis of each customer, negotiated payment terms, and payment history. As at December 31, 2015, no trade receivables were past due or impaired (none past due or impaired as at June 30, 2015).

## Notes to the interim unaudited condensed consolidated financial statements
## For the half year ended December 31, 2015

### 11. Inventories

**As at**

| In A$'000 | December 31, 2015 | June 30, 2015 |
|---|---|---|
| Raw materials and consumables | 16,820 | 15,083 |
| Work in progress | 26,100 | 37,401 |
| Finished goods | 5,152 | 9,356 |
| **Total inventories** | **48,072** | **61,840** |
| | | |
| Current | 47,827 | 59,511 |
| Non-current | 245 | 2,329 |
| **Total inventories** | **48,072** | **61,840** |

During the half year ended December 31, 2015 the Group recognised write-downs on inventories held to their net realisable value totalling $1.3m (half year ended December 31, 2014: $0.8m). The write downs were recognised as a component of other expenses in the profit and loss component of the statement of comprehensive income.

The Group recognised depreciation on its property, plant and equipment and amortisation on its deferred exploration, evaluation and development expenditure and intangible assets for the half years ended December 31, 2015 and 2014 respectively in the following categories:

| | Recognised in Profit or Loss | | Recognised in Inventory | | Total | |
|---|---|---|---|---|---|---|
| In A$'000 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Property, plant and equipment | 4,390 | 4,723 | 15,880 | 13,458 | 20,270 | 18,181 |
| Deferred exploration and evaluation expenditure | 605 | 305 | - | - | 605 | 305 |
| Intangibles | 235 | 79 | - | - | 235 | 79 |
| **Total** | **5,230** | **5,107** | **15,880** | **13,458** | **21,110** | **18,565** |

On the sale of inventory to customers the component of the depreciation or amortisation expense capitalised within inventory is reflected in the cost of goods sold in the statement of comprehensive income as a component of the profit or loss. This was $16.2 million in half year ended December 31, 2015 (December 31, 2014: $18.8 million).

During the half year ended December 31, 2015 the Group recognised royalties payable to the Western Australian Government totalling $2.3 million (period ended December 31, 2014: $2.4 million). Royalties arise on the shipment of the Group's concentrate from Australia to Malaysia.

### 12. Property, plant and equipment

**As at**

| In A$'000 | Leasehold land | Buildings plant and equipment | Fixtures and fittings | Motor vehicles | Assets under construction | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|
| Cost | 53,688 | 817,950 | 8,284 | 690 | 12,287 | 19,209 | 912,108 |
| Accumulated impairment losses | - | (182,575) | (342) | (54) | (270) | (7,142) | (190,383) |
| Accumulated depreciation | (4,107) | (104,984) | (4,501) | (525) | - | (2,365) | (116,482) |
| **Carrying amount – December 31, 2015** | **49,581** | **530,391** | **3,441** | **111** | **12,017** | **9,702** | **605,243** |
| | | | | | | | |
| 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 – June 30, 2015** | **54,409** | **582,209** | **4,024** | **146** | **6,602** | **10,963** | **658,353** |

There are no restrictions on the title of any items of property, plant and equipment except as disclosed in the annual financial report for the year ended June 30, 2015.

## Notes to the interim unaudited condensed consolidated financial statements
## For the half year ended December 31, 2015

| In A$'000 | Leasehold land | Buildings plant and equipment | Fixtures and fittings | Motor vehicles | Assets under construction | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|
| Cost at July 1, 2015 | 58,243 | 870,546 | 8,697 | 681 | 6,851 | 20,834 | 965,852 |
| Accumulated depreciation and impairment losses at July 1, 2015 | (3,834) | (288,337) | (4,673) | (535) | (249) | (9,871) | (307,499) |
| **Carrying amount at July 1, 2015** | **54,409** | **582,209** | **4,024** | **146** | **6,602** | **10,963** | **658,353** |
| Additions | - | 2,789 | 9 | 22 | 6,409 | - | 9,229 |
| Depreciation for the period | (1,302) | (18,455) | (181) | (52) | - | (280) | (20,270) |
| Write-offs for the period | - | (489) | (131) | - | (141) | - | (761) |
| Transfers of assets under construction | - | 627 | - | - | (627) | - | - |
| Transfers from inventory | - | - | - | - | - | - | - |
| Change in rehabilitation obligations | - | - | - | - | - | - | - |
| Effect of movements in exchange rates | (3,526) | (36,290) | (280) | (5) | (226) | (981) | (41,308) |
| **Carrying amount at December 31, 2015** | **49,581** | **530,391** | **3,441** | **111** | **12,017** | **9,702** | **605,243** |

### 13. Trade and other payables

**As at**

| In A$'000 | December 31, 2015 | June 30, 2015 |
|---|---|---|
| Trade payables | 14,826 | 19,065 |
| Accrued expenses | 26,821 | 15,509 |
| Other payables | 4,485 | 5,424 |
| **Total trade and other payables** | **46,132** | **39,998** |
| | | |
| Current | 45,042 | 38,737 |
| Non-current | 1,090 | 1,261 |
| **Total trade and other payables** | **46,132** | **39,998** |

### 14. Borrowings

**As at**

| In A$'000 | December 31, 2015 | June 30, 2015 |
|---|---|---|
| **Current Borrowings** | | |
| JARE loan facility | 9,592 | 267,799 |
| | | |
| **Non - Current Borrowings** | | |
| JARE loan facility | 271,307 | - |
| Convertible bonds | 292,570 | 278,368 |
| **Total borrowings** (1) | **573,469** | **546,167** |
| | | |
| JARE loan facility | 280,899 | 267,799 |
| **Total JARE loan facility carrying amount** | **280,899** | **267,799** |
| | | |
| Principal value of Mt Kellett convertible bonds (2) | 308,304 | 293,910 |
| Unamortised equity component(2) | (12,791) | (15,420) |
| Unamortised transaction costs(3) | (2,943) | (122) |
| **Total convertible bonds carrying amount** | **292,570** | **278,368** |

(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 remains at USD430m.Further details on the terms and conditions of the Group's borrowings are set out below.

(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.

(3) The Group issued 174,365,466 unlisted warrants to the Mt Kellett led bond holder group as part of the commercial terms relating to the maturity extension of the Mount Kellett convertible bond. The costs have been recognised as transaction costs on borrowings and measured by reference to the fair value at the date at which they were granted using the Black Scholes pricing model.

Lynas CORPORATION LTD

## Notes to the interim unaudited condensed consolidated financial statements

## For the half year ended December 31, 2015

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

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 $60m. 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 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* | |
|---|---|---|---|
| 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 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) <u>Production Target</u>

| 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% |

<u>Scheduled Repayments</u>

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.

<u>Principal Prepayments</u>

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.

<u>First Ranking Securities</u>

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

### Mt Kellett convertible bonds

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 $60m after June 30, 2016. The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business.

### 15. Provisions

| In A$'000 | Restoration and rehabilitation | Onerous contract | Other | Total |
|---|---|---|---|---|
| Current | - | 500 | - | 500 |
| Non-current | 52,474 | 1,000 | 116 | 53,590 |
| **Total provisions at December 31, 2015** | **52,474** | **1,500** | **116** | **54,090** |
| | | | | |
| Current | - | - | - | - |
| Non-current | 54,356 | - | - | 54,356 |
| **Total provisions at June 30, 2015** | **54,356** | **-** | **-** | **54,356** |

*Restoration and rehabilitation*

The activities of the Group give rise to obligations for asset and site restoration and rehabilitation at the LAMP in Malaysia and the Mt Weld concentration plant. Upon cessation of operations, the site including the processing assets, ancillary facilities, utilities and the onsite storage facility will be decommissioned and any materials removed from the location. The Group has used third party specialists to assist in estimating costs and will review these estimates periodically over time as the operations continue to develop.

*Onerous lease provision*

Since the relocation of headquarters from Sydney to Kuantan, the Company has endeavoured to sub-let the Sydney office to save on rental expenses going forward. An onerous contract provision of $1.5m has been taken up, which is based on the future rental payments net of estimated recoveries from sub-letting.

### 16. Equity and other comprehensive income

#### 16.1 Share capital

| Number of shares ('000) | For the half year ended December 31, 2015 | For the year ended June 30, 2015 |
|---|---|---|
| Opening balance | 3,371,232 | 2,333,661 |
| Issue of shares pursuant to Institutional Share Placement | - | 150,000 |
| Issue of shares pursuant to Share Purchase Plan | - | 887,072 |
| Issue of shares pursuant to exercised options | 1,129 | 125 |
| Issue of shares pursuant to exercised performance rights | - | 374 |
| Issue of shares pursuant to settlement of liability | 116,077 | - |
| **Total** | **3,488,438** | **3,371,232** |

All issued ordinary shares are fully paid and have no par value. Details of options and performance rights exercised during the period to ordinary shares are outlined in Note 17. 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.

#### 16.2 Dividends

There were no dividends declared or paid during the half year ended December 31, 2015 (half year ended Dec. 31, 2014: nil).

#### 16.3 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:

**As at / for the half year ended**

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Net loss attributed to ordinary shareholders (in A$'000) | (66,092) | (103,511) |
| **Loss used in calculating basic and diluted loss per share (in A'$000)** | **(66,092)** | **(103,511)** |
| Weighted average number of ordinary shares used in calculating basic and diluted loss per share ('000) | 3,480,078 | 2,846,688 |
| Basic loss per share (cents per share) | (1.90) | (3.64) |
| Diluted loss per share (cents per share) | (1.90) | (3.64) |

Lynas CORPORATION LTD

## Notes to the interim unaudited condensed consolidated financial statements

## For the half year ended December 31, 2015

### 17. Employee share options and performance rights

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

**Movement in employee share options and performance rights during the period**

| | For the half year ended December 31, 2015 | |
|---|---|---|
| | Number of options and performance rights ('000) | Weighted average exercise price ($) |
| Balance at beginning of period | 33,893 | 0.29 |
| Granted during the period | 73,396 | - |
| Expired during the period | (7,850) | 1.14 |
| Exercised during the period | - | - |
| Forfeited during the period | (1,112) | 0.62 |
| **Balance at end of period** | **98,327** | **-** |
| Exercisable at end of period | 1,949 | - |

During the period, the Group recognised an expense of $0.9 million within the profit and loss component of the statement of comprehensive income (2014: net expense $0.3 million).

### 17.1 Options and performance rights exercised

The following non-employee listed options were exercised during the half year ended December 31, 2015:

| Exercise date | Number exercised | Share price at exercise date ($) | Exercise price ($) |
|---|---|---|---|
| August 20, 2015 | 157 | 0.04 | 0.09 |
| September 1, 2015 | 287,719 | 0.04 | 0.09 |
| September 7, 2015 | 263,121 | 0.04 | 0.09 |
| September 10, 2015 | 153,996 | 0.04 | 0.09 |
| September 14, 2015 | 102,502 | 0.04 | 0.09 |
| September 17, 2015 | 216,215 | 0.04 | 0.09 |
| September 18, 2015 | 105,498 | 0.04 | 0.09 |
| | **1,129,208** | | |

### 17.2 Options and performance rights issued during and outstanding at the end of the half year ended December 31, 2015

During the period, the Group granted a total 73,396,235 performance rights over a series of three tranches with varying performance conditions.

The share options and performance rights outstanding at December 31, 2015 had a nil weighted average exercise price (June 30, 2015: $0.29) and a weighted average remaining contractual life of 1,229 days (June 30, 2015: 1,036 days).

### 18. Warrants

On September 7, 2015 the Group issued 174,365,466 unlisted warrants to the Mt Kellett led bond holder group as part of the commercial terms relating to the maturity extension of the Mount Kellett convertible bond. From the date of issue, each warrant is exercisable into one ordinary share at an exercise price of $0.038 and has an expiry date of September 30, 2018.

The costs of these equity-settled transactions has been measured by reference to the fair value at the date at which they were granted using the Black Scholes pricing model. Each option had a fair value of $0.019.

### 19. Determination of fair values

Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A number of the Group's accounting policies and associated disclosures require the determination of fair values for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information regarding the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### 19.1 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.

### 19.2 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.

### 20. Subsequent events

The Group has announced its intention to start-up the fourth and final separation train in SX5 in the 3rd quarter of this financial year. This will bring NdPr production capacity to 100% of design. Production output from this train will ramp up slowly over the coming months. Within the 3rd quarter of this financial year, there will be an increase in working capital and cash costs associated with the start-up of the train. This increase is related to the first fill of organics and other material in the batteries and the operation of the train for at least one month prior to initial production output. . In addition there will be a short term effect on production of ready for sale NdPr as some production will be consumed to seed the new production line. The benefits of this are expected to be seen in increased production rates in the 4$^{th}$ quarter.

With the exception of the above, there have been no other events subsequent to December 31, 2015 that would require accrual or disclosure in the interim unaudited condensed consolidated financial statements.

Building a better working world

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

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Lynas Corporation Limited ("the Company"), which comprises the condensed statement of financial position as at 31 December 2015, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the half-year end or from time to time during the half-year.

***Directors' Responsibility for the Half-Year Financial Report***

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

***Auditor's Responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001*. As the auditor of Lynas Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. 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. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lynas Corporation Limited is not in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

Ernst & Young

Ernst & Young

Graham Ezzy

Graham Ezzy
Partner
10 March 2016