29 September 2016

FY16 FINANCIAL REPORT

Lynas Corporation Limited ("Lynas") (ASX:LYC, OTC:LYSDY) today released its Financial Report for the financial year ending 30 June 2016.

The Directors are pleased to report that Lynas has continued to make good progress during FY16. Significant production growth caps a two-year trend of positive operational improvements, with 100% of NdPr production capacity now commissioned and operating.

The business continues to face significant challenges, including the continued low pricing of rare earths products. Lynas is implementing strategies to mitigate the effect of the low market pricing, including continuing to focus on opportunities to further reduce operational costs.

In this low price environment, the Lynas business has been approximately breakeven on a free cashflow basis for several quarters, and accordingly the high level of debt on the Lynas balance sheet remains a challenge. Throughout the financial year, our lenders have continued to support the business.

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As disclosed in the Financial Report, Lynas' Financial Report has been prepared on the basis of a going concern, subject to certain risks as outlined in Note 2.2 on page 37. These include production levels, foreign currency exchange rates, regulatory environments in both jurisdictions, and price volatility in the rare earths markets. In addition, Lynas has significant future repayments under the JARE facility and the convertible bond facility, as outlined in Note 2.2 and Note 22. The ability of the Company to continue to meet its financial obligations will depend on the factors summarized above and in addition the Company will require either amendments to the terms of its loan facilities or alternative sources of funding. The Company is in negotiations with both lender groups regarding amendments to the terms of its loan facilities.

The financial statements have been prepared on a going concern basis, because the directors and management, including as a result of consultations with relevant advisers, have concluded that there are reasonable grounds to believe that to the extent that either amendments or alternative funding will be required, they will be obtained in a timely manner.

The Board expects that any significant restructure of the loan facilities is likely to require shareholder approval before being implemented.

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In addition, the Lynas 2016 Annual General Meeting of Shareholders will now be held in Sydney on Wednesday 30 November 2016. Further details of the time and location will be provided on the Lynas website www.lynascorp.com and in the Notice of Meeting.

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

Andrew Arnold
Company Secretary

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Lynas Corporation Ltd

ACN 009 066 648

and

Controlled Entities

Financial Report

For the year ended

June 30, 2016

Corporate Directory Information

ABN 27 009 066 648

Directors

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

Company Secretaries

Andrew Arnold
Ivo Polovineo

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Email: enquiries@boardroomlimited.com.au

Auditors

Ernst & Young
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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 year ended June 30, 2016. 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 Cleanaway Waste Management Limited (formerly Transpacific Industries Group Ltd). 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 as 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. Mr Forde is a Director of China Matters Ltd. He is also a former Director of Hastings Funds Management Limited and Hastings High Yield Fund, and a former Chairman of Hastings Management Pty Limited.

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 REA Group Limited, Aristocrat Leisure Limited and The Benevolent Society and a former Non-Executive Director of CSR Limited. She is also a member of Chief Executive Women, former President of the NSW division of the Australian Institute of Company Directors and a former member of the National Board of the Australian Institute of Company Directors. Ms Conlon is 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 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 $100m 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.

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

Mr Etienne joined the Company as a Non-Executive Director on January 1, 2015. He is a Non-Executive Director of Cleanaway Waste Management Limited (formerly Transpacific Industries Group Ltd) 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 is a graduate of the Australian Institute of Company Directors. His 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.

Resignations

There were no resignations of directors during the year and before the date of this report.

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.

Ivo Polovineo

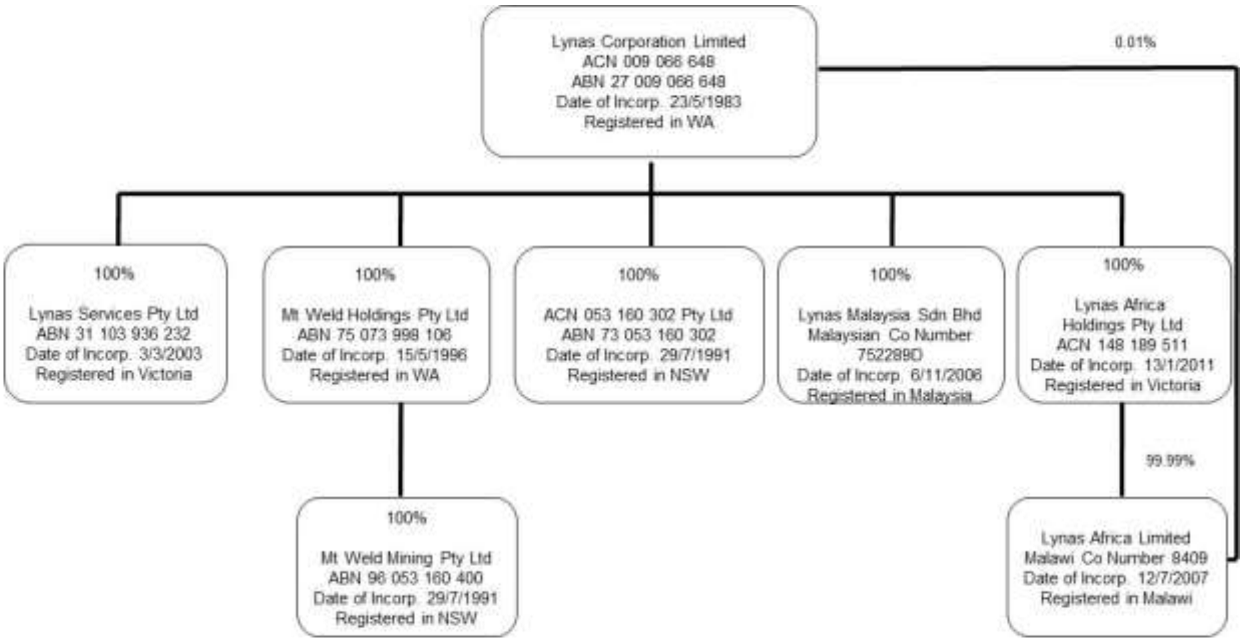
Mr Polovineo, appointed as Joint Company Secretary on October 20, 2014, was previously Chief Financial Officer and Company Secretary for Sino Gold Mining Limited, formerly an ASX 100 company. He was with Sino Gold for 12 years forming part of the executive team. Mr. Polovineo is a Fellow of the Institute of Public Accountants (FIPA) with 35 years' experience as a CFO and Company Secretary including 25 years in the resources sector. Mr Polovineo is also Company Secretary of Variscan Mines Limited, Silver City Minerals Limited and Thomson Resources Ltd.

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:



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

This Financial Report has been prepared on the basis of a going concern, subject to certain risks as outlined in Note 2.2. These include production levels, foreign currency exchange rates, regulatory environments in both jurisdictions, and price volatility in the rare earth markets. In addition, Lynas has significant future repayments under the JARE facility and the convertible bond facility, as outlined in Note 2.2 and Note 22. The ability of the Company to continue to meet its financial obligations will depend on the factors summarized above and in addition the Company will require either amendments to the terms of its loan facilities or alternative sources of funding. The Company is in negotiations with both lender groups regarding amendments to the terms of its loan facilities.

The financial statements have been prepared on a going concern basis, because the directors and management, including as a result of consultations with relevant advisers, have concluded that there are reasonable grounds to believe that to the extent that either amendments or alternative funding will be required, they will be obtained in a timely manner.

Review of operations

Highlights

- The Group achieved record total gross sales revenue in FY16 of A$196.1m, compared with A$148.6m in FY15, reflecting increased production volumes and continuing strong relationships with strategic customers in Japan and China.
- For FY16, 3,897 tonnes of neodymium-praseodymium (NdPr) was produced (FY15: 2,258 tonnes) and total rare earth oxide (REO) production was 12,630 tonnes (FY15: 8,799 tonnes), reflecting a continuing trend of positive improvements in the production process, throughput rates and quality of final output.
- Costs remained well managed throughout the year, with general and administration expenses excluding depreciation of A$22.8m, compared to A$28.4m in FY15, despite increased production in FY16. Capital expenditure was A$10.7m compared to A$10.0m last year.
- During the year the Group successfully negotiated the extension of both of its debt facilities until June 30, 2018, reflecting the support of both lender groups during the year.
- During the March quarter, the Group increased the operating capacity of the Lynas Advanced Materials Plant (LAMP) by commissioning the fourth and final NdPr separation train in SX5.
- Although the rare earth market remained challenging throughout the year, Lynas retained strong support from the strategic relationships it has developed with customers, which are leaders in their own market segments in Japan, China and Europe.
- The Group-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of June 30, 2016 was 0.5 per million hours worked.

As outlined in ASX announcements dated January 6, 2016 and July 6, 2016, the Group exceeded each NdPr production target agreed with JARE for FY16. In addition, USD2m was repaid on the JARE facility prior to June 30, 2016 reducing the outstanding loan balance from USD205m to USD203m. As a consequence of achieving these milestones, the interest rate for the JARE facility is now 5.7% per annum, a reduction of 1.3% compared to the rate at the beginning of FY16.

Mt Weld

Mt Weld continued to operate efficiently throughout the year and with the commissioning of the Tailings Storage Facility 2 in May 2016, the Group is well placed to implement further improvements in water recycling efficiencies and environmental sustainability.

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 confirming 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 finished products.

The Concentration Plant at Mt Weld performed well throughout the year. The duration of production campaigns at Mt Weld has previously been limited by the supply of reverse osmosis treated bore water resulting in frequent 8 to 12 day campaigns, after which stocks of treated water were replenished. Improved water management during the June quarter (reduced usage and increased recycling) has removed this constraint and enabled extended production campaigns during May (20 days) and June (23 days). Over 2,000 tonnes REO in concentrate was produced during June.

Lynas Advanced Materials Plant (LAMP)

Rare earth oxide (REO) production at the LAMP for the 12 months to June 30, 2016 was 12,630 tonnes (2015: 8,799 tonnes), while shipments during the year totalled 12,513 tonnes (2015: 7,883 tonnes). Total REO production increased from 3,171 tonnes in the first quarter to 3,727 tonnes in the fourth quarter. Sales increased from 2,691 tonnes in the first quarter to 3,806 tonnes in the fourth quarter.

Production in the fourth quarter was 45% higher than in the third quarter and represented 30% of full year production, while shipment volume in the fourth quarter was 30% 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$15.67/kg REO (2015: A$18.34/kg). The Company's most significant product is NdPr and prices have remained low. The China Domestic price (VAT excluded) of NdPr oxide declined from USD37.3/kg in July 2015 to USD34.2/kg in June 2016. A small upward trend in the NdPr market price early in the June quarter has not been sustained.

The Group continues its commercialisation program of solid residues from the LAMP. A successful program of field trials was conducted throughout the year using solid residue material from the LAMP in soil additives and fertilizers. The field trails demonstrated the efficacy of the residue material in enhancing soil structure, adjusting soil pH, enhancing growth and improving yields.

The Subsequent Events section also notes that the Group's Full Operating Stage Licence for the LAMP has been renewed until September 2, 2019. On October 9, 2015 the High Court of Malaya in Kuantan dismissed with costs the remaining court challenge to Lynas' operating licences. Each court challenge that has been lodged in relation to Lynas' operating licences has been dismissed and no appeals are pending.

Health, Safety and Environment

The Company's Western Australian and Malaysian operations maintained certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards during the year. The 12-month rolling Lost Time Injury Frequency Rate as at June 30, 2016 was 0.5 per million hours worked (2015: 1.9 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 operations are intrinsically low risk.

Financial performance

For the year ended

	June 30,	
In A$m	**2016**	**2015**
Revenue	191.0	144.6
Cost of sales	(211.4)	(168.3)
Gross loss	**(20.4)**	**(23.7)**
Other income	-	0.1
General and administration expenses	(34.8)	(40.9)
Impairment expenses	(1.5)	(16.8)
Loss from operating activities	**(56.7)**	**(81.3)**
Financial income	0.2	0.5
Financial expenses	(37.6)	(37.8)
Net financial expenses	**(37.4)**	**(37.3)**
Loss before income tax	**(94.1)**	**(118.6)**

Sales volumes in the year grew by 59% compared to the year ended June 30, 2015, reflecting continued improvement in production rates, consistent demand for NdPr products, and quality improvements for Cerium and Lanthanum products. Revenue growth at 32% being lower than the sales volume growth reflected the low rare earth prices during the period.

Market pricing, for all products, throughout the year remained low. NdPr prices have not recovered as much as expected in the prior financial year. However, there has been a small upward trend in the China domestic price of NdPr rising from USD31.6/kg in the first quarter to USD34.2/kg in the fourth quarter. A small upward trend in the NdPr market price early in the June quarter has not been sustained.

Gross loss for the period was $20.4m (2015: $23.7m) reflecting the fixed nature of many production costs, which were not fully recovered in selling prices.

The loss from operating activities decreased by $24.6m, to $56.7m for the year ended June 30, 2016. On an adjusted EBITDA basis (refer to note 6 to the financial statements for the basis of this measure) the Group reported a loss of $11.0m (2015: $18.3m) in the year ended June 30, 2016.

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.

Impairment expenses during the current year relate to inventory written off.

General and administration expenses that predominantly consist of employee costs, unrecovered production costs and depreciation (net of recovery) reduced by $6.1m during the year. Unrecovered employee costs and unrecovered production costs were $10.4m (2015: $25.6m) and unrecovered depreciation was $12.0m (2015: $12.5m). Same as prior year, production costs have been substantially accounted for within cost of sales. Other general and administration expenses include insurance premiums, consultancy fees, telecommunications and general office expenditures. Net production cost recoveries improved by $15.6m in this year.

An impairment review of the carrying value of LAMP and Mt Weld assets was carried out. The Board and Management consider the assets' book value currently reflects the corresponding fair values and therefore, there has not been an impairment adjustment made in the current year (2015:$16.8m).

Net financial expenses only increased by $0.1m in the current year. Borrowing costs have reduced by $3.3m mainly due to favourable foreign exchange movement on the Group's USD-denominated borrowings. This gain has been offset by a decrease of $3.1m on foreign exchange gain from the revaluation of bank balances denominated in USD and MYR.

Cash flow for the year ended

In A$m	June 30, 2016	2015
Net operating cash inflow / (outflow)	4.1	(32.0)
Net investing cash outflow	(10.3)	(9.6)
Net financing cash (outflow) / inflow	(2.6)	51.9
Net cash flow	**(8.8)**	**10.3**

Operating cash flows

Net operating cash outflows increased by $36.1m during the year ended June 30, 2016. This reflects our focus on sustaining the business through operating cash flow rather than raising additional capital and was principally driven by increased sales receipts of $47.3m offset by increased payments to suppliers and employees of $10.2m.

Investing cash flows

Net investing cash outflows increased by $0.7m during the year ended June 30, 2016. Expenditure during the current year was mainly on the second tailings storage facility at Mt Weld.

Financing cash flows

Net financing cash flows have decreased significantly by $54.5m since there have been no capital raising activities carried out during the year.

Financial position

As at

In A$m	June 30, 2016	2015
Assets		
Cash and cash equivalents	43.3	52.0
Inventories	53.9	61.8
Property, plant and equipment	612.1	658.4
Deferred exploration, evaluation and development expenditure	44.2	45.8
Other assets	33.5	27.5
Total assets	**787.0**	**845.5**
Liabilities		
Borrowings	562.6	546.2
Other liabilities	153.2	116.1
Total liabilities	**715.8**	**662.3**
Net assets	**71.2**	**183.2**
Equity		
Share capital	1,088.5	1,083.9
Accumulated deficit	(989.0)	(894.9)
Reserves	(28.3)	(5.8)
Total equity	**71.2**	**183.2**

The overall net assets of the Group decreased by $112.0m 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 FY16) and continued operating losses experienced by the Group as it ramped up performance levels at the LAMP in Malaysia.

Cash and cash equivalents comprise $10.4m of unrestricted cash and $32.9m of restricted cash. Restricted cash is available to fund future interest payments under the JARE loan facility and Mt. Kellett Convertible bond. Interests on the JARE loan and convertible bond facilities are paid into separate 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. The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business.

Inventory decreased by $7.9m, or 13% during the year. The decrease includes impairment of obsolete inventory of $1.5m. Additional decrease reflects the production ramp-up at the LAMP. As at June 30, 2016 the Group holds 1,859 tonnes (2015: 2,050 tonnes) of processed concentrate and unprocessed ore of 204,591 tonnes (2015: 213,518 tonnes) at its Mount Weld mine site; which are expected to be used for production purposes over the next 1 to 12 month periods respectively.

Property plant and equipment decreased by $46.3m and is predominantly related to depreciation on buildings, plant and equipment of $40.0m and effects of exchange rate movement of $13.7m, disposals of $2.3m and other movement of $3.2m offset by additions of $12.9m.

Borrowings of $562.6m are represented by the USD203.0m JARE loan facility revalued to AUD using the exchange rate at June 30, 2016 and the liability component of the convertible bonds issued to funds managed or selected by Mt Kellett Capital Management. During the year, the Group made $2.8m (USD2.0m) in repayments against the JARE loan facility that is in line with the previously announced repayment schedule (refer to note 22).

The movement in reserves of $22.5m during the current period reflects mainly the movement in foreign currency translation reserves as a result of translating assets and liabilities denominated in foreign currencies.

Capital structure

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

	Number
Shares on issue June 30, 2015	3,371,232,303
Issue of shares during the year	117,206,066
Shares on issue June 30, 2016	**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 each with a face value of USD1.00 and 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.

Loss per share

	June 30,	
	2016	**2015**
Basic and diluted loss per share (cents per share)	(2.70)	(3.82)

Dividends

There were no dividends declared or paid during the year ended June 30, 2016 (2015: nil) and no dividends have been declared or paid since June 30, 2016.

Strategic Marketing and Sales

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.

<u>Sales by Tonnage and Value</u>

	FY15	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	FY16
Sales Volume (REOt)	7,883	2,691	3,082	2,935	3,806	12,514
Cash Receipts From Customers (AUD)	155.3m	55.4m	50.3m	46.3m	50.6m	202.6m

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.

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.

The table below illustrates how NdPr prices have moved over FY16:

	Q1 FY16	Q2 FY16	Q3 FY16	Apr-16	May-16	Jun-16
NdPr Domestic China USD/kg VAT excluded	31.6	34.1	33.8	34.2	35.1	34.2
Base 100	100	108	107	108	111	108

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

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

	June 30,2016	June 30, 2015	June 30, 2014	June 30, 2013
	$	$	$	$
USD/AUD	0.7283	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.

Refer to Note 26 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 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, 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, 2016 are as follows:

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

In addition, the principal amount of the Mt Kellett convertible bonds is USD225m. Unless the convertible bonds are converted into ordinary shares in Lynas prior to maturity, the principal amount of USD225m is 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 Note 26 to the financial statements. Fluctuation in interest rates would have an impact on the Company's earnings.

Health, safety and environment

Lynas is subject to regulation in respect of the health and safety of our people and the protection and rehabilitation of the environment within which the plants operate. Health, safety and the environment 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*.

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

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, 2016, and complied with all of the Council's Principles and Recommendations throughout the financial year.

Details of the Group's corporate governance practices in place throughout the financial year ended June 30, 2016 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*.

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.

(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, 2016 (prior year: June 30, 2015):

(1) Proportion of women employees in the whole organisation: 10.6% (2015 – 11.7%).

(2) Proportion of women employees in senior executive positions: 33.3% (2015 – 33.0%).

(3) Proportion of women on the Board: 33.0% (2015 – 33.0%).

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, 2016.

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 and Remuneration Committee.

The Group's Nomination and Remuneration 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, 2016, the members of the Committee were Ms Conlon, Mr Forde and Mr Harding.

(2) The Committee is chaired by Ms Conlon, who is an independent Director and who is not Chair of the Board.

(3) There were two formal meetings of the Committee during the financial year ending June 30, 2016. 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, 2016, the Committee had three members.

Directors' Report

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

Recommendation 2.2 – Board Skills

The Nomination and Remuneration 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, 2016, 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, M. Harding and P. Etienne 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.

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, 2016 is as follows:

Name	**Term in office**
J. Klein	11 years
W. Forde	8 years 5 months
K. Conlon	4 year 8 months
A. Lacaze	2 years 6 months
M. Harding	1 year 6 months
P. Etienne	1 year 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, 2016, 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

M. Harding was the Chairman of the Board throughout the financial year ended June 30, 2016. Mr Harding is an independent Director and he is not the CEO. Accordingly, the Group was compliant with Recommendation 2.5 throughout the financial year ended June 30, 2016.

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 and Remuneration 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 and Risk Committee.

The Group's Audit and Risk 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, 2016, the members of the Committee were Mr Forde, Mr Klein, Ms Conlon and Mr Etienne. 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) Five meetings of the Committee were held during the financial year ending June 30, 2016. 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, 2016, the Committee had at least three members.

The Group has adopted Charters for its Audit and Risk 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.

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 the release of quarterly reports, 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 and Risk Committee to oversee risk.

The Group's Audit and Risk 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, 2016, the members of the Committee were Mr Forde, Mr Klein, Ms Conlon and Mr Etienne. 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) Five meetings of the Committee were held during the financial year ending June 30, 2016. 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, 2016, the Committee had at least three members.

The Group has adopted Charters for its Audit and Risk 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 and Risk 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, 2016.

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 Committee, the Health Safety & Environment Committee and management.

(2) The Audit & Risk Committee and the Health Safety & Environment Committee oversee 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 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 Committee and Health Safety & 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 and Remuneration 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, 2016, the members of the Committee were Ms Conlon, Mr Forde and Mr Harding.

(2) The Committee is chaired by Ms Conlon, who is an independent Director and who is not Chair of the Board.

(3) There were two formal meetings of the Committee during the financial year ending June 30, 2016. 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, 2016, the Committee had three members.

The Group has adopted Charters for its Nomination and Remuneration 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 granted 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, 2016 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 unvested 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
V	September 23, 2013*	579,663	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*	862,069	September 23, 2015	September 23, 2017	$ 0.00	$ 0.059
AB	November 28, 2014*	1,086,957	September 30, 2015	September 30, 2017	$ 0.00	$ 0.059
AC	November 28, 2014*	3,396,227	September 23, 2017	September 23, 2019	$ 0.00	$ 0.059
AD	November 28, 2014*	2,830,189	September 23, 2017	September 23, 2019	$ 0.00	$ 0.031
AE	November 23, 2015*	4,464,286	May 6, 2016	May 6, 2018	$ 0.00	$ 0.090
AF	July 28, 2015*	20,715,092	July 28, 2016	December 31, 2016	$ 0.00	$ 0.038
AG	September 18, 2015*	12,862,523	September 18, 2018	September 18, 2020	$ 0.00	$ 0.029
AH	September 18, 2015*	15,435,028	September 18, 2018	September 18, 2020	$ 0.00	$ 0.039
AI	November 23, 2015*	4,971,828	July 28, 2016	December 31, 2016	$ 0.00	$ 0.090
AJ	November 23, 2015*	10,588,235	September 18, 2018	September 18, 2020	$ 0.00	$ 0.090
AK	November 23, 2015*	8,823,529	September 18, 2018	September 18, 2020	$ 0.00	$ 0.080
	Total	**97,089,961**				

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

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

During the financial year 1,129,208 options were exercised as set out in note 29 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*.

Directors' Report

The total amount of insurance contract premiums paid was $355,290 (2015: $361,052). This amount is not included as part of the Directors' remuneration in note 27 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 9 of the 'notes to the financial statements'. The Directors have considered the non-audit services provided during the year by the auditor, and 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 the following Committees of the Board of Directors: Audit & Risk Committee, Health Safety & Environment Committee, and Nomination & Remuneration Committee.

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

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 as at June 30, 2016.

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

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 and Risk**	**Health, Safety and Environment**	**Nomination and Remuneration**
Number of meetings held:	**7**	**5**	**2**	**2**
Number of meetings attended:				
M. Harding	7	-	-	2
A. Lacaze	7	-	-	-
W. Forde	7	5	2	2
K. Conlon	7	5	2	2
J. Klein	7	5	2	-
P. Etienne	7	5	2	-

Auditor's independence declaration

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

Rounding of amounts

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

Remuneration Report – Audited

Dear Shareholder,

I am pleased to present our Remuneration Report for the year ended June 30, 2016 (FY16).

As with other areas of the business, during FY16 we continued to restructure the executive team and executive remuneration. As production has ramped up, we have increasingly focussed on objectives that are aligned with the creation of value for our key stakeholders.

Remuneration has been simplified and reduced. Total remuneration for the continuing Directors and Executives in FY16 is shown in the table on page 24.

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
- Strong cash management
- Completion of new debt agreements

In FY16, 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

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, 2016, 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, 2016 were as follows:

Non-Executive Directors:

M. Harding	Chairman
W. Forde	Non-Executive Director, Chair of the Audit & Risk Committee and Chair of the Health Safety & Environment Committee
K. Conlon	Non-Executive Director, and Chair of the Nomination & Remuneration Committee
J. Klein	Non-Executive Director
P. Etienne	Non-Executive Director

Executives:

A. Lacaze	CEO and Managing Director
G. Sturzenegger	CFO
K. Leung	VP Production
M. Ahmad	VP Malaysia
P. Le Roux	VP Sales & Marketing
A. Arnold	General Counsel and Company Secretary

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 with a value equal to approximately 50% of total fixed remuneration for senior Executives (with 25% available to be paid in cash and 25% available to be paid in performance rights).

LTI awards for senior Executives are subject to TSR and operating milestone performance hurdles, and are granted 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 and Remuneration 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 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

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:

Fixed pay	Variable remuneration
= base + super	*= STI (Cash and Deferred) + LTI*

STIs

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, 2016, the STI Program had 4 goals as follows:

1. Lynas Group cash balance – 50%
2. NdPr production – 16.66%
3. Cost targets – 16.66%
4. Team / Individual Performance – 16.66%

The table below summarizes the STI outcomes for the financial year ended June 30, 2016:

STI Targets	***Status***
Cash balances	Failed
NdPr production volume	Passed
Costs	Passed
Team / Individual Performance	Passed

In accordance with the above criteria, 50% of the available STI awards will be made in respect of the financial year ended June 30, 2016. Those awards will be made half in cash and half in performance rights.

In addition, if there had been a fatality during the year (which there was not), no STI awards would have been made unless so resolved by the Board.

LTIs

LTI options and Performance Rights are granted to KMP and other selected employees to provide greater alignment to strategic business objectives. They usually have three year vesting periods, and are usually 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.

During the financial year ended June 30, 2014, an award of 2,268,067 LTI performance rights was made subject to the following vesting conditions:

(i) 1,237,127 performance rights were conditional on a Right First Time (RFT) hurdle measured over calendar year 2015. That RFT hurdle was not satisfied and the 1,237,127 performance rights were forfeited in the financial year ended June 30, 2016.

(ii) 1,030,940 performance rights were conditional on a Total Shareholder Return (TSR) hurdle benchmarked against ASX 200 companies over a 3 year vesting period expiring on September 23, 2016. That TSR hurdle is not expected to be satisfied, and it is expected that the 1,030,940 performance rights will be forfeited.

A summary of the performance conditions attached to Options and Performance Rights granted during the financial year ended June 30, 2016 is set out below:

(i) 50% will be conditional on the Company's cumulative NdPr production during the target NdPr production period set for the Company's JARE senior debt facility (i.e. from July 1, 2015 to December 31, 2017), in accordance with the following sliding scale:
   (a) If cumulative NdPr production from July 1, 2015 to December 31, 2017 is at least 10,440 tonnes (being the JARE senior debt facility target), then 50% of the NdPr production portion will vest.
   (b) If cumulative NdPr production from July 1, 2015 to December 31, 2017 is at least 11,391 tonnes, then 100% of the NdPr production portion will vest.
   (c) If cumulative NdPr production from July 1, 2015 to December 31, 2017 is at least 12,530 tonnes, then 120% of the NdPr production portion will vest.

(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.

E. Service Agreements

The CEO and Managing Director has an executive services agreement with the Group 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 *Corporations Act 2001*, 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

In recent years, LTI grants have been subject to hurdles that are aligned with the interests of key stakeholders in the Group. For example, in the financial year ended June 30, 2016, LTI grants were subject to a TSR hurdle and an operations hurdle related to NdPr production, 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.

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.

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	June 30, 2016
Revenue ($'000)	-	-	-	950	64,570	144,596	190,956
Loss before tax ($'000)	(43,041)	(57,288)	(97,879)	(141,014)	(345,431)	(118,559)	(94,117)
Loss after tax ($'000)	(43,041)	(59,086)	(87,770)	(143,555)	(345,488)	(118,685)	(94,082)
Shareholder capital ($'000)	719,857	821,994	823,161	994,645	1,034,634	1,083,898	1,088,469
Annual average share price	$0.55	$1.66	$1.30	$0.65	$0.29	$0.08	$0.07
Closing share price at financial year end	$0.55	$1.98	$0.85	$0.38	$0.13	$0.03	$0.05
Loss per share (cents)	(3.23)	(3.54)	(5.12)	(5.13)	(15.41)	(3.82)	(2.70)
Diluted loss per share (cents)	(3.23)	(3.54)	(5.12)	(5.13)	(15.41)	(3.82)	(2.70)

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, 2016 were:

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

Committee Fees

Board Committee	Chair $	Member $
Audit & Risk, Health, Safety & 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, 2015 and June 30, 2016 is set out in Section H of this report.

H. Details of Remuneration

Year Ended June 30, 2016

	Short term benefits			Post-employment benefits			Long term benefits		
Name	Cash salary and fees	Other short term employee benefits	Non-monetary benefits	Termination payments	Superannuation and other pension payments	Long service leave	Share-based payments (net) (1)	Performance related % of Total	Total
Executive Director									
A. Lacaze	1,180,867	200,000	62,314	-	19,133	6,238	1,101,687	43%	2,570,239
Non-Executive Directors									
K. Conlon	140,000	-	-	-	-	-	-	0%	140,000
W. Forde	142,500	-	-	-	13,538	-	-	0%	156,038
M. Harding	250,000	-	-	-	19,133	-	-	0%	269,133
J. Klein	115,000	-	-	-	-	-	-	0%	115,000
P. Etienne	115,000	-	-	-	10,925	-	-	0%	125,925
Executives									
A. Arnold	476,171	-	12,911	-	-	-	153,290	24%	642,372
G. Sturzenegger	507,605	-	241	-	-	-	109,858	18%	617,704
K. Leung	480,866	-	31,204	-	19,133	9,794	227,905	30%	768,902
M. Ahmad	331,214	36,929	212	-	60,377	-	119,543	22%	548,275
P. Le Roux	447,014	-	45,229	-	63,489	-	106,379	16%	662,111
Total	**4,186,237**	**236,929**	**152,111**	**-**	**205,728**	**16,032**	**1,818,662**	**28%**	**6,615,699**

(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.

Year Ended June 30, 2015

	Short term benefits			Post-employment benefits			Long term benefits		
Name	Cash salary and fees	Other short term employee benefits	Non-monetary benefits	Termination payments	Superannuation and other pension payments	Long service leave	Share-based payments (net) (1)	Performance related % of Total	Total
Executive Director									
A. Lacaze	1,181,552	300,000	59,998	-	18,783	-	272,568	15%	1,832,901
Non-Executive Directors									
K. Conlon	140,000	-	-	-	-	-	-	-	140,000
W. Forde	173,613	-	-	-	16,105	-	-	-	189,718
M. Harding (2)	125,000	-	-	-	9,392	-	-	-	134,392
J. Klein	115,000	-	-	-	-	-	-	-	115,000
P. Etienne (3)	57,500	-	-	-	5,463	-	-	-	62,963
Executives									
A. Arnold	622,419	-	10,651	-	6,261	-	284,968	31%	924,299
G. Sturzenegger (4)	458,220	-	25,370	-	-	-	-	-	483,590
K. Leung (5)	464,939	-	27,013	-	18,783	-	107,920	17%	618,655
M. Ahmad (6)	353,002	38,584	215	-	62,655	-	49,568	10%	504,024
P. Le Roux (7)	423,667	-	69,671	-	57,574	-	15,832	3%	566,744
Former Non-Executive Directors									
N. Curtis (8)	183,333	-	-	-	-	-	110,509	38%	293,842
Former Executives									
G. Barr (9)	217,877	-	-	193,269	9,689	-	(162,603)	(63%)	258,232
L. Catanzaro (10)	359,541	-	-	223,007	9,874	-	(1,786)	-	590,636
A. Jury (11)	114,298	-	-	-	4,696	-	(23,809)	(25%)	95,185
J.C. Steinmetz (12)	309,954	-	88,635	13,908	185,702	-	-	-	598,199
Total	**5,299,915**	**338,584**	**281,553**	**430,184**	**404,977**	**-**	**653,167**	**9%**	**7,408,390**

(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.

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, 2016.

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	1,030,976	-	-	-	-	1,030,976	-
K. Conlon	856,180	-	-	-	-	856,180	-
P. Etienne	-	166,300	-	-	-	166,300	-
W. Forde	1,575,893	-	-	-	-	1,575,893	-
M. Harding	-	-	-	-	-	-	-
J. Klein	2,825,893	-	-	-	-	2,825,893	-
A. Arnold	46,688	-	-	-	-	46,688	-
G. Sturzenegger	-	-	-	-	-	-	-
K. Leung	-	40,890	-	-	-	40,890	-
M. Ahmad	140,000	-	-	-	-	140,000	-
P. Le Roux	-	-	-	-	-	-	-
Total	**6,475,630**	**207,190**	**-**	**-**	**-**	**6,682,820**	

(ii) Share Based Remuneration – Options and Performance Rights
The following table lists all options and performance rights which are still to vest, or have yet to expire, as at June 30, 2016.

Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per Option at valuation date
September 23, 2013*	579,663	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	September 23, 2019	$ 0.00	$ 0.116
September 23, 2014*	4,292,452	September 23, 2017	September 23, 2019	$ 0.00	$ 0.096
November 28, 2014*	862,069	September 23, 2015	September 23, 2017	$ 0.00	$ 0.059
November 28, 2014*	1,086,957	September 30, 2015	September 30, 2017	$ 0.00	$ 0.059
November 28, 2014*	3,396,227	September 23, 2017	September 23, 2019	$ 0.00	$ 0.059
November 28, 2014*	2,830,189	September 23, 2017	September 23, 2019	$ 0.00	$ 0.031
November 23, 2015*	4,464,286	May 6, 2016	May 6, 2018	$ 0.00	$ 0.090
July 28, 2015*	20,715,092	July 28, 2016	December 31, 2016	$ 0.00	$ 0.038
September 18, 2015*	12,862,523	September 18, 2018	September 18, 2020	$ 0.00	$ 0.029
September 18, 2015*	15,435,028	September 18, 2018	September 18, 2020	$ 0.00	$ 0.039
November 23, 2015*	4,971,828	July 28, 2016	December 31, 2016	$ 0.00	$ 0.090
November 23, 2015*	10,588,235	September 18, 2018	September 18, 2020	$ 0.00	$ 0.090
November 23, 2015*	8,823,529	September 18, 2018	September 18, 2020	$ 0.00	$ 0.080
Total	**97,089,961**				

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

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, 2016:

	Series AE	Series AF	Series AG	Series AH	Series AI	Series AJ	Series AK
5 day VWAP	$0.090	$0.038	$0.029	$0.039	$0.090	$0.090	$0.090
Exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	79.39%	N/A	77.77%	77.77%	79.39%	79.39%	79.39%
Risk-free Rate	2.147%	N/A	1.930%	1.930%	2.147%	2.147%	2.147%
Life of Option/Right	3 years	1 year	3 years	3 years	1 years	3 years	3 years

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.

Directors' Report – Remuneration Report – Audited

The resulting weighted average fair values for all Options and Performance Rights granted for the benefit of Directors and KMP during the year are:

Grant date	Number of Options and performance rights	Fair value per Instrument at valuation date	Exercise price per Instrument	First exercise date	Last exercise or Expiry date
July 28, 2015	9,918,511	$ 0.038	$ 0.00	July 28, 2016	December 31, 2016
September 18, 2015	9,162,004	$ 0.029	$ 0.00	September 18, 2018	September 18, 2020
September 18, 2015	10,994,405	$ 0.039	$ 0.00	September 18, 2018	September 18, 2020
November 23, 2015	4,971,828	$ 0.090	$ 0.00	July 28, 2016	December 31, 2016
November 23, 2015	10,588,235	$ 0.090	$ 0.00	September 18, 2018	September 18, 2020
November 23, 2015	8,823,529	$ 0.090	$ 0.00	September 18, 2018	September 18, 2020
Total	**54,458,512**				

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.

The following tables outline the Options and Performance Rights granted for the benefit of Directors and KMP during the 2016 and 2015 financial years and those Options which have vested at each respective year-end.

June 30, 2016	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, 2016	Amount vested and not exercisable at June 30, 2016
A. Lacaze	12,639,728	24,383,592	Nov 23, 2015	-	-	24,383,592	37,023,320	6,413,312	-
K. Conlon	-	-	-	-	-	-	-	-	-
P. Etienne	-	-	-	-	-	-	-	-	-
W. Forde	750,000	-	-	-	(750,000)	(750,000)	-	-	-
M. Harding	-	-	-	-	-	-	-	-	-
J. Klein	600,000	-	-	-	(600,000)	(600,000)	-	-	-
A. Arnold	5,781,293	5,833,283	Jul 28, 2015 & Sep 18, 2015	(1,088,434)	(750,000)	3,994,849	9,776,142	-	-
G. Sturzenegger	-	6,218,334	Jul 28, 2015 & Sep 18, 2015	-	-	6,218,334	6,218,334	-	-
K. Leung	3,583,629	6,378,830	Jul 28, 2015 & Sep 18, 2015	(58,480)	-	6,320,350	9,903,979	-	-
M. Ahmad	988,366	5,255,356	Jul 28, 2015 & Sep 18, 2015	(116,056)	-	5,139,300	6,127,666	-	-
P. Le Roux	1,111,589	6,389,117	Jul 28, 2015 & Sep 18, 2015	(69,818)	(1,000,000)	5,319,299	6,430,888	-	-
									-
Total	**25,454,605**	**54,458,512**		**(1,332,788)**	**(3,100,000)**	**50,025,724**	**75,480,329**	**6,413,312**	**-**

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	Amount vested and not exercisable
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	-	-	3,476,416	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 subsequently approved by the shareholders of the Company 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.

Subsequent Events

On September 3, 2016 the Malaysian Atomic Energy Licensing Board (AELB) renewed the Full Operating Stage Licence (FOSL) for the Lynas Advanced Materials Plant (LAMP) for 3 years until September 2, 2019. The renewal follows a rigorous review undertaken by the AELB and other independent regulatory bodies in Malaysia, all of whom have concluded that the LAMP is in compliance with applicable regulations.

With the exception of the above, there have been no other events subsequent to June 30, 2016 that would require accrual or disclosure in this financial 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
Sydney, September 29, 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

(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 33 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

Mike Harding
Chairman
Sydney, September 29, 2016

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

As lead auditor for the audit of Lynas Corporation Limited for the financial year ended 30 June 2016, 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 audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Graham Ezzy
Partner
Sydney
29 September 2016

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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 2016, 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 2016 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2.2 in the financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. 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 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Graham Ezzy
Partner
Sydney
29 September 2016

Glenn Maris
Partner
Sydney
29 September 2016

Consolidated Statement of Profit or Loss and Comprehensive Income

For the year ended

In A$'000	Note	June 30, 2016	June 30, 2015
Revenue		190,956	144,596
Cost of sales		(211,401)	(168,345)
Gross loss		**(20,445)**	**(23,749)**
Other income		-	133
General and administration expenses	7	(34,785)	(40,920)
Other expenses	8	(1,468)	(16,741)
Loss from operating activities		**(56,698)**	**(81,277)**
Finance income	10	196	508
Finance costs	10	(37,615)	(37,790)
Net finance costs		**(37,419)**	**(37,282)**
Loss before income tax		**(94,117)**	**(118,559)**
Income tax benefit / (expense)	11	35	(126)
Loss for the year		**(94,082)**	**(118,685)**
Other comprehensive loss for the period net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	13	(28,149)	(78,362)
Total other comprehensive loss for the year, net of income tax		**(28,149)**	**(78,362)**
Total comprehensive loss for the year attributable to equity holders of the Company		**(122,231)**	**(197,047)**
Loss per share			
Basic and diluted loss per share (cents per share)	25	(2.70)	(3.82)

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

Consolidated Statement of Financial Position

As at

In A$'000	Note	June 30, 2016	June 30, 2015
Assets			
Cash and cash equivalents	14	43,348	51,973
Trade and other receivables	15	3,065	6,032
Prepayments		2,029	3,146
Current tax receivable		111	-
Inventories	16	53,643	59,511
Total current assets		**102,196**	**120,662**
Inventories	16	219	2,329
Property, plant and equipment	19	612,065	658,353
Deferred exploration, evaluation and development expenditure	20	44,206	45,784
Intangible assets – software		100	207
Other non-current assets	18	28,259	18,163
Total non-current assets		**684,849**	**724,836**
Total assets		**787,045**	**845,498**
Liabilities			
Interest payable	22	49,761	19,104
Trade and other payables	21	32,770	38,737
Borrowings	22	26,878	267,799
Employee benefits	23	2,146	2,393
Deferred income		1,178	-
Provisions	24	411	-
Current tax payable		-	22
Total current liabilities		**113,144**	**328,055**
Trade and other payables	21	11,519	1,261
Borrowings	22	535,686	278,368
Employee benefits	23	359	227
Provisions	24	55,127	54,356
Total non-current liabilities		**602,691**	**334,212**
Total liabilities		**715,835**	**662,267**
Net assets		**71,210**	**183,231**
Equity			
Share capital	25	1,088,469	1,083,898
Accumulated losses		(988,946)	(894,864)
Reserves	25	(28,313)	(5,803)
Total equity attributable to the equity holders of the Company		**71,210**	**183,231**

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

Consolidated Statement of Changes in Equity

In A$'000	Note	Share capital	Accumulated losses	Foreign currency translation reserve	Equity settled employee benefits reserve	Option 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 loss for the year	13	-	-	(28,149)	-	-	-	(28,149)
Total loss for the year		-	(94,082)	-	-	-	-	(94,082)
Total comprehensive loss for the year		-	(94,082)	(28,149)	-	-	-	(122,231)
Issue of warrants	30	-	-	-	-	3,313	-	3,313
Exercise of options and performance rights, net of issue costs	25	160	-	-	-	(59)	-	101
Shares issued pursuant to settlement of liability	25	4,411	-	-	-	-	-	4,411
Employee remuneration settled through share-based payments	25	-	-	-	2,385	-	-	2,385
Balance at June 30, 2016		**1,088,469**	**(988,946)**	**(125,943)**	**37,490**	**31,397**	**28,743**	**71,210**
Balance at July 1, 2014		1,034,634	(776,179)	(19,432)	34,274	-	28,743	302,040
Other comprehensive loss for the year	13	-	-	(78,362)	-	-	-	(78,362)
Total loss for the year		-	(118,685)	-	-	-	-	(118,685)
Total comprehensive loss for the year		-	(118,685)	(78,362)	-	-	-	(197,047)
Exercise of options and performance rights, net of issue costs	25	11	-	-	-	-	-	11
Issue of shares and options from equity raising, net of issue costs	25	49,253	-	-	-	28,143	-	77,396
Employee remuneration settled through share-based payments	25	-	-	-	831	-	-	831
Balance at June 30, 2015		**1,083,898**	**(894,864)**	**(97,794)**	**35,105**	**28,143**	**28,743**	**183,231**

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

		June 30,	
In A$'000	**Note**	**2016**	**2015**
Cash flows from operating activities			
Receipts from customers		202,638	155,300
Payments to suppliers and employees		(193,921)	(183,663)
Royalties paid		(4,489)	(3,524)
Income taxes paid		(81)	(60)
Net cash flows from/(used in) operating activities	17	**4,147**	**(31,947)**
Cash flows from investing activities			
Payment for property, plant and equipment		(10,667)	(10,017)
Payment for intangible assets		-	(6)
Security bonds paid		(116)	-
Security bonds refunded		475	385
Proceeds on sale of assets		33	-
Net cash used in investing activities		**(10,275)**	**(9,638)**
Cash flows from financing activities			
Interest received		73	379
Interest and other financing costs paid		(66)	(15,069)
Proceeds from the issue of share capital		102	82,977
Payment of transaction costs – Issue of shares		-	(5,062)
Repayment of long-term borrowing (JARE loan facility)		(2,767)	(11,371)
Net cash (used in)/from financing activities		**(2,658)**	**51,854**
Net increase (decrease) / increase in cash and cash equivalents		(8,786)	10,269
Cash and cash equivalents at the beginning of the year		51,973	38,144
Effect of exchange rate fluctuations (net) on cash held		161	3,560
Closing cash and cash equivalents	14	**43,348**	**51,973**

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

Notes to Financial Statements
For the year ended June 30, 2016

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, 2016 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 29, 2016.

2.2 Going concern

The financial report has been prepared using the going concern assumption. The Directors note the Company generated a net loss and had net cash outflows from operations in FY16, and had net current liabilities as at June 30, 2016.

The directors have concluded that using the going concern assumption remains appropriate after considering a number of key assumptions affecting the business. These include the continuing low prices for rare earth products experienced in FY16 and the possibility that these low prices may continue in FY17. Other key assumptions include forecast production volumes, foreign currency exchange rates and the continuing improvements in cost performance. Production levels, foreign currency exchange rates, regulatory environments in both jurisdictions, and price volatility in the rare earth markets continue to pose significant risks to the Company.

The Directors bring to the readers' attention Note 21 and Note 31, which present information about the Company's various financial exposures including to the AELB, and the timing of contractual cash flows for all financial liabilities/commitments.

Details of the Company's loan facilities are set out in Note 22. The Company is scheduled to make payments into the restricted interest accounts for its loan facilities of approximately US$19 million by December 31, 2016. In addition, the following principal repayments are due under the JARE facility:

Repayment Date:	**Instalment**
December 21, 2016	US$5 million
June 30, 2017	US$15 million
December 21, 2017	US$30 million
June 30, 2018	US$153 million

The principal amount of the Mt Kellett Convertible Bond facility, being US$225 million, is due for repayment on September 30, 2018.

In addition, the current interest rate under the JARE facility is 5.7% per annum, and the current interest rate under the Mt Kellett Convertible Bond facility is 2.75% per annum.

The ability of the Company to continue to meet its financial obligations will depend on the factors summarized above and in addition the Company will require either amendments to the terms of the loan facilities or alternative sources of funding. The Company is in negotiations with both lender groups regarding amendments to the terms of the loan facilities, however there is no guarantee that those negotiations will be completed on terms favorable to the Company.

While there is some uncertainty as to whether the lenders will agree to suitable amendments or whether alternative sources of funding will be available to the Company, these financial statements have been prepared on a going concern basis, because the directors and management, including as a result of consultations with relevant advisers, have concluded that there are reasonable grounds to believe that to the extent that either amendments or alternative funding will be required, they will be obtained in a timely manner.

No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

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, 2016. Information for the comparative year is for the 12 month period ended June 30, 2015.

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

2.6 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.

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 28 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.

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 offset 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.

(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.

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.

Derivative financial instruments are recognised on a gross basis unless a current and legally enforceable right to offset 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.

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

(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.

(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 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 29.

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.

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.

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 34 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 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*
- AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality*

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.

(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 issued 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 2014-3 Amendments to Australia Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 and AASB 11]	July 1, 2016	June 30, 2017
AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	July 1, 2016	June 30, 2017
AASB1057 Application of Australian Accounting Standards	July 1, 2016	June 30, 2017
AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	July 1, 2016	June 30, 2017
AASB 2014-10 Amends to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	July 1, 2018	June 30, 2019
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	July 1, 2016	June 30, 2017
AASB 2015-2 Amendments to Australia Accounting Standards – Disclosure Initiative: Amendments to AASB 101	July 1, 2016	June 30, 2017
AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception	July 1, 2016	June 30, 2017
AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB8, AASB 133 and AASB 10557]	July 1, 2016	June 30, 2017
AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]	July 1, 2017	June 30, 2018
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	July 1, 2017	June 30, 2018
AASB 9 Financial Instruments	July 1, 2018	June 30, 2019
AASB 15 Revenue from Contracts with Customers	July 1, 2018	June 30, 2019
AASB 16 Leases	July 1, 2019	June 30, 2020

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 below). 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 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.

4.3 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.

4.4 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 Trade and other payables

The fair value of trade and other payables 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 payables, the carrying amount is a reasonable approximation of fair value.

5.5 Non-derivative long term financial liabilities

The fair value of borrowings which is normally calculated for disclosure purposes by discounting the future contractual cash flows at the current market interest rates that are available for similar financial instruments. However, as described in Note 26.7, the Company has not disclosed the fair value of borrowings.

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 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 39%, China 47%, Vietnam 8%, France 5% and other 1% (2015: Japan 51%, China 23%, Vietnam 16%, France 7% and other 3%) . 75% of the Group's non-current assets are located in Malaysia, 24% in Australia and 1% in Africa.

In A$'000	Note	For the year ended June 30, 2016 Rare Earth Operations	Corporate/ Unallocated	Total Continuing Operations	For the year ended June 30, 2015 Rare Earth Operations	Corporate/ Unallocated	Total Continuing Operations
Business segment reporting							
Revenue		190,956	-	190,956	144,596	-	144,596
Cost of sales		(211,401)	-	(211,401)	(168,345)	-	(168,345)
Gross loss		**(20,445)**	**-**	**(20,445)**	**(23,749)**	**-**	**(23,749)**
Expenses and other income		(23,291)	(11,494)	(34,785)	(30,091)	(10,696)	(40,787)
Impairment		(1,468)	-	(1,468)	(16,741)	-	(16,741)
Earnings before interest and tax ("EBIT")		**(45,204)**	**(11,494)**	**(56,698)**	**(70,581)**	**(10,696)**	**(81,277)**
Finance income				196			508
Finance cost				(37,615)			(37,790)
Loss before income tax				**(94,117)**			**(118,559)**
Income tax benefit (expense)				35			(126)
Loss for the year				**(94,082)**			**(118,685)**
Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")							
EBIT		(45,204)	(11,494)	(56,698)	(70,581)	(10,696)	(81,277)
Depreciation and amortisation	16	40,325	1,480	41,805	44,452	1,041	45,493
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**(4,879)**	**(10,014)**	**(14,893)**	**(26,129)**	**(9,655)**	**(35,784)**
Included in EBITDA:							
Impairment charge – property plant and equipment & other	8	-	-	-	12,031	-	12,031
Impairment charge – inventory	8	1,468	-	1,468	4,710	-	4,710
Other income		-	-	-	-	(133)	(133)
Non-cash employee remuneration settled through share based payments comprising:							
Share based payments expense for the year	29.1	-	2,701	2,701	-	1,748	1,748
Impact of options and performance rights forfeited during the year	29.1	-	(315)	(315)	-	(917)	(917)
Adjusted EBITDA		**(3,411)**	**(7,628)**	**(11,039)**	**(9,388)**	**(8,957)**	**(18,345)**
Total assets		**769,740**	**17,305**	**787,045**	**836,696**	**8,802**	**845,498**
Total liabilities		**(145,161)**	**(570,674)**	**(715,835)**	**(136,477)**	**(525,790)**	**(662,267)**

7. General and administration expenses

	For the year ended June 30,	
In A$'000	2016	2015
Employee and production costs net of costs recovered through production	10,415	25,640
Depreciation expenses net of cost recovered through production	11,995	12,535
Other	12,375	2,745*
Total general and administration expenses	**34,785**	**40,920**

* Includes $8.8m reversal of provision on onerous contract.

7.1 Employee costs

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

	For the year ended June 30,	
In A$'000	2016	2015
Wages and salaries	33,681	37,381
Superannuation and pension contributions	985	863
Employee remuneration settled through share-based payments (note 29.1)	2,386	831
Other	668	605
Total employee costs	**37,720**	**39,680**

8. Other expenses

		For the year ended June 30,	
In A$'000	Note	2016	2015
Impairment loss – inventory	16	1,468	4,710
Impairment loss – property, plant and equipment	19	-	12,031
Total other expenses		**1,468**	**16,741**

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

In the current year, impairment losses were made on obsolete inventory.

9. Auditor's remuneration

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

	For the year ended June 30,	
In $A	2016	2015
Auditor's remuneration to Ernst & Young (Australia), comprising:		
Audit fees	300,000	241,575
Tax fees	5,850	42,924
Other fees*	-	175,000
Total auditor's remuneration Ernst & Young (Australia)	**305,850**	**459,499**

* Prior year's other fees relate to due diligence services

Auditor's remuneration to Ernst & Young (other locations), comprising:		
Audit fees	150,000	170,000
Tax fees	33,617	-
Other fees	624	3,469
Total auditor's remuneration Ernst & Young (other locations)	**184,241**	**173,469**

10. Finance income and costs

In A$'000	For the year ended June 30, 2016	2015
Interest income on cash and cash equivalents	196	508
Total finance income	**196**	**508**
Interest expense on JARE loan facility*	(21,328)	(17,669)
Interest expense on financial liabilities measured at amortised cost:*		
Mt Kellett convertible bonds	(9,359)	(8,951)
Amortisation of deferred transaction costs - Mt Kellett convertible bonds	(1,127)	(144)
Unwinding of discount on Mt Kellett convertible bonds	(5,688)	(12,122)
Financing transaction costs and fees	(911)	(2,783)
Net foreign currency exchange gain	798	3,879
Total finance costs	**(37,615)**	**(37,790)**
Net finance costs	**(37,419)**	**(37,282)**

* refer to note 22 for more information

11. Income taxes

In A$'000	For the year ended June 30, 2016	2015
Current tax		
Current tax (benefit) / expense in respect of the current year	(35)	126
Adjustments recognised in the current year in relation to the current tax in prior years	-	-
	(35)	**126**
Deferred tax		
Deferred tax (benefit) expense recognised in the year	-	-
Total income tax (benefit) expense relating to the continuing operations	**(35)**	**126**

11.1 Income tax recognised in profit (loss)

In A$'000	For the year ended June 30, 2016	2015
Loss before tax for continuing operations	(94,117)	(118,559)
Income tax benefit calculated at 30% (2015: 30%)	(28,235)	(35,568)
Add (deduct):		
Effect of expenses that are not deductible in determining taxable profit	12,510	(34,129)
Effect of foreign exchange gains and losses	(4,863)	(31,050)
Effect of unused tax losses not recognised as deferred tax assets	5,481	56,023
Effect of temporary differences not recognised as deferred tax assets	8,304	34,887
Effect of different tax rate of subsidiaries and branches	6,587	9,709
Other adjustments	181	254
Total current year income tax (benefit) expense	**(35)**	**126**

11.2 Income tax recognised directly in equity

In A$'000	For the year ended June 30, 2016	2015
Deferred tax		
Share issue costs	-	-
Total income tax (benefit) expense recognised directly in equity	**-**	**-**

12. Deferred tax assets and liabilities

12.1 Deferred tax balances

In A$'000	Balance at July 1, 2015	Recognised in Profit or loss	Recognised in equity	Recognised in OCI	Balance at June 30, 2016
Temporary differences					
Inventory	(2,141)	2,915	-	-	774
Deferred exploration, evaluation and development expenditure	(10,193)	7,526	-	-	(2,667)
Property plant and equipment	9,963	(1,596)	-	-	8,367
Borrowings	43,127	-	6,024	-	49,151
Share-based payments	(88)	88	-	-	-
Costs of equity and debt raisings	3,527	(3,130)	-	-	397
Trade payables	56	(14)	-	-	42
Provisions	7,898	531	-	-	8,429
Other	1,173	(1,173)	-	-	-
	53,322	**5,147**	**6,024**	**-**	**64,493**
Unused tax losses and credits					
Tax losses	(53,322)	(5,147)	(6,024)	-	(64,493)
	-	-	-	-	-

In A$'000	Balance at July 1, 2014	Recognised in Profit or loss	Recognised in equity	Recognised in OCI	Balance at June 30, 2016
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
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)
	-	-	-	-	-

12.2 Unrecognised deferred tax assets

In A$'000	As at June 30, 2016	2015
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	351,162	325,155
Tax losses – capital in nature	2,145	2,145
Deductible temporary differences	204,277	183,780
	557,584	**511,080**

The Group's unused tax losses of a revenue nature for which no deferred tax assets have been recognised relate to Australia (2016: $177.6m, 2015: $173.5m), Malaysia (2016: $172.5m, 2015: $150.7m) and Malawi (2016: $1.0m, 2015: $1.0m). At June 30, 2016 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 $95.0m (2015: $88.5m).

The Group's unused tax losses of a capital nature for which no deferred tax assets have been recognised relate to Australia (2016: $2.1m, 2015: $2.1m). At June 30, 2016 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 (2015: $0.6m).

The Group's deductible temporary differences for which no deferred tax assets have been recognised relate to Australia (2016: $175.2m, 2015: $147.5m) and Malaysia (2016: $29.1m, 2015: $36.3m). At June 30, 2016 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 $59.4m (2015: $53.3m).

13. 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:

	For the year ended June 30,					
In A$'000	2016			2015		
	Pre-tax	Tax effect	Total	Pre-tax	Tax effect	Total
Exchange differences on translating foreign operations	(28,149)	-	(28,149)	(78,362)	-	(78,362)
Total other comprehensive income	**(28,149)**	**-**	**(28,149)**	**(78,362)**	**-**	**(78,362)**

14. Cash and cash equivalents

	As at June 30,	
In A$'000	2016	2015
Cash at bank and on hand	10,402	31,335
Restricted cash	32,946	20,638
Total cash and cash equivalents	**43,348**	**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.

15. Trade and other receivables

	As at June 30,	
In A$'000	2016	2015
Trade receivables	1,483	4,325
Other receivables	1,582	1,707
Total current trade and other receivables	**3,065**	**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 June 30, 2016 and June 30, 2015, no trade receivables were past due nor impaired.

16. Inventories

	As at June 30,	
In A$'000	2016	2015
Raw materials and consumables	13,585	15,083
Work in progress	34,113	37,401
Finished goods	6,164	9,356
Total inventories	**53,862**	**61,840**
Current inventories	53,643	59,511
Non-current inventories	219	2,329
Total inventories	**53,862**	**61,840**

During the year ended June 30, 2016 inventories of $212.9m (2015: $173.0m) were recognised as an expense. $211.4m of which were included in 'cost of sales' and the remaining $1.5m relates to write down of inventory to net realisable value.

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, 2016 and 2015 respectively in the following categories:

	Recognised in General and Administration Expense		Recognised in Inventory		Total	
In A$'000	2016	2015	2016	2015	2016	2015
Property, plant and equipment	10,141	11,434	29,811	26,577	39,952	38,011
Deferred exploration and evaluation expenditure	1,390	560	-	-	1,390	560
Intangibles	463	540	-	-	463	540
Total	**11,994**	**12,535**	**29,811**	**26,577**	**41,805**	**39,111**

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 $31.0m in the year ended June 30, 2016 (2015: $33.0m).

During the year ended June 30, 2016 the Group recognised royalties payable to the Western Australian Government totalling $4.7m (2015: $3.2m). Royalties arise on the shipment of the Group's concentrate from Australia to Malaysia.

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

		For the year ended June 30,	
In A$'000	Note	2016	2015
Loss for the year		(94,082)	(118,685)
Adjustments for:			
Depreciation and amortisation		41,806	39,111
Employee remuneration settled through share-based payments		2,386	831
Impairment loss on property, plant and equipment and other	8	-	12,031
Impairment loss on inventories	8	1,468	4,710
Net financial income expenses	10	37,419	37,282
Gain on disposal of available for sale - financial assets		-	(133)
Income tax (benefit) / expense	11	(35)	126
Change in trade and other receivables		4,084	4,273
Change in inventories		9,211	(4,810)
Change in trade and other payables		2,029	9,667
Change in other assets and liabilities		(89)	46
Change in provisions and employee benefits		(1,067)	(16,425)
Change in deferred income		1,178	-
Foreign exchange		(161)	29
Net cash from (used in) operating activities		**4,147**	**(31,947)**

18. Other non-current assets

	As at June 30,	
In A$'000	2016	2015
Security deposits – banking facilities and other, Malaysia	4,087	4,243
Security deposits – banking facilities and other, Australia	636	850
Security deposits – AELB, Malaysia	23,536	13,070
	28,259	**18,163**

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 2.20% (2015: 2.96%) and the weighted average annual interest rate in Malaysia was 3.30% (2015: 3.25%).

During the year the Group recorded an increase of $10.5m (2015: $6.8m) in deposits to the Malaysian Government's Atomic Energy Licencing Board ("AELB"). These deposits form a component of a total USD50m of instalments due in accordance with the conditions underlying the granting of the Full Operating Stage Licence to the Group for the LAMP in Malaysia. Please refer to note 32 for the residual commitment to the AELB.

19. 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, 2016							
Cost	56,562	857,561	8,660	698	7,702	20,235	**951,418**
Accumulated impairment losses	-	(192,366)	(360)	(54)	(265)	(7,524)	**(200,569)**
Accumulated depreciation	(4,931)	(125,331)	(5,020)	(582)	-	(2,920)	**(138,784)**
Carrying amount	**51,631**	**539,864**	**3,280**	**62**	**7,437**	**9,791**	**612,065**
As at June 30, 2015							
Cost	58,243	869,912	8,697	681	7,485	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**	**581,575**	**4,024**	**146**	**7,236**	**10,963**	**658,353**
Cost at the beginning of the year	58,243	869,912	8,697	681	7,485	20,834	**965,852**
Accumulated depreciation and impairment losses at the beginning of the year	(3,834)	(288,337)	(4,673)	(535)	(249)	(9,871)	**(307,499)**
Carrying amount at the beginning of the year	**54,409**	**581,575**	**4,024**	**146**	**7,236**	**10,963**	**658,353**
Additions	-	1,814	15	22	11,007	-	**12,858**
Disposals	-	(966)	(199)	-	(1,152)	-	**(2,317)**
Depreciation for the year	(1,203)	(37,222)	(867)	(103)	-	(558)	**(39,953)**
Transfers of assets under construction	-	9,207	-	-	(9,207)	-	**-**
Other movement	-	(3,531)	563	-	(200)	-	**(3,168)**
Effect of movements in exchange rates	(1,575)	(11,013)	(256)	(3)	(247)	(614)	**(13,708)**
Carrying amount at June 30, 2016	**51,631**	**539,864**	**3,280**	**62**	**7,437**	**9,791**	**612,065**
Cost at the beginning of the year	55,658	831,710	8,803	958	9,238	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**	**590,633**	**4,495**	**375**	**9,047**	**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**
Effect of movements in exchange rates	3,221	20,892	40	(10)	189	205	**24,537**
Carrying amount at June 30, 2015	**54,409**	**581,575**	**4,024**	**146**	**7,236**	**10,963**	**658,353**

*Prior year's transfers from inventory were spare components used in the LAMP Phase 2 construction.

Restrictions on the title of property plant and equipment are outlined in note 22.

20. 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, 2016					
Cost	21,317	17,542	4,078	24,602	67,539
Accumulated impairment losses	(14,483)	(3,639)	-	-	(18,122)
Accumulated amortisation	(1,699)	(1,681)	(323)	(1,508)	(5,211)
Carrying amount	**5,135**	**12,222**	**3,755**	**23,094**	**44,206**
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**
Cost at the beginning of the year	21,304	17,543	4,078	24,602	67,527
Accumulated amortisation and impairment losses at the beginning of the year	(15,981)	(4,778)	(198)	(786)	(21,743)
Carrying amount at the beginning of the year	5,323	12,765	3,880	23,816	45,784
Additions	14	-	-	-	14
Amortisation for the year	(201)	(543)	(126)	(722)	(1,592)
Change in rehabilitation obligations	-	-	-	-	-
Carrying amount at June 30, 2016	5,136	12,222	3,754	23,094	44,206
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**

Restrictions on the title of the deferred exploration, evaluation and development expenditure are outlined in note 22.

21. Trade and other payables

In A$'000	As at June 30, 2016	2015
Trade payables	11,370	19,065
Accrued expenses*	26,999	15,509
Other payables	5,920	5,424
Total trade and other payables	**44,289**	**39,998**
Current	32,770	38,737
Non-current	11,519	1,261
Total trade and other payables	**44,289**	**39,998**

* includes $16.7m due to the Malaysian Government's Atomic Energy Licencing Board ("AELB") in accordance with the conditions underlying the granting of the Full Operating Stage Licence to the Group for the LAMP in Malaysia. Please refer to note 32 for the residual commitment to the AELB.

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

22. 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 26.

	As at June 30,	
In A$'000	**2016**	**2015**
Current borrowings		
JARE loan facility	26,878	267,799
Non-current borrowings		
JARE loan facility	245,935	-
Mt Kellett convertible bonds	289,751	278,368
Total borrowings (1)	**562,564**	**546,167**
JARE loan facility	272,813	267,799
Total JARE loan facility carrying amount	**272,813**	**267,799**
Principal value of Mt Kellett convertible bonds (2)	302,379	293,910
Unamortised equity component (2)	(10,265)	(15,420)
Unamortised transaction costs (3)	(2,363)	(122)
Total Mt Kellett convertible bonds carrying amount	**289,751**	**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 have in fact reduced from USD430m as at June 30, 2015 to USD428m as at June 30, 2016. 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.

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

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.

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 principal repayments due prior to maturity under the JARE facility have been adjusted significantly.

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

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. This is based on meeting certain milestones as shown below.

Production Target

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

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 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.

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.

Terms and debt repayment schedule

				As at June 30, 2016		As at June 30, 2015	
	Currency	Nominal interest rate	Year of maturity	Face value (USD '000)	Carrying amount (AUD '000)	Face value (USD '000)	Carrying amount (AUD '000)
JARE loan facility	USD	6.75%	2018	203,000	272,813	205,000	267,799
Mt Kellett convertible bonds*	USD	2.75%	2018	225,000	289,751	225,000	278,368
				428,000	**562,564**	**430,000**	**546,167**

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

	Average for the year ended June 30, 2016			Average for the year ended June 30, 2015		
	Base rate	Margin	Total rate	Base rate	Margin	Total rate
JARE loan facility	6.75%	-	6.75%	1.32%	5.32%	6.64%
Mt Kellett convertible bonds	2.75%	-	2.75%	2.75%	-	2.75%

23. Employee benefits

	As at June 30,	
In A$'000	2016	2015
Provision for annual leave	1,482	827
Provision for long service leave	460	320
Other	563	603
Total employee benefits	**2,505**	**1,750**
Current	2,146	1,523
Non-current	359	227
Total employee benefits	**2,505**	**1,750**

24. Provisions

In A$'000	Restoration and rehabilitation	Onerous contracts	Other	Total
Balance at the beginning of the year	54,356	-	-	54,356
Provisions made during the year	-	1,007	-	1,007
Provisions allocated to Trade Creditors & Other Payables	-	-	116	116
Effects of foreign exchange movement	(851)	-	-	(851)
Effects of discounting	910	-	-	910
Balance at June 30, 2016	**54,415**	**1,007**	**116**	**55,538**
Current	-	411	-	411
Non-current	54,415	596	116	55,127
Total provisions at June 30, 2016	**54,415**	**1,007**	**116**	**55,538**
Current	-	-	-	-
Non-current	54,356	-	870	55,226
Total provisions at June 30, 2015	**54,356**	**-**	**870**	**55,226**

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. Upon cessation of operations, the site including the processing assets, ancillary facilities, utilities and the onsite storage facility will be decommissioned and any materials removed from the location.

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

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

Onerous Lease Provision
Since the relocation of headquarters from Sydney to Kuantan, the Company has endeavoured to sub-let the Sydney office to save on rental expenses going forward. An onerous contract provision of $1.0m has been taken up, which is based on the future rental payments net of estimated recoveries from sub-letting.

25. Equity and reserves

25.1 Share capital

	As at June 30,			
	2016		2015	
	Number of shares '000	A$'000	Number of shares '000	A$'000
Balance at the beginning of the year	3,371,232	1,083,898	2,333,661	1,034,634
Issue of shares pursuant to Institutional Share Placement ("ISP")	-	-	150,000	9,150
Issue of shares pursuant to Share Purchase Plan ("SPP")	-	-	887,072	54,099
Issue of shares pursuant to exercised options	1,129	160	125	11
Issue of shares pursuant to exercised performance rights	-	-	374	-
Issue of shares pursuant to settlement of liability	116,077	4,411	-	-
Equity raising costs	-	-	-	(13,996)
Balance at the end of the year	**3,488,438**	**1,088,469**	**3,371,232**	**1,083,898**

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 29.

25.2 Reserves

	As at June 30,	
In A$'000	2016	2015
Equity settled employee benefits	37,490	35,105
Foreign currency translation	(125,943)	(97,794)
Options	31,397	28,143
Other	28,743	28,743
Balance at June 30	**(28,313)**	**(5,803)**

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 29.

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.

The other reserve represents the equity component of the USD225m unsecured Mt Kellett convertible bonds issued in 2012, net of the associated deferred tax (see note 22).

25.3 Loss per share

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

	As at June 30,	
In A$'000	**2016**	**2015**
Net loss attributed to ordinary shareholders	(94,082)	(118,685)
Loss used in calculating basic and diluted loss per share	**(94,082)**	**(118,685)**
Number of ordinary shares on issue ('000)	3,488,438	3,371,232
Weighted average number of ordinary shares used in calculating basic loss per share ('000)	3,481,875	3,106,712
Basic and diluted loss per share (cents per share)	(2.70)	(3.82)

Options and performance rights which would normally be dilutive are considered to be anti-dilutive in the current reporting period. For further details regarding these options and performance rights, refer to Note 29

25.4 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.

26. Financial risk management

26.1 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.

26.2 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 USD225m Mt Kellett convertible bonds.

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, 2016			
Cash and cash equivalents	53	4,676	4,729
Trade and other receivables	-	1,483	1,483
Trade and other payables	-	(8,184)	(8,184)
Total exposure	**53**	**(2,025)**	**(1,972)**
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**

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, 2016		
Net asset exposure – local currency	1,049,984	980,571
June 30, 2015		
Net asset exposure – local currency	1,418,095	957,459

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,	
	2016	2015	2016	2015
AUD/USD	0.7283	0.8434	0.7441	0.7655
AUD/MYR	3.0098	2.8807	2.9764	2.8905
USD/MYR	4.1329	3.4194	4.0000	3.7764

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, 2016		Increase/(Decrease) in Profit After Tax For the year ended June 30, 2015	
	10 % Strengthening	10% Weakening	10% Strengthening	10% Weakening
USD	(203)	203	1,681	(1,681)
AUD	12	(12)	176	(176)

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, 2016		Increase/(Decrease) in Equity For the year ended June 30, 2015	
	10 % Strengthening	10% Weakening	10% Strengthening	10% Weakening
MYR	35,195	(35,195)	48,967	(48,967)
USD	75,785	(75,785)	76,590	(76,890)

(b) 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 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, 2016						
Fixed rate instruments						
Loans and borrowings	-	-	-	-	-	-
Mt Kellett convertible bonds	(302,379)	-	-	(302,379)	-	-
Total fixed rate instruments	**(302,379)**	**-**	**-**	**(302,379)**	**-**	**-**
Floating rate instruments						
Cash and cash equivalents	43,348	43,348	-	-	-	-
Other non-current assets	4,723	4,723	-	-	-	-
JARE loan facility	(272,813)	(6,720)	(20,158)	(245,935)	-	-
Total variable rate instruments	**(224,742)**	**41,351**	**(20,158)**	**(245,935)**	**-**	**-**
Total	**(527,121)**	**41,351**	**(20,158)**	**(548,314)**	**-**	**-**
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)**	**-**	**-**

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

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.

	For the year ended 30 June	
In A$'000	**2016**	**2015**
50 basis point parallel increase in interest rates	(1,124)	(1,054)
50 basis point parallel decrease in interest rates	1,124	1,054

(d) 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.

26.3 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.

Management believes that the Group's trade and other receivables are collectible in full, based on historical behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are applicable.

26.4 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, 2016							
Non-derivative financial liabilities							
Trade and other payables	N/A	32,770	32,770	-	-	-	-
Loans and borrowings							
JARE loan facility	6.75%	337,541	-	-	26,878	310,663	-
Mt Kellett convertible bonds	(1)	322,197	-	2,287	6,860	313,050	-
Total		**692,508**	**32,770**	**2,287**	**33,738**	**623,713**	**-**
June 30, 2015							
Non-derivative financial liabilities							
Trade and other payables	N/A	54,705	54,705	-	-	-	-
Loans and borrowings							
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**	**-**

(1) The cash coupon on the instrument of 2.75% is payable on the USD225m principal. The weighted average effective interest rate is 4.37% 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.
(2) The above liquidity table excludes other non-contractual financial commitments as disclosed in note 31.

Refer to notes 2.2, 22 and 35 with respect to the events subsequent to June 30, 2016 which address the Group's year end liquidity requirements.

26.5 Classification and fair values

In A$'000	Fair value through the profit and loss	Cash, loans & receivables	Other liabilities	Total carrying amount	Total fair value
June 30, 2016					
Assets					
Cash and cash equivalents	-	43,348	-	43,348	43,348
Trade and other receivables	-	5,094	-	5,094	5,094
Current tax receivable		111	-	111	111
Other assets	-	28,259	-	28,259	28,259
Total assets	**-**	**76,812**	**-**	**76,812**	**76,812**
Liabilities					
Trade and other payables	-	-	44,289	44,289	44,289
Total liabilities	**-**	**-**	**44,289**	**44,289**	**44,289**
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
Total liabilities	**-**	**22**	**59,090**	**59,112**	**59,112**

The methods used in determining fair values of financial instruments are discussed in note 5 and note 26.7.

26.6 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, 2016 the Group did not hold any Level 1 financial instruments. All financial instruments held are level 2 financial instruments except borrowings, which are level 3 financial instruments as described in note 26.7.

26.7 Fair value of borrowings

It is noted that there is significant judgement in determining the fair value of borrowings which could be expected to be less than the carrying value of borrowings due to the higher interest rate a market participant would expect to receive on the present borrowings relative to the actual interest rate obtained by the Company at inception of the borrowings. Given this uncertainty and the lack of reliable inputs, the Company has not disclosed a fair value of borrowings.

27. Related parties

27.1 Key management personnel compensation

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

	For the year ended 30 June	
In A$	2016	2015
Short-term employee benefits	4,575,277	5,920,052
Long-term employee benefits	16,032	-*
Post-employment benefits	205,728	404,877
Termination benefits	-	430,184
Share based payments	1,818,662	653,167
Total compensation paid to key management personnel	**6,615,699**	**7,408,380**

*Prior year's long-term employee benefits were minor and therefore not disclosed.

The compensation of each member of the KMP of the Group for the current and prior year is set out within the Remuneration Report. All transactions with these related parted have been considered and included in the report.

The Share-based payments amount represents the cumulative impact of amortising the accounting value of options and performance rights over their vesting periods 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.

27.2 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.

28. Group entities

Name of Group entity	Principal activity	Country of incorporation	Ownership interest as at June 30, 2016	2015
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 33. Entity is also a member of the tax-consolidated group.

29. 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 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 Financial Officer ("CFO"), the Group's General Counsel and Company Secretary, Vice President for Production, Vice President for Malaysia and Vice President for Sales and Marketing.

Employee Share Trust ("EST")

Options and Performance Rights that are granted for the benefit of selected Australian resident Executives are granted 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.

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

	For the year ended June 30, 2016		For the year ended June 30, 2015	
	No. of options/rights ('000)	Weighted average exercise price ($)	No. of options/rights ('000)	Weighted average exercise price ($)
Balance at beginning of year	33,893	0.29	49,035	0.81
Granted during the year	73,396	-	25,560	0.00
Expired during the year	(7,850)	1.14	(15,828)	0.89
Exercised during the year	-	-	(374)	0.00
Forfeited during the year	(2,349)	0.30	(24,500)	0.66
Balance at end of year	**97,090**	**0.00**	**33,893**	**0.29**
Exercisable at end of year	6,413	0.00	7,850	1.14

During the year ended June 30, 2016 the Group recognised net expense of $2.4m (2015: $0.8m) within the profit and loss component of the statement of comprehensive income. The net expense during the year included the reversal of expenses totalling $0.4m associated with the forfeiture of 886,530 performance rights (2015: $0.9m).

29.2 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, 2016:

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		

No employee performance rights or options were exercised during year ended June 30, 2016.

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

No employee options are outstanding at the end of the year.

The employee performance rights outstanding at the end of the year had nil weighted average exercise price and a weighted average remaining contractual life of 1,047 days.

The employee performance rights and options outstanding at the beginning of the year had a weighted average exercise price of $0.29 and remaining contractual life of 1,036 days.

29.4 Options and performance rights granted in the period

The following table summarises the performance conditions attached to Options and Performance Rights granted during the financial year ended June 30, 2016 with respect to the performance of the Group's employees during the financial year ended June 30, 2015:

	Vesting schedule	For grants made in FY16 (related to FY15 performance)
TSR hurdle (50%)	50% of the TSR portion will vest for:	51st percentile performance
(performance against ASX 200 companies during the vesting period)	100% of the TSR portion will vest for:	76th percentile performance
	Pro-rata vesting will occur between each of the above points	
NdPr Production Hurdle (50%) (NdPr production from July, 1 2015 to December 31, 2017)	50% of the NdPr production portion will vest for:	10,440 tonnes of NdPr production from July 1, 2015 to December 31, 2017.
	100% of the NdPr production portion will vest for:	11,391 tonnes of NdPr production from July 1, 2015 to December 31, 2017.
	Additional 20% of the NdPr production portion, giving a total of 120% of the NdPr production portion:	12,530 tonnes of NdPr production from July 1, 2015 to December 31, 2017.

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 $157,203 (2015:$ 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 AE	Series AF	Series AG	Series AH	Series AI	Series AJ	Series AK
5 day VWAP	$0.090	$0.038	$0.029	$0.039	$0.090	$0.090	$0.090
Exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	79.39%	N/A	77.77%	77.77%	79.39%	79.39%	79.39%
Risk-free Rate	2.147%	N/A	1.930%	1.930%	2.147%	2.147%	2.147%
Life of Option/Right	3 years	1 year	5 years	3 years	1 year	3 years	3 years

29.5 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/right at grant date
V	September 23, 2013*	579,663	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*	862,069	September 23, 2015	September 23, 2017	$ 0.00	$ 0.059
AB	November 28, 2014*	1,086,957	September 30, 2015	September 30, 2017	$ 0.00	$ 0.059
AC	November 28, 2014*	3,396,227	September 23, 2017	September 23, 2019	$ 0.00	$ 0.059
AD	November 28, 2014*	2,830,189	September 23, 2017	September 23, 2019	$ 0.00	$ 0.031
AE	November 23, 2015*	4,464,286	May 6, 2016	May 6, 2018	$ 0.00	$ 0.090
AF	July 28, 2015*	20,715,092	July 28, 2016	December 31, 2016	$ 0.00	$ 0.038
AG	September 18, 2015*	12,862,523	September 18, 2018	September 18, 2020	$ 0.00	$ 0.029
AH	September 18, 2015*	15,435,028	September 18, 2018	September 18, 2020	$ 0.00	$ 0.039
AI	November 23, 2015*	4,971,828	July 28, 2016	December 31, 2016	$ 0.00	$ 0.090
AJ	November 23, 2015*	10,588,235	September 18, 2018	September 18, 2020	$ 0.00	$ 0.090
AK	November 23, 2015*	8,823,529	September 18, 2018	September 18, 2020	$ 0.00	$ 0.080
	Total	**97,089,961**				

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

30. 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 convertible into one ordinary share at an exercise price of $0.038 on or before the 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.

31. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	As at June 30,	
In A$'000	**2016**	**2015**
Less than one year	3,773	3,746
Between one and five years	10,313	11,557
More than five years	1,541	3,090
Total	**15,627**	**18,393**

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

32. Capital commitments

There were no outstanding commitments which are not disclosed in the consolidated financial report of the Group as at June 30, 2016 other than:

Exploration commitments

	As at June 30,	
In A$'000	**2016**	**2015**
Less than one year	317	336
Between one and five years	1,237	1,098
More than five years	2,472	2,520
Total	**4,026**	**3,954**

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

	As at June 30,	
In A$'000	**2016**	**2015**
Less than one year	709	1,848
Total	**709**	**1,848**

At June 30, 2016 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

	As at June 30,	
In A$'000	**2016**	**2015**
Less than one year	6,222	21,339
Between one and five years	52,372	35,618
More than five years	-	-
Total	**58,594**	**56,957**

Lynas is required to pay in instalments, a total of USD50m to the Malaysia's 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 did not transfer funds to AELB but has recorded amount due to AELB as payables (refer to note 21).

33. 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 28.

Notes to Financial Statements
For the year ended June 30, 2016

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, 2016	2015
Assets		
Cash and cash equivalents	34,379	26,793
Trade and other receivables	147,928	70,406
Inventories	13,412	19,479
Total current assets	**195,719**	**116,678**
Inventories	219	2,329
Property, plant and equipment	102,085	103,659
Deferred exploration, evaluation and development expenditure	44,206	45,784
Intangible assets – software	75	164
Investments in subsidiaries	375,080	375,080
Other assets	120,185	166,384
Total non-current assets	**641,850**	**693,400**
Total assets	**837,569**	**810,078**
Liabilities		
Interest payable	49,761	19,104
Trade and other payables	8,322	7,873
Borrowings	26,878	267,799
Employee benefits	1,776	2,213
Total current liabilities	**86,737**	**296,989**
Provisions	25,551	24,760
Employee benefits	359	227
Borrowings	535,686	278,368
Total non-current liabilities	**561,596**	**303,355**
Total liabilities	**648,333**	**600,344**
Net assets	**189,236**	**209,734**
Equity		
Share capital	1,088,469	1,083,898
Accumulated deficit	(1,075,287)	(1,034,358)
Reserves	176,054	160,194
Total equity	**189,236**	**209,734**
Statement of comprehensive income		
Revenue	78,097	61,793
Cost of sales	(86,880)	(77,801)
Gross Loss	**(8,783)**	**(16,008)**
Other income	48	4
Provision against investments/intercompany balances	-	(2,314)
General and administration expenses net of recoveries	6,604	(2,572)
Loss from operating activities	**(2,131)**	**(20,890)**
Financial income	9	178
Financial expenses	(37,489)	(40,763)
Net financial expenses	**(37,480)**	**(40,585)**
Loss before income tax	**(39,611)**	**(61,475)**
Income tax expense	(44)	(44)
Loss for the year from continuing operations	**(39,655)**	**(61,519)**
Other comprehensive income, net of income tax		
Exchange differences on foreign currency transactions	(1,275)	(3,012)
Total other comprehensive profit (loss) for the year, net of income tax	**(1,275)**	**(3,012)**
Total comprehensive loss for the year	**(40,930)**	**(64,531)**

34. Parent entity information

	As at June 30,	
In A$'000	**2016**	**2015**
Current assets	33,055	22,167
Total assets	**903,221**	**863,966**
Current liabilities	(76,639)	(286,902)
Total liabilities	**(610,404)**	**(563,683)**
Net assets	**292,817**	**300,283**
Share capital	1,088,469	1,083,898
Accumulated deficit	(1,116,792)	(1,076,248)
Reserves	321,140	292,633
Total shareholders' equity	**292,817**	**300,283**
Profit (loss) of the Company	(40,544)	(42,761)
Total comprehensive income (loss) of the parent Company	**(40,544)**	**(42,761)**

35. 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 22.

36. Subsequent events

On September 3, 2016 the Malaysian Atomic Energy Licensing Board (AELB) renewed the Full Operating Stage Licence (FOSL) for the Lynas Advanced Materials Plant (LAMP) for 3 years until September 2, 2019. The renewal follows a rigorous review undertaken by the AELB and other independent regulatory bodies in Malaysia, all of whom have concluded that the LAMP is in compliance with applicable regulations.