19 September 2017

FY17 FINANCIAL REPORT

Lynas Corporation Ltd (ASX:LYC, OTC:LYSDY) is pleased to enclose its Financial Report for the year ending 30 June 2017 (FY17).

During FY17, the company has improved and strengthened the business on all operational measures. Lynas is now the second largest NdPr producer in the world and the largest supplier of NdPr to the free market.

In summary, the financial and operational highlights of FY17 were:

- Safe, stable, record production rates at the LAMP. The total production of rare earth oxides (REO) in FY17 was 16,003 tonnes up from 12,631 tonnes in FY16 and reflects the positive benefits of a full year with a fourth SX5 train operational.
- Mt Weld continued to operate safely and efficiently. A second mining campaign, commenced in January 2017, was completed in May 2017 below budgeted cost.
- Record total sales revenue after sales commission in FY17 of $257.0 million, compared with $191.0 million in FY16, reflects increased production volumes, and strong relationships with strategic customers in Japan and China.
- Positive cash flows of $34.0 million from operating activities in FY17, were a significant improvement on FY16's $4.1 million.
- Positive adjusted EBITDA of $31.9 million for the full year was a first for the company after many years of negative EBITDA as the company moved through its start-up phase. Note 6 in the Financial Report contains more details.
- A further extension of both of Lynas' debt facilities until mid-2020 and significant reductions in the interest rates attached to those facilities was successfully negotiated, reflecting the support of both lender groups. The debt amendments have reset the balance sheet and better positioned the company for future growth.

Lynas has now been operating safely for 5 years in a way that is safe for workers, safe for the community and safe for the environment. The responsible management of

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residues at both facilities and our programmes to engage and contribute positively to our local communities continue to be areas of focus for the company.

OUTLOOK

The significant operational and production improvements achieved in FY17 have confirmed Lynas' leading position in the global rare earths market and its reputation as a highly reliable, sustainable supplier of quality rare earth materials.

The improved global market conditions in the second half of the financial year have continued into the early part of FY18. Lynas expects this momentum in the demand and price of NdPr to continue as this material increases in importance and relevance in a world more focused on a future of clean energy and the manufacture of high technology solutions.

Lynas has an excellent resource, reliable and well-performing processing facilities, an engaged customer portfolio and an experienced and dedicated management team. The company believes it is now in a position to reap the benefits of the strong demand and improved market conditions.

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

Andrew Arnold
Company Secretary

ACN 009 066 648

and

Controlled Entities

Consolidated Financial Report

For the year ended June 30, 2017

Corporate Directory Information

ABN 27 009 066 648

Directors

Mike Harding
William (Liam) Forde
Kathleen Conlon
Amanda Lacaze
Philippe Etienne
John Humphrey

Company Secretaries

Andrew Arnold
Ivo Polovineo

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Auditors

Ernst & Young
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Internet Address

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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, 2017. 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 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, 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 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 was a Non-Executive Director of the Company from August 25, 2004 until May 15, 2017. 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.

John Humphrey LLB - Non-Executive Director

Professor Humphrey joined the Company as a Non-Executive Director on May 15, 2017. His key areas of expertise include mergers and acquisitions, corporate finance and corporate governance.

Professor Humphrey is the Dean of the Faculty of Law at Queensland University of Technology. He has held non-executive director positions at other listed companies over many years and is currently Non-Executive Director of Horizon Oil Ltd, Auswide Bank Ltd (formerly Wide Bay Australia) and Spotless Group Holdings Ltd. His previous positions include Deputy Chairman of King & Wood Mallesons, Non-Executive Director of Downer EDI Ltd, Villa World Ltd, and Sunshine Broadcasting Network Ltd and he has served as a member of the Australian Takeovers Panel.

Resignations

Mr Klein resigned as Non-Executive Director of the Company effective May 15, 2017.

There were no other 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.

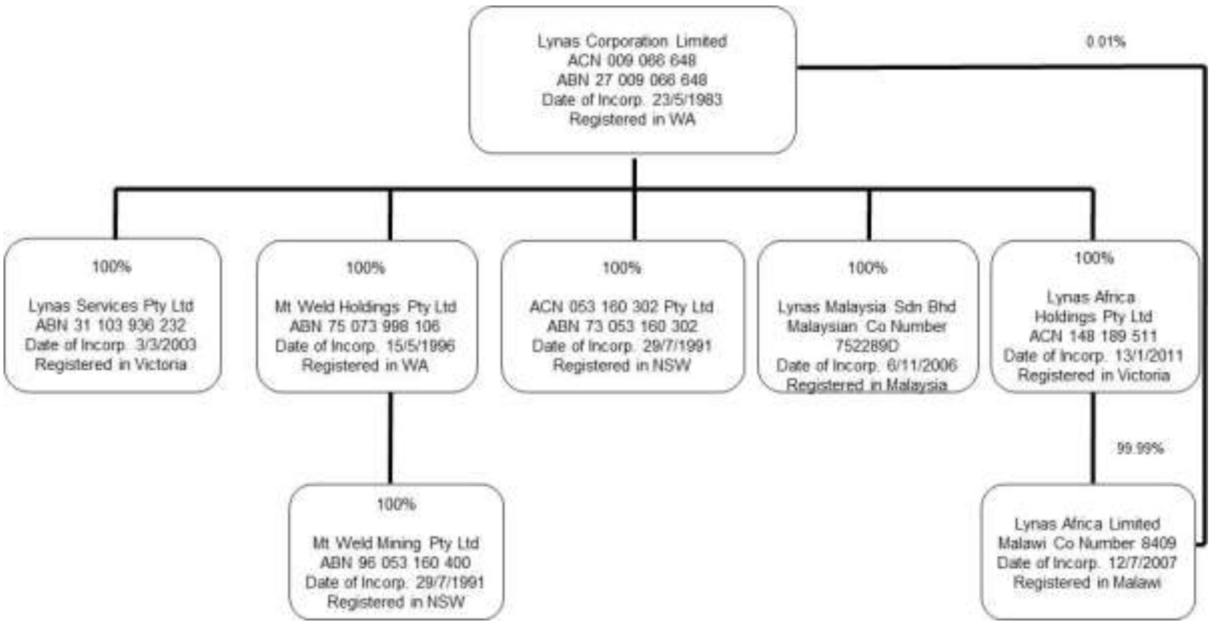
Remuneration of key management personnel

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.

Lynas Corporation Limited and Controlled Entities

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 to the financial report. 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 loan facility and the convertible bond facility, as outlined in note 2.2 and note 22 to the financial report.

The Directors have concluded that using the going concern assumption remains appropriate after considering the factors summarised above.

Review of operations

Highlights

- Lynas has consolidated its position as the second largest NdPr producer in the world and the largest supplier of NdPr to the free market with strong customer relationships in all key jurisdictions. The Group achieved record total sales revenue after commission in FY17 of $257.0m, compared with $191.0m in FY16, reflecting increased production volumes and continuing strong relationships with strategic customers in Japan and China;
- Positive improvements in the production process, throughput rates and quality of final output continued in FY17. Ready for sale production of neodymium-praseodymium (NdPr) was 5,223 tonnes in FY17 compared to 3,896 tonnes in FY16.Total ready for sale production of rare earth oxide (REO) in FY17 was 16,003 tonnes compared to 12,631 tonnes in FY16.
- Positive cash flows from operating activities increased to $34.0m in FY17 from $4.1m.
- Costs remained well managed throughout the year, with general and administration expenses excluding depreciation of $21.3m, compared to $22.8m in FY16;
- During the year, the Group successfully negotiated the further extension of both of its debt facilities until mid-2020 and significant reductions in the interest rates, reflecting the support of both lender groups;
- The Malaysian Atomic Energy Licensing Board (AELB) renewed our Full Operating Stage License (FOSL) for a further 3 years until September 2019. This renewal followed 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.

Mt Weld

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

The second mining campaign commenced in January 2017 and it was completed in May 2017 below budgeted cost. The campaign was a depth extension of the initial pit to extract additional CZ (Central Zone) ore not mined during the initial mining campaign. No overburden removal was required. The Mt Weld concentrator commenced treating ore from this campaign from March 16, 2017. Approximately 240,000 tonnes of ore at 17.8% REO was mined, sufficient for approximately 1 year's production at current rates.

The third mining campaign will see the pit extended to the north. Planning for the third campaign is underway and removal of overburden is expected to commence in late 2017.

Lynas Advanced Materials Plant (LAMP)

The site-wide improvement programs at the LAMP continue. Key focus areas include: debottlenecking and incremental increases in production rates; improving product quality; increasing REO recovery; and reducing chemical costs. The cracking and leaching kilns continue to operate at above design rates. The agitators in the leach neutralisation circuit were upgraded to handle the increased throughput and to reduce chemical usage. Debottlenecking of the solvent extraction upstream circuits and removal of non-Rare Earth impurities by solvent extraction instead of by pre-treatment in product finishing were also part of the improvement program.

In product finishing, the refinement of processes to produce high quality lanthanum and cerium products continued. Developments have been made in controlling precipitation, and centrifuge washing was carried out to remove impurities to improve tunnel furnace operations.

Rare earth oxide (REO) ready for sale production at the LAMP during the year was 16,003 tonnes (2016: 12,631 tonnes), while shipments during the year totalled 14,616 tonnes (2016: 12,514 tonnes).

Ready for sale by tonnage

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

The average selling price (revenue basis) during the year was AUD18.0/kg REO (2016: AUD15.7/kg). The Company's most significant product is NdPr and prices remained low at the beginning of the year but began to recover in November 2016. The increase accelerated from mid-June. Excluding any applicable value added taxes, the price reached USD39.0/kg in June and USD55.0/kg by early August 2017. Many factors contributed to this increase including supply side action taken by the China central government to enforce environmental and licensing regulations throughout the rare earths industry. This has translated to the forced shutdown of a number of separation units and better control of resources.

A further factor contributing to improved pricing was continued strong demand for magnetic materials. Demand for permanent magnets continues to grow based on their use in a range of applications, including electric vehicles and wind turbines. The continuing growth in demand from the electric vehicles sector is particularly important and based on recent announcements by various automotive companies, this strong demand is likely to accelerate in the medium term. Lynas is heavily engaged with participants in that sector to promote rare earths technology as the technology of choice for environmentally-friendly vehicles and expects the strong demand to continue.

Significant quality improvements in Cerium products allowed us to increase our share of the catalyst and UV cut glass markets. In addition, we have started developing new customized grades for niche applications in order to attract higher prices.

The LAMP has been operating safely for five years. During that time, we have undertaken extensive community engagement programs, including via national media, social media, community days, LAMP site visits and our support of programs for students, the elderly and disadvantaged members of local communities. We have achieved a high level of acceptance among our local communities.

Management of residues from the LAMP continues to be an area of focus. The Group remains committed to pay security deposit instalments to the Malaysian Government's Atomic Energy Licencing Board ("AELB") totalling USD 50 million, in accordance with the conditions of the Full Operating Stage Licence for the LAMP, The amount due to the AELB as at June 30, 2017 was A$20.3 million. This amount will be deposited with the AELB in cash or a bond by 31 October 2017. Notes 18 and 32 contain more details.

The Group continues its commercialisation program of solid residues from the LAMP. Field trials have demonstrated the efficacy of the residue material in enhancing soil structure, adjusting soil pH, enhancing growth and improving yields. A progress report was submitted to Malaysia's Department of Environment (DOE) as part of the commercialisation approval process. The DOE accepted that report, which confirms that the soil conditioning product using LAMP residues known as "Condisoil" is safe for agricultural use and that Condisoil increases paddy yield.

Malawi operations

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

Health, Safety and Environment

The Company's Western Australian and Malaysian operations maintained certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards during the year. The 12-month rolling lost time injury frequency rate as at June 30, 2017 was 2.2 per million hours worked (2016: 0.5 per million hours). The Company continued to carefully manage all residues, air, water and solid, and met or exceeded all licence requirements.

Financial performance

For the year ended

In AUD Million (m)	June 30, 2017	2016
Revenue	257.0	191.0
Cost of sales	(242.2)	(211.4)
Gross profit / (loss)	**14.8**	**(20.4)**
General and administration expenses	(25.5)	(34.8)
Net foreign exchange (loss) / gain	(3.8)	0.8
Impairment expenses	-	(1.5)
Loss from operating activities	**(14.5)**	**(55.9)**
Net gain on extinguishment of debts	22.9	-
Other financial income	0.3	0.2
Financial expenses	(44.3)	(38.4)
Net financial expenses	**(21.1)**	**(38.2)**
Loss before income tax	**(35.6)**	**(94.1)**

Overall sales volumes in the year ending June 30, 2017 grew by 17% compared to the year ending June 30, 2016 reflecting continued improvement in production rates, consistent demand for NdPr products, and some quality improvements for Cerium and Lanthanum products. Revenue growth at 35% being slightly higher than the NdPr sales volume growth of 34% reflected the higher prices achieved during the current year.

Market pricing remained low for all products, throughout most of the year. The average China domestic price of NdPr reduced from USD34.2/kg towards the end of FY16 to USD30.6/kg in November 2016 before rising to USD39.0/kg in June 2017 mainly due to continued strong demand for magnetic materials and the effects of the China central government's initiatives to enforce stricter environmental controls. This trend is expected to continue in the near term.

Gross profit for the year was $14.8m (2016: gross loss of $20.4m).

The loss from operating activities (EBIT) reduced by $41.4m compared to prior year, in part due to the increase in sales and reduction in general and administration expenses. On an adjusted EBITDA basis (refer to note 6 to the financial report for the basis of this measure) the Group reported a gain of $31.9m (2016: $9.0m loss) in the year ended June 30, 2017.

Due to the substantial amendments made to the terms of the Group's debt facilities during the year, the extinguishment of the debts under the previous terms and the establishment of the debt's fair values based on the new terms were performed. This resulted in a net gain of $22.9m. Financial expenses, on the other hand, increased by $5.9m due to reduced loan interest expenses offset by the effects of discounting the deposit paid to the AELB. Loan interest expenses reduced in line with the amendments to the JARE loan facility and the convertible bond facility. The interest rate on the JARE loan facility reduced from 6.0% to 2.5% effective October 26, 2016 and the coupon rate on the convertible bonds reduced from 2.75% to 1.25% p.a. effective December 8, 2016.

General and administration expenses that predominantly consist of employee costs, unrecovered production costs and depreciation (net of recovery) decreased by $9.3m during the year. Unrecovered employee costs and unrecovered production costs were $9.0m (2016: $10.4m) and unrecovered depreciation was $4.2m (2016: $12.0m). Consistent with the prior year, production costs have been substantially accounted for within cost of sales. Other general and administration expenses include insurance premiums, consultancy fees, telecommunications and general office expenditures. Overall production cost recoveries increased by $1.7m in this year.

Cash flows for the year ended

In A$m	June 30, 2017	2016
Net operating cash inflows	34.0	4.1
Net investing cash outflows	(6.9)	(10.3)
Net financing cash outflows	(3.0)	(2.6)
Net cash flows	**24.1**	**(8.8)**

Operating cash flows

During the year ended June 30, 2017 the Group's cash receipts from sales were $260.4m (2016: $202.6m). Net operating cash flows improved by $29.9m with increased sales and production volumes and effective overall cost management.

Investing cash flows

Net investing cash outflows decreased by $3.4m during the year ended June 30, 2017. The reduction in payments for property, plant and equipment of $8.4m and increase in security bonds refund of $1.8m was offset by the increase in security bond payments of $6.8m. The security bond payments include $5.9m deposited with the Malaysian Government's Atomic Energy Licencing Board ("AELB").

Financing cash flows

Net financing cash outflows increased slightly due to interest on borrowings of $5.1m, increase in repayment of borrowings of $1.2m offset by proceeds from the exercise of warrants of $5.9m.

Financial position

As at

	June 30,	
In A$m	**2017**	**2016**
Assets		
Cash and cash equivalents	63.9	43.3
Inventories	38.0	53.9
Property, plant and equipment	538.4	612.1
Deferred exploration, evaluation and development expenditure	42.0	44.2
Other assets	34.1	33.5
Total assets	**716.4**	**787.0**
Liabilities		
Borrowings	459.4	562.6
Other liabilities	165.6	153.2
Total liabilities	**625.0**	**715.8**
Net assets	**91.4**	**71.2**
Equity		
Share capital	1,094.4	1,088.5
Accumulated deficit	(1,024.8)	(989.0)
Reserves	21.8	(28.3)
Total equity	**91.4**	**71.2**

The overall increase in net assets of the Group during the year ended June 30, 2017 is primarily due to the extinguishment of the debts and subsequent recognition of the debts at significantly lower values as a result of extension in maturity dates, lowered interest rates and favourable foreign exchange movement on debts. This effect on net assets has been partially offset by the downward revaluation of Malaysian property, plant and equipment due to the devaluation of Malaysian ringgit against Australian dollar.

Cash and cash equivalents at June 30, 2017 comprised $35.9m (June 30, 2016: $10.4m) of unrestricted cash and $28.0m (June 30, 2016: $32.9m) of restricted cash. Restricted cash is available to fund future interest payments and principal repayments under the JARE loan facility and the convertible bond facility. Prior to the latest debt facility amendments, interest on the JARE loan and convertible bond facilities was paid into separate restricted bank accounts in the name of Lynas. Interest liabilities would only be paid to the lenders to the extent that there was a total cash balance (unrestricted and restricted funds) in excess of $60m.

The debt facility amendments that were approved by shareholders at the 2016 annual general meeting came into effect in December 2016. Future interest liabilities will be paid directly to the lenders.

USD3m was repaid on the JARE loan facility in October 2016 reducing the outstanding loan balance to USD200m at June 30, 2017. This facility has a fair value of USD179.4m which has been converted to Australian dollars at June 30, 2017 exchange rate. The convertible bond facility had an outstanding principal of USD225m at June 30, 2017. The liability component has been converted to Australian dollars at June 30, 2017 exchange rate and the equity component has been converted to Australian dollars at the effective date of the amended terms.

In addition, there are a number of other changes to the debt facilities under this new set of amendments.

In accordance with the terms of the JARE facility, the JARE restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the JARE restricted bank account were applied as follows on August 4, 2017:

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

On each interest payment date, when the total unrestricted cash balance exceeds $40m, the surplus will be paid as a principal repayment to JARE pursuant to a cash sweep mechanism. If Lynas received the proceeds from an equity raising (such as an issuance of shares or an exercise of warrants), then the following amounts will be exempt from the cash sweep: (i) 75% of the proceeds received up to a cumulative balance of USD50 million, and (ii) 50% of the proceeds above a cumulative balance of USD50 million.

Other key changes to the JARE loan facility include:

- Extension of the maturity date from June 30, 2018 to June 30, 2020;
- The payment of interest in respect of the period commencing on January 1, 2016 and ending on December 31, 2016 will be deferred to the maturity date (with no penalty, and no additional interest);
- Decrease in the interest rate from 6.0% to 2.5% per annum. If, on the last day of any calendar month ("test date") the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is USD38 per kilogram or greater, the interest rate will increase to 3.75% per annum, effective on and from the day after the test date;
- No fixed principal repayments from unrestricted cash during the term of the facility. Outstanding balance of the loan will be settled on maturity date.

Key changes to the convertible bond facility include:

- Extension of the maturity date from September 30, 2018 to September 30, 2020;
- Decrease in the coupon rate from 2.75% per annum to 1.25% per annum. If, on the last day of any calendar month ("test date") the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is USD38 per kilogram or greater, the interest rate will increase to 1.875% per annum, effective on and from the day after the test date;
- Adjustment to the conversion price of $0.5634 per share to $0.10 per share;
- Adjustment to the conversion exchange rate of USD1.00 = AUD0.9533 to AUD1.00 = USD0.7500;
- Issue of 348,843,836 warrants with an exercise price of $0.05 each and an expiry date of September 30, 2020.

On August 2, 2017 the bondholders converted 25,000,000 convertible bonds with a principal value of USD25,000,000 into 333,333,332 ordinary shares. On August 15, 2017 the bondholders converted another 37,833,333 convertible bonds with a principal value of USD37,833,333 into 504,444,440 ordinary shares. The outstanding principal of the convertible bonds has been reduced to USD162,166,667.

In accordance with the terms of the convertible bond facility, the convertible bond restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the convertible bond restricted bank account were applied on August 4, 2017 in full payment of the interest incurred from January 1, 2015 to December 31, 2015 and additional interest on withdrawals made in 2016.

Inventory reduced by $15.9m, or 30% during the year ended June 30, 2017. Holdings of raw materials and consumables were $12.0m compared to $13.6m at June 30, 2016. Finished goods have decreased by $2.3m to $3.9m at June 30, 2017. Work in progress inventory was reduced by $12.0m to $22.1m. As at June 30, 2017 the Group held 4,084 tonnes of processed concentrate containing 1,529 tonnes of REO bagged and ready for export at its Mt Weld operations.

Property, plant and equipment decreased by $73.7m or 12% during the year driven by the weakened Malaysian ringgit against the Australian dollar ($46.0m) and depreciation charged during the year ($37.0m) offset by additions of $9.4m.

Reserves were increased by the value of warrants issued to Lynas' bondholders ($9.0m), the equity component of the amended convertible bond ($68.7m) and share based payments ($2.5m). This was offset by the drop in foreign currency translation reserve ($30.1m) driven by the weakened Malaysian ringgit against Australian dollar on overseas assets offset by the effects of the weakened USD against the AUD on the Lynas' loans that are denominated in USD.

Capital structure

During the year ended June 30, 2017 the Company issued shares as shown below:

	Number
Shares on issue June 30, 2016	3,488,438,369
Issue of shares pursuant to exercise of warrants	156,153,962
Issue of shares pursuant to exercise of Performance Rights	33,151,018
Shares on issue June 30, 2017	3,677,743,349

In addition to the ordinary shares on issue there were 94,790,959 Performance Rights, 225,000,000 unlisted convertible bonds on issue each with a conversion price of $0.10 (at a set exchange rate of $1.00 = USD0.75), 18,211,504 unlisted warrants with an exercise price of $0.038 each and another 348,843,836 unlisted warrants with an exercise price of $0.05 each.

Loss per share

	June 30,	
	2017	2016
Basic and diluted loss per share (cents per share)	(0.42)	(2.70)

Dividends

There were no dividends declared or paid during the year ended June 30, 2017 (2016: nil) and no dividends have been declared or paid since June 30, 2017.

Strategic marketing and sales

Market pricing, for all products, remained low for in the first half of the year. However, due to continued strong demand for magnetic materials and the effects of the China central government's initiatives to enforce stricter environmental controls, NdPr prices in the second half improved.

Demand for permanent magnets continues to grow based on their use in a range of applications, including electric vehicles and wind turbines. The continuing growth in demand from the electric vehicles sector is particularly important and based on recent announcements by various automotive companies, this demand is likely to accelerate in the medium term. Lynas is heavily engaged with participants in that sector to promote rare earths technology as the technology of choice for environmentally-friendly vehicles and expects the strong demand to continue.

Lynas has strengthened its reputation as a reliable and environmentally assured supplier of high quality NdPr, and Lynas is currently the second largest NdPr producer in the world. With no in-house consumption in downstream activities, Lynas is the largest supplier of NdPr to the free market.

Speculation about future demand for heavy rare earths, especially Dysprosium and Terbium, which are key additives for high performance magnets essential to the electrification of cars, translated into significantly higher prices for our heavy rare earths mix (SEG) towards the end of the year. Lanthanum remained in high demand outside China, especially for high performance ferrite magnets and NiMH batteries. Significant quality improvements in Cerium products allowed Lynas to increase our share of the catalyst and UV cut glass markets. In addition, Lynas has started developing new customised grades for niche applications in order to attract higher prices.

Sales by tonnage and value

	H1 FY16	H2 FY16	**FY16**	H1 FY17	H2 FY17	**FY17**
Sales volume (REOt)	5,773	6,741	**12,514**	6,431	8,185	**14,616**
Cash receipts from customers (AUDm)	105.7	96.9	**202.6**	115.8	144.6	**260.4**

Lynas, with 100% of capacity commissioned and operating, can confidently serve these growing markets. The continuing growth in demand from the electric vehicles sector is a key driver of demand increases for magnetic materials, and based on recent announcements by automotive manufacturers may be reaching an inflection point. Lynas is heavily engaged with participants in that sector to promote rare earths technology as the technology of choice for environmentally-friendly vehicles.

Risk management

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

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

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 pricing formulae that reference published pricing for various rare earths materials. The market price has been volatile in the past because it is influenced by numerous factors and events that are beyond the control of Lynas. These include:

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

(ii) *Fluctuations in demand*
A key factor influencing rare earth demand is automotive market demand, both in terms of production quantity and technology 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.

The table below illustrates how China domestic prices of NdPr (excluding VAT) have moved over FY17:

	September 2016 Quarter	December 2016 Quarter	March 2017 Quarter	June 2017 Quarter
USD/kg	32.1	31.0	33.0	36.5

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

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

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

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

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

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

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

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

	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
	$	$	$	$	$
USD/AUD	0.7545	0.7283	0.8382	0.9187	1.0239
MYR/AUD	3.2331	3.0098	2.8828	2.9804	3.1659

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

Refer to note 26 to the financial report for details of the Company's foreign currency exposure and sensitivity analysis.

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

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

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

In addition, the principal amount of the convertible bonds was USD225m as at June 30, 2017. Unless the convertible bonds are fully converted into ordinary shares in Lynas prior to maturity, the principal amount will be due for repayment on September 30, 2020.

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

In the event significant uncertainty arises in relation to Lynas' ability to fully repay, refinance or reschedule the outstanding balances of the JARE loan facility and the convertible bonds by their respective maturity dates of June 30, 2020 and September 30, 2020 the Group's ability to continue as a going concern may also be affected.

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

Lynas' mining and production activities are dependent on the granting and maintenance of appropriate licences, permits and regulatory consents and authorisations (including those related to interests in mining tenements and those related to the operation of the Lynas plants in Australia and Malaysia), which may not be granted or may be withdrawn or be made subject to limitations at the discretion of government or regulatory authorities. Although such licences, permits and regulatory consents and authorisations may be granted, continued or renewed (as the case may be), there can be no assurance that such licences, permits and regulatory consents and authorisations will be granted, continued or renewed, or as to the terms of renewals or grants. If there is a failure to obtain or retain the appropriate licences, permits and regulatory consents and authorisations or there is a material delay in obtaining or renewing them or they are granted subject to onerous conditions or withdrawn, then Lynas' ability to conduct its mining and production activities may be adversely affected.

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

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

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 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, 2017, 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, 2017 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 involves 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. Further information on the skill set of the Directors is provided in the Remuneration Report.

(2) Increasing the number of women in operations and in other key areas of the workforce.

The Group has been very focussed on promoting the development of women within its business. The numbers of female employees at the group's largest plant in Kuantan Malaysia increased to 92 at the end of FY17 (the number was 65 at the end of FY16). In addition, the Group has focussed on encouraging a wide range of ethnic backgrounds among its employees, and the workforce includes people from a large number of backgrounds and cultures. 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, 2017 (prior year: June 30, 2016):

(1) Proportion of women employees in the whole organisation: 14.8% (2016 – 10.6%).

(2) Proportion of women employees in senior executive positions: 28.6% (2016 – 33.0%).

(3) Proportion of women on the Board: 33.0% (2016 – 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, 2017.

Recommendation 1.6– Process for evaluating the performance of the Board

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

(1) evaluation and review of the performance of the Board against both measurable and qualitative indicators established by the Committee;

(2) evaluation and review of the performance of individual Directors against both measurable and qualitative indicators established by the Committee;

(3) review of and making of recommendations on the size and structure of the Board; and

(4) review of the effectiveness and programme of Board meetings.

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

Recommendation 1.7 – Performance evaluation of Senior Executives

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

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

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

Principle 2 – Structure the board to add value

Recommendation 2.1 – Nomination Committee

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

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

(1) The Committee consists of a majority of independent Directors. During the financial year ending June 30, 2017, 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 three formal meetings of the Committee during the financial year ending June 30, 2017. 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, 2017, the Committee had three members.

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

Recommendation 2.2 – Board Skills

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

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

The Board's skills matrix is based on the above sets of skills and experience. The Nomination, Remuneration and Community Committee remains focussed on Board renewal, and the appointment of Professor Humphrey as a Director during the year further enhanced the Board's skill set. The Board considers that each of the above skills is currently reflected in the skills and experience of the existing members of the Board. Further details of the skills and experience of the members of the Board are provided in the Directors section of the Directors' Report. 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, 2017 the Board had a majority of independent Directors. In accordance with the definition of independence above, and the materiality thresholds set, J. Klein, J. Humphrey, 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, 2017 is as follows:

Name	**Term in office**
W. Forde	9 years 5 months
K. Conlon	5 years 8 months
A. Lacaze	3 years 6 months
M. Harding	2 years 6 months
P. Etienne	2 years 6 months
J. Humphrey	1 month

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, 2017, 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, 2017. 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, 2017.

Recommendation 2.6 – Director Induction and Professional Development

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

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

Principle 3 – Act ethically and responsibly

Recommendation 3.1 – Code of Conduct

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

(1) practices necessary to maintain confidence in the Group's integrity;

(2) practices necessary to take into account the Group's legal obligations and the expectations of stakeholders; and

(3) responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

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

Conflict Of Interest Policy

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

(1) protect the integrity of the decision-making processes within the Group by avoiding ethical, legal, financial or other conflicts of interest;

(2) establish internal procedures so that all employees understand their obligation to avoid actual, potential or perceived conflicts of interest;

(3) provide guidance to employees for dealing with any conflicts of interest in an open and transparent manner;

(4) provide guidance to employees for recognising and reporting on related party transactions; and

(5) establish internal procedures to ensure that related party transactions are referred to the Group's shareholders where required.

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

Principle 4 – Safeguard integrity in corporate reporting

Recommendation 4.1 – Audit Committee

The Group has established an Audit 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. From July 1, 2016 to May 15, 2017, the members of the Committee were Mr Forde, Mr Klein, Ms Conlon and Mr Etienne. From May 15, 2017 onwards, the members of the Committee were Mr Forde, Mr Humphrey, 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) Six meetings of the Committee were held during the financial year ending June 30, 2017. 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, 2017, 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 in the Corporate Governance section 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. There is a facility on the Group's website, *www.lynascorp.com* for shareholders to subscribe to receive emailed copies of the Group's ASX announcements. 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. From July 1, 2016 to May 15, 2017, the members of the Committee were Mr Forde, Mr Klein, Ms Conlon and Mr Etienne. From May 15, 2017 onwards, the members of the Committee were Mr Forde, Mr Humphrey, 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) Six meetings of the Committee were held during the financial year ending June 30, 2017. 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, 2017, 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, 2017.

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 commercialisation programs. These measures have ensured that the Group has complied with all applicable environmental standards at each site.

(3) The Group recognises that a strong mutual relationship with each community in which it operates is necessary for successful operations. In addition, the Group recognises the importance of maintaining its reputation with all of its stakeholders including shareholders, regulatory authorities, communities, customers and suppliers. The Group has adopted a Community and Stakeholder Engagement Plan and the Group engages in community programs that build relationships with each of the communities in which the Group operates.

Principle 8 - Remunerate fairly and responsibly

Recommendation 8.1 – Remuneration Committee

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

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

(1) The Committee consists of a majority of independent Directors. During the financial year ending June 30, 2017 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 three formal meetings of the Committee during the financial year ending June 30, 2017. 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, 2017 the Committee had three members.

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

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

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

(1) Fixed remuneration, superannuation payments and termination payments.

(2) Performance Rights 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, 2017 no Options or Performance Rights 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.*

Shares issued as a result of exercise of Performance Rights

During the financial year 33,151,018 Performance Rights were exercised as set out in note 29 to the financial report.

Indemnification and insurance of directors and officers

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

(a) a wilful breach of duty; or

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

The total amount of insurance contract premiums paid was $482,964 (2016: $355,290). This amount is not included as part of the Directors' remuneration in note 27 to the financial report.

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 to the financial report. 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 and Community Committee.

Directors acting on the committees of the Board during the July 1, 2016 to May 15, 2017:

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(1)	J. Klein(1)	W. Forde
P. Etienne	P. Etienne	

(c) Designates the Chair of the Committee as at June 30, 2017.
(1) Resigned on May 15, 2017.

Directors acting on the committees of the Board from May 15, 2017 onwards:

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. Humphrey(1)	M. Harding	W. Forde
P. Etienne	P. Etienne	

(c) Designates the Chair of the Committee as at June 30, 2017.
(1) Appointed on May 15, 2017.

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, Remuneration and Community**
Number of meetings held:	**9**	**6**	**2**	**3**
Number of meetings attended:				
M. Harding	8	-	-	3
A. Lacaze	9	-	-	-
W. Forde	9	6	2	3
K. Conlon	9	6	2	3
J. Klein(1)	5	3	-	-
P. Etienne	9	6	2	-
J. Humphrey(2)	1	1	-	-

(1) Resigned on May 15, 2017.
(2) Appointed on May 15, 2017.

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, 2017 (FY17).

As with other areas of the business, during FY17 we continued to restructure 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.

Despite the improved operating performance and share price of the Company in FY17 (as summarised in Section D below), there have been no increases in the fixed pay of the Executives since FY14. In addition, the fees paid to Non-Executive directors have not increased since FY11. Remuneration has been simplified. Total remuneration for Directors and Executives in FY17 is shown in the table on page 30.

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

In FY17, 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

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:

Executives	At as June 30, 2017, the Chief Executive Officer and Managing Director ("CEO"), the Chief Financial Officer ("CFO"), the VP Production, the VP Sales & Marketing 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 Performance Rights 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, 2017 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 & Community Committee
J. Klein	Non-Executive Director (resigned on May 15, 2017)
P. Etienne	Non-Executive Director
J. Humphrey	Non-Executive Director (appointed on May 15, 2017)

Executives:

A. Lacaze	CEO and Managing Director
G. Sturzenegger	CFO
K. Leung	VP Production
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. In addition, our senior ex-patriate executives are remunerated at market rates necessary to attract ex-patriates with their skills and experience to work in our main office in Kuantan, in regional Malaysia. Those ex-patriate executives have been key drivers of the business' strong performance in FY17, as described below.

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 strategic 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, Remuneration and Community Committee

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

- consists of 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.

<u>Fixed pay</u>

Despite the improving performance of the business in FY17, there have been no increases in the fixed pay of the Executives since FY14. Gross profit for FY17 was $14.7m (FY16: $20.4m loss) reflecting increased production volumes and improved selling prices towards the end of FY17. Net operating cash flows for FY17 were $34.0m (FY16: $4.1m) reflecting similar factors. The Company's share price on 1 July 2016 was 5.7 cents. By June 30, 2017, the Company's share price had increased to 10.5 cents. The Company's share price has increased further since June 30, 2017.

The CEO's fixed pay and total remuneration have not increased since the CEO was appointed in June 2014. The CEO's package was benchmarked to market based on data provided by Mercer, an external consulting firm. Ms Lacaze's total fixed remuneration is 30% less than the total fixed remuneration of the previous CEO. In addition, Ms Lacaze's package reflected the difficulty in recruiting a suitable candidate in June 2014 to undertake the challenging role of Lynas CEO, at a time of uncertainty regarding the Group's future. The package also reflects the Group's requirement for an ex-patriate CEO with the skills and experience necessary to manage the Group, and the need to attract and retain such a CEO in our main office in Kuantan, in regional Malaysia. Since June 2014, Ms Lacaze has led a significant turnaround in the Group's performance, reflected in the improved operating metrics summarised in the previous paragraph. There remains significant work to be done in the business by a CEO with Ms Lacaze's skill set, including strengthening the Company's position in the volatile global market for Rare Earth products and maintaining the Company's improved relations with its lenders, customers, investors, local communities and other key stakeholders.

<u>Variable remuneration</u>

Our structure for STI awards and LTI awards is described in Section B above.
In summary:

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

STIs

For Executives, up to 50% of fixed pay is available for STI awards.

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, 2017 the STI Program had 4 goals as follows:

1. Lynas Group unrestricted cash balance – 25%
2. NdPr production volume – 25%
3. Operating cost targets – 25%
4. Team / Individual Performance – 25%

The table below summarises the STI targets and outcomes for the financial year ended June 30, 2017 on Cash Balance and NdPr Production.

Targets for Operating Costs were set at the start of FY17 based on NdPr unit operating costs, excluding employee share payments, after crediting non-NdPr realised revenue. Those figures are commercial-in-confidence because it is not in the interest of the Group to disclose those figures to third parties such as customers and competitors. However we confirm that the actual result for FY17 was a 21% reduction on the actual per NdPr unit Operating Costs result for FY16. Based on the targets set, an award was made for FY17 at the 105% level for Operating Costs.

FY17 STI Goal	***Target for 80% of Award***	***Target for 100% of Award***	***Target for 120% of Award***	***FY17 Outcome***
Unrestricted cash balance	AUD28,001,735	AUD39,412,640	AUD43,353,904	AUD35,857,798 94% of Award
NdPr production volume (PF output)	4,989t	4,989t	5,488t	5,238t 110% of Award

As shown in the above table, three bands of performance were specified at the beginning of FY17 for each STI goal, with awards to be made equal to 80%, 100% or 120% of the available STI award pool for each goal, depending on which performance band was achieved. Awards would be prorated if performance fell between the 80%, 100% or 120% targets.

In addition, 25% of the STI award pool was available based on Team / Individual Performance goals. Team / Individual Performance goals included safety performance, customer development, environmental compliance, reputational management and community engagement. In FY17, the Group maintained a very good safety record, with the Group-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of June 2017, at 2.2 per million hours worked. In addition, significant progress was made in each of the other goals specified above, as detailed in the Review of Operations section of the Directors' Report. In assessing the award for Team / Individual Performance, the Board considered each of the outcomes on the goals specified above and the improved financial performance of the Group in FY17, as detailed in the Review of Operations and Financial Performance sections on pages 6 to 13 of the Director's Report. The Board concluded that the performance of the Executives had been excellent during FY17 and an award was made at the 110% level for Team / Individual Performance in FY17.

In accordance with the above calculations, the overall outcome was that 105% of the available STI awards will be made in respect of the financial year ended June 30, 2017. Those awards will be made 50% in cash and 50% in Performance Rights with a 12 month vesting period. After the end of the financial year, the Board calculates the STI award outcome based on the above criteria, and the Board reserves the right to adjust the outcome, or the timing of payments, based on factors such as cash availability to pay the proposed award. No such adjustment was made for FY17. 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 KMPs 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.

<u>LTI Performance Rights Forfeited During FY17</u>

The following LTI Performance Rights were forfeited during FY17.

8,094,340 LTI Performance Rights, granted as part of the FY15 LTI plan, were conditional on a Right First Time (RFT) hurdle measured over calendar year 2016. The performance hurdle required that the percentage of first time conforming produced tonnes over total produced tonnes for Mt Weld and the LAMP during calendar year 2016 must be at least 85%. That hurdle was satisfied by Mt Weld production during 2016, however it was not satisfied by LAMP production, in particular it was not satisfied in respect of the high volume product cerium that was produced at the LAMP. The overall RFT percentage in 2016 was approximately 77%. Accordingly, the 8,094,340 Performance Rights were forfeited in the financial year ended June 30, 2017.

In addition, 6,745,283 LTI Performance Rights, granted as part of the FY15 LTI plan, were conditional on Total Shareholder Return (TSR) being at least at the 51st percentile of ASX 200 companies over a 3 year vesting period expiring on September 23, 2017. That TSR hurdle cannot be measured until after September 23, 2017. Depending on the comparative performance of ASX 200 companies over the 3 year period ending September 23, 2017, there is a risk that the 6,745,283 Performance Rights may also be forfeited.

<u>LTI Performance Rights that Vested During FY17</u>

No LTI Performance Rights vested during FY17, due to the non-satisfaction of the performance hurdles summarized above.

<u>LTI Performance Rights Awarded During FY17</u>

A summary of the performance hurdles attached to the Performance Rights awarded during the financial year ended June 30, 2017 is set out below:

(i) 50% will be conditional on the Company's cumulative NdPr production during the period 1 July 2016 to 30 June 2019, in accordance with the following sliding scale:
   (a) If cumulative NdPr production from 1 July 2016 to 30 June 2019 is at least 13,903 tonnes, then 50% of the NdPr production portion will vest.
   (b) If cumulative NdPr production from 1 July 2016 to 30 June 2019 is at least 15,448 tonnes, then 100% of the NdPr production portion will vest.
   (c) If cumulative NdPr production from 1 July 2016 to 30 June 2019 is at least 16,993 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 300 Metals and Mining Index 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).

The above performance hurdles were selected as key measures of long-term success for the Group that were aligned with the interests of shareholders. The NdPr production hurdle in paragraph (i) defined long-term success in the context of production of the product for which the Group receives significantly higher prices than any other product. Increased NdPr production has been a key driver of the Group's improved results in FY17. In addition, the NdPr production hurdles were set at higher production rates than the equivalent JARE senior debt facility NdPr production targets that applied at the time, which were announced to the ASX on 17 August 2015.

The TSR hurdle compares shareholder returns from Lynas to shareholder returns from ASX 300 Metals and Mining Index companies over the 3-year vesting period. Lynas is currently a member of the ASX 300 Metals and Mining Index, and therefore this was considered to be an appropriate benchmark for the TSR hurdle.

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

Refer to Section D above for a summary of how Executive remuneration is linked to Group performance. In particular, despite the improving performance of the business in FY17 as summarized in Section D above, there have been no increases in the fixed pay of the Executives since FY14.

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, 2017, 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. In addition, as detailed in Section D above, significant numbers of Performance Rights were forfeited in FY17 due to non-satisfaction of vesting conditions.

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 ramp-up, production volumes, cash flows, costs and safety and community programmes.

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 in 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	June 30, 2017
Revenue ($'000)	-	-	-	950	64,570	144,596	190,956	256,976
Loss before tax ($'000)	(43,041)	(57,288)	(97,879)	(141,014)	(345,431)	(118,559)	(94,117)	(35,642)
Loss after tax ($'000)	(43,041)	(59,086)	(87,770)	(143,555)	(345,488)	(118,685)	(94,082)	(14,876)
Shareholder capital ($'000)	719,857	821,994	823,161	994,645	1,034,634	1,083,898	1,088,469	1,094,403
Annual average share price	$0.55	$1.66	$1.30	$0.65	$0.29	$0.08	$0.07	$0.08
Closing share price at financial year end	$0.55	$1.98	$0.85	$0.38	$0.13	$0.03	$0.05	$0.11
Basic loss per share (cents)	(3.23)	(3.54)	(5.12)	(5.13)	(15.41)	(3.82)	(2.70)	(0.42)
Diluted loss per share (cents)	(3.23)	(3.54)	(5.12)	(5.13)	(15.41)	(3.82)	(2.70)	(0.42)

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.

NED Skill Set

The Group has focussed on ensuring that its Directors reflect the broad range of skills necessary to oversee the emergence of the Group as a significant participant in the volatile global market for Rare Earth products. The Group is now the second largest NdPr producer in the world and the largest supplier of NdPr to the free market. The key skills reflected among the Board members include:

- Industrial / operating;
- Finance / accounting;
- Marketing;
- International business;
- Corporate finance / strategy;
- Government / regulatory.

Remuneration 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

The base fees for NEDs have not increased since FY11. The base fees for NEDs for the financial year ended June 30, 2017 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, 2016 and June 30, 2017 is set out in Section H of this report.

H. Details of Remuneration

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
FY17									
Executive Director									
A. Lacaze	1,180,384	158,250	63,492	-	19,616	8,633	1,051,424	42%	2,481,799
Non-Executive Directors									
K. Conlon	140,000	-	-	-	-	-	-	0%	140,000
W. Forde	142,500	-	-	-	13,538	-	-	0%	156,038
M. Harding	250,000	-	-	-	19,590	-	-	0%	269,590
J. Klein(2)	100,625	-	-	-	-	-	-	0%	100,625
P. Etienne	115,000	-	-	-	10,925	-	-	0%	125,925
J. Humphrey(3)	14,839	-	-	-	1,410	-	-	0%	16,249
Executives									
A. Arnold	487,400	62,257	5,477	-	-	-	291,698	34%	846,832
G. Sturzenegger	485,732	66,266	-	-	-	-	166,706	23%	718,704
K. Leung	480,384	66,875	29,603	-	19,616	6,382	297,228	33%	900,088
P. Le Roux	411,364	68,855	96,257	-	65,088	-	173,619	21%	815,183
Total	**3,808,228**	**422,503**	**194,829**	**-**	**149,783**	**15,015**	**1,980,675**	**30%**	**6,571,033**
FY16									
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(2)	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.
(2) Resigned on May 15, 2017.
(3) Appointed on May 15, 2017.

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, 2017.

Name	Balance at beginning of year	Purchased	On exercise of performance rights	Sold	Other	Balance at end of year	Held nominally at end of year
A. Lacaze	1,030,976	-	11,385,140	-	-	12,416,116	-
K. Conlon	856,180	-	-	-	-	856,180	-
P. Etienne	166,300	-	-	-	-	166,300	-
W. Forde	1,575,893	-	-	-	-	1,575,893	-
M. Harding	-	-	-	-	-	-	-
J. Klein(1)	2,825,893	-	-	-	(2,825,893)(1)	-	-
J. Humphrey(2)	-	-	-	-	-	-	-
A. Arnold	46,688	-	1,912,246	(956,123)	-	1,002,811	-
G. Sturzenegger	-	-	2,044,804	(559,214)	-	1,485,590	-
K. Leung	40,890	-	2,095,300	(2,095,300)	-	40,890	-
P. Le Roux	-	-	2,099,869	(574,273)	-	1,525,596	-
Total	**6,542,820**	**-**	**19,537,359**	**(4,184,910)**	**(2,825,893)**	**19,069,376**	**-**

(1) Resigned on May 15, 2017.
(2) Appointed on May 15, 2017.

(ii) Share Based Remuneration – Performance Rights
Performance Rights are issued on the same terms as Options, except there is no consideration payable on exercise. As at year end the Group had on issue to directors and KMP the following Performance Rights to acquire ordinary fully paid shares:

Series	Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per right at grant date
Y	September 23, 2014	3,792,453	September 23, 2017	September 23, 2019	$ 0.00	$ 0.116
Z	September 23, 2014	3,160,378	September 23, 2017	September 23, 2019	$ 0.00	$ 0.096
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
AG	September 18, 2015	7,576,066	September 18, 2018	September 18, 2020	$ 0.00	$ 0.029
AH	September 18, 2015	9,091,279	September 18, 2018	September 18, 2020	$ 0.00	$ 0.039
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
AL	August 30, 2016	4,015,406	August 30, 2017	August 30, 2017	$ 0.00	$ 0.065
AM	August 30, 2016	8,833,894	August 30, 2019	August 30, 2021	$ 0.00	$ 0.065
AN	November 30, 2016	2,453,488	August 30, 2017	August 30, 2017	$ 0.00	$ 0.065
AO	November 30, 2016	5,581,396	August 30, 2019	August 30, 2021	$ 0.00	$ 0.068
AP	November 30, 2016	4,651,163	August 30, 2019	August 30, 2021	$ 0.00	$ 0.050
Total		**74,793,703**				

Fair value of Performance Rights

The fair value of each Performance Right is estimated on the date it is granted using volume-weighted average share price, Monte Carlo and Binomial valuation methodologies. The following assumptions were considered in the valuation of Performance Rights granted during the year ended June 30, 2017:

	Series AL	Series AM	Series AN	Series AO	Series AP
Grant date	Aug 30, 2016	Aug 30, 2016	Nov 30, 2016	Nov 30, 2016	Nov 30, 2016
5 day VWAP	$0.065	$0.065	$0.065	$0.068	$0.068
Exercise price	$0.00	$0.00	$0.00	$0.00	$0.00
Dividend yield	Nil	Nil	Nil	Nil	Nil
Expected volatility	N/A	N/A	N/A	82.80%	82.80%
Risk-free Rate	N/A	N/A	N/A	1.910%	1.910%
Expiry date	Aug 30, 2017	Aug 30, 2021	Aug 30, 2017	Aug 30, 2021	Aug 30, 2021

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 Performance Right is up to 5 years 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 Performance Rights granted for the benefit of Directors and KMP during the year are:

Grant date	Number of Performance Rights	Fair value per Instrument at valuation date	Exercise price per Instrument	First exercise date	Last exercise or Expiry date
August 30, 2016	4,015,406	$ 0.065	$ 0.00	August 30, 2017	August 30, 2017
August 30, 2016	8,833,894	$ 0.065	$ 0.00	August 30, 2019	August 30, 2021
November 30, 2016	2,453,488	$ 0.065	$ 0.00	August 30, 2017	August 30, 2017
November 30, 2016	5,581,396	$ 0.068	$ 0.00	August 30, 2019	August 30, 2021
November 30, 2016	4,651,163	$ 0.050	$ 0.00	August 30, 2019	August 30, 2021
Total	**25,535,347**				

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

The following tables outline the Performance Rights granted for the benefit of Directors and KMP during the 2017 and 2016 financial years and those Performance Rights which have vested at each respective year-end.

June 30, 2017	Balance at beginning of year	Granted	Grant Date	Performance Rights exercised/ cancelled/ forfeited/ other	Performance Rights expired without exercise	Net change	Balance at end of year	Amount vested and exercisable at June 30, 2017	Amount vested and not exercisable at June 30, 2017
A. Lacaze(1)	37,023,320	12,686,047	Nov 30, 2016	(11,385,140)	-	1,300,907	38,324,227	-	38,324,227
K. Conlon	-	-	-	-	-	-	-	-	-
P. Etienne	-	-	-	-	-	-	-	-	-
W. Forde	-	-	-	-	-	-	-	-	-
M. Harding	-	-	-	-	-	-	-	-	-
J. Klein(2)	-	-	-	-	-	-	-	-	-
J. Humphrey(3)	-	-	-	-	-	-	-	-	-
A. Arnold	9,776,142	3,006,404	Aug 30, 2016	(2,378,690)	-	627,714	10,403,856	-	10,403,856
G. Sturzenegger	6,218,334	3,200,000	Aug 30, 2016	(2,044,804)	-	1,155,196	7,373,530	-	7,373,530
K. Leung	9,903,979	3,317,830	Aug 30, 2016	(2,144,033)	-	1,173,797	11,077,776	-	11,077,776
P. Le Roux	6,430,888	3,325,066	Aug 30, 2016	(2,141,640)	-	1,183,426	7,614,314	-	7,614,314
Total	**69,352,663**	**25,535,347**		**(20,094,307)**	**-**	**5,441,040**	**74,793,703**	**-**	**74,793,703**
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(2)	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**	**-**

(1) 12,686,047 performance Rights approved by the Board were granted to A. Lacaze on August 30, 2016 and subsequently approved by the shareholders of the Company at the AGM on November 30, 2016

(2) Resigned as Non-Executive Director on May 15, 2017.

(3) Appointed as Non-Executive Director on May 15, 2017.

Subsequent Events

On August 2, 2017 the bondholders converted 25,000,000 convertible bonds with a principal value of USD25,000,000 into 333,333,332 ordinary shares. On August 15, 2017 the bondholders converted another 37,833,333 convertible bonds with a principal value of USD37,833,333 into 504,444,440 ordinary shares. The outstanding principal of the convertible bonds has been reduced to USD162,166,667.

In accordance with the terms of the JARE facility, the JARE restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the JARE restricted bank account were applied as follows on August 4, 2017:

(a) USD15 million was paid to JARE as a principal repayment, reducing the principal balance of the JARE facility to USD185 million;

(b) The remaining balance in the JARE restricted interest account was be used to partially settle the interest incurred from October 1, 2014 to December 31, 2015. The outstanding interest incurred in the same period was forgiven.

In accordance with the terms of the convertible bond facility, the convertible bond restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the convertible bond restricted bank account were applied on August 4, 2017 in full payment of the interest incurred from January 1, 2015 to December 31, 2015 and additional interest on withdrawals made in 2016.

Since June 30, 2017 the company received $692,037 from the exercise of 18,211,504 warrants with an exercise price of $0.038 and $3,759,761 from the exercise of 75,195,227 warrants with an exercise price of $0.05 by the bondholders. As a result of the exercises, 93,406,731 new ordinary shares were issued.

With the exception of the above, there have been no other events subsequent to June 30, 2017 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 19, 2017

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 19, 2017

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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 2017, I declare to the best of my knowledge and belief, there have been:

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

Glenn Maris
Partner
19 September 2017

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Lynas Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Debt restructure

Why significant	How our audit addressed the key audit matter
On 26 October 2016 the Group executed amended debt agreements for both the JARE loan facility and convertible bonds facility. The key components of the amendments were to extend maturity of both instruments to 2020, reduce interest rates, reschedule principal repayments and reduce the bond conversion price. As required by Australian Accounting Standard - AASB 139 *Financial Instruments: recognition and measurement*, this was accounted for as an extinguishment of existing debt and recognition of new amended debt. This required the new financial instruments to be recognised at fair value at the date of the amendment. The updated carrying values of the loans on amendment were $477.8m, resulting in a gain on extinguishment of $22.9m recognised on the consolidated statement of comprehensive income. There is a significant degree of estimation and judgment used to determine the fair value of the original debt at settlement and the fair value of the new JARE and convertible bonds facilities. This determined the new carrying values and gain on extinguishment as disclosed in Note 22 in the financial report. Accordingly, this was considered to be a key audit matter.	The Group obtained external accounting advice relating to the fair value and accounting treatment of the extinguishment, gain on extinguishment and the new carrying values of the amended JARE loan facility and convertible bonds facility. Our procedures included the following: · We compared the terms of the amendments to the existing debt agreements to assess the appropriateness of the Group accounting for these transactions as an extinguishment. · We involved our valuation specialists to assess the fair value of the original and amended facilities in order to evaluate the appropriateness of the values determined by the Group. · We assessed the independence and competence of the third party expert engaged by the Group regarding the appropriate treatment in respect of the existing and new debt. · We assessed whether the disclosure within Note 22 of the financial report was in accordance with AASB 139 *Financial instruments: recognition and measurement.*

2. Going concern assumption – effect of key assumptions

Why significant	How our audit addressed the key audit matter
The Directors have prepared the Group's financial statements on a going concern basis, as set out in section 2.2 on page 46 of the financial report. Rare earth prices, production volumes, foreign exchange rates and the regulatory environment were key assumptions that impact estimated cash flows forecast by the Group when it concluded there will be sufficient free cash flow to pay its debts as and when they fall due. Accordingly, this was considered to be a key audit matter.	We considered the inputs and process supporting the Board approved cash flow model prepared by the Group for the purpose of the Directors' going concern assessment. We considered the budgeting process and reviewed the appropriateness of assumed future production volumes. We compared forecast revenues and costs to historical performance and assessed historical accuracy of the Group's previous forecasts. We assessed whether the cash flow model accurately reflected the Board approved 2018 budget. We evaluated the external inputs and assumptions including rare earths pricing within the model by comparing these to assumptions and estimates used elsewhere in the preparation of the financial report and benchmarked them against previous experience, our understanding of the industry and market observable external data where available. We assessed the sensitivities and stress testing that the Group performed on the going concern forecast. We considered the adequacy of the financial report disclosures contained in Note 2.2 that detail the circumstances under which the directors are comfortable that the financial report is prepared on a going concern basis.

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Information Other than the Financial Report and Auditor’s Report

The directors are responsible for the other information. The other information comprises the information included in the Company’s 2017 Annual Report, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Building a better
working world

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 23 to 32 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Lynas Corporation Limited for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

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.

Ernst & Young

Glenn Maris	Graham Ezzy
Partner	Partner
Sydney	Sydney
19 September 2017	19 September 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended

In A$'000	Note	June 30, 2017	June 30, 2016
Revenue		256,976	190,956
Cost of sales		(242,239)	(211,401)
Gross profit / (loss)		**14,737**	**(20,445)**
General and administration expenses	7	(25,501)	(34,785)
Net foreign exchange (loss) / gain		(3,736)	798
Other expenses	8	-	(1,468)
Loss from operating activities		**(14,500)**	**(55,900)**
Financial income	10	23,115	196
Financial expenses	10	(44,257)	(38,413)
Net financial expenses		**(21,142)**	**(38,217)**
Loss before income tax		**(35,642)**	**(94,117)**
Income tax (expense) / benefit	11	20,766	35
Loss for the year		**(14,876)**	**(94,082)**
Other comprehensive loss for the year net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	13	(30,099)	(28,149)
Total other comprehensive loss for the year, net of income tax		**(30,099)**	**(28,149)**
Total comprehensive loss for the year attributable to equity holders of the Company		**(44,975)**	**(122,231)**
Loss per share			
Basic and diluted loss per share (cents per share)	25.3	(0.42)	(2.70)

The Consolidated Statement of Profit or Loss and Other 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, 2017	June 30, 2016
Assets			
Cash and cash equivalents	14	63,925	43,348
Trade and other receivables	15	4,518	3,065
Prepayments		2,846	2,029
Tax receivable		98	111
Inventories	16	37,448	53,643
Total current assets		**108,835**	**102,196**
Inventories	16	515	219
Property, plant and equipment	19	538,400	612,065
Deferred exploration, evaluation and development expenditure	20	41,999	44,206
Intangible assets – software		17	100
Other non-current assets	18	26,616	28,259
Total non-current assets		**607,547**	**684,849**
Total assets		**716,382**	**787,045**
Liabilities			
Interest payable		34,553	49,761
Trade and other payables	21	44,286	32,770
Borrowings	22	19,516	26,878
Employee benefits	23	2,112	2,146
Deferred income		-	1,178
Provisions	24	309	411
Total current liabilities		**100,776**	**113,144**
Trade and other payables	21	1,362	11,519
Interest payable		25,206	
Borrowings	22	439,928	535,686
Employee benefits	23	166	359
Provisions	24	57,543	55,127
Total non-current liabilities		**524,205**	**602,691**
Total liabilities		**624,981**	**715,835**
Net assets		**91,401**	**71,210**
Equity			
Share capital	25	1,094,403	1,088,469
Accumulated losses		(1,003,822)	(988,946)
Reserves	25	820	(28,313)
Total equity attributable to the equity holders of the Company		**91,401**	**71,210**

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

Lynas Corporation Limited and Controlled Entities

Consolidated Statement of Changes in Equity

In A$'000	Note	Share capital	Accumulated losses	Foreign currency translation reserve	Equity settled employee benefits reserve	Warrant reserves	Other reserves*	Total
Balance at July 1, 2016		1,088,469	(988,946)	(125,943)	37,490	31,397	28,743	71,210
Other comprehensive loss for the year	13	-	-	(30,099)	-	-	-	(30,099)
Total loss for the year		-	(14,876)	-	-	-	-	(14,876)
Total comprehensive loss for the year		-	(14,876)	(30,099)	-	-	-	(44,975)
Issue of warrants	30	-	-	-	-	9,016	-	9,016
Adjustment for extinguishment of convertible note	22	-	-	-	-	-	(1,127)	(1,127)
Recognition of convertible note based on new terms	22	-	-	-	-	-	48,863	48,863
Exercise of warrants	25	5,934	-	-	-	-	-	5,934
Employee remuneration settled through share-based payments	25	-	-	-	2,480	-	-	2,480
Balance at June 30, 2017		**1,094,403**	**(1,003,822)**	**(156,042)**	**39,970**	**40,413**	**76,479**	**91,401**
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	25	-	-	-	-	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		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**

*Equity component of convertible bond

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

Lynas Corporation Limited and Controlled Entities

Consolidated Statement of Cash Flows

For the year ended

In A$'000	Note	June 30, 2017	June 30, 2016
Cash flows from operating activities			
Receipts from customers		260,426	202,638
Payments to suppliers and employees		(220,813)	(193,921)
Royalties paid		(5,505)	(4,489)
Income taxes paid		(115)	(81)
Net cash from operating activities	17	**33,993**	**4,147**
Cash flows from investing activities			
Payments for property, plant and equipment		(2,276)	(10,667)
Proceeds from sale of property, plant and equipment		-	33
Security bonds paid		(6,830)	-
Security bonds refunded		2,193	359
Net cash used in investing activities		**(6,913)**	**(10,275)**
Cash flows from financing activities			
Interest received		178	73
Interest and other financing costs paid		(5,131)	(66)
Proceeds from the issue of share capital		5,934	102
Repayment of long-term borrowing (JARE loan facility)		(3,950)	(2,767)
Net cash used in financing activities		**(2,969)**	**(2,658)**
Net increase/(decrease) in cash and cash equivalents		24,111	(8,786)
Cash and cash equivalents at the beginning of the year		43,348	51,973
Effect of exchange rate fluctuations (net) on cash held		(3,534)	161
Closing cash and cash equivalents	14	**63,925**	**43,348**

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

Notes to Consolidated Financial Statements
For the year ended June 30, 2017

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, 2017 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 Suite 3, 5 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 19, 2017.

2.2 Going concern

The financial report has been prepared using the going concern assumption. The Directors note the Group generated a net loss and had net cash inflows from operations in FY17, and had net current assets as at June 30, 2017.

The Directors have concluded that using the going concern assumption remains appropriate after considering a number of key assumptions affecting the business. These include prices for rare earth products, forecast production volumes, foreign currency exchange rates, regulatory environments in both jurisdictions, recent reductions in principal amounts of the Company's loan facilities, and the continuing improvements in cost performance.

Details of the Company's loan facilities are set out in Note 22. The Directors are of the view that the Company will continue meeting its financial obligations based on the key assumptions mentioned above.

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, 2017. Information for the comparative year is for the 12 month period ended June 30, 2016.

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 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	5 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 flows 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 expected to be settled within one year and 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) Long-term employee benefits

The liability for annual leave and 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 performance rights 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 performance rights.

The fair value at grant date is independently determined using an performance right pricing model that takes into account the exercise price, the term of the performance right, 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 performance right.

The fair value of the performance right 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 performance rights that are expected to become exercisable. At the end of each reporting period, the Group revises its estimates of the number of performance rights 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:

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 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

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

The Australian Accounting Standards issued but not yet mandatory for the financial year ending June 30, 2017 have not been adopted by the Group in the preparation of this interim financial report and are set out below:

Standard/Interpretation	Effective for the annual reporting period beginning on	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	July 1, 2018	June 30, 2019
AASB 15 Revenue from Contracts with Customers	July 1, 2018	June 30, 2019
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	July 1, 2018	June 30, 2019
AASB 16 Leases	July 1, 2019	June 30, 2020
AASB 2016-1 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 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 21]	July 1, 2018	June 30, 2019
AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts [AASB 4]	July 1, 2018	June 30, 2019
AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration	July 1, 2018	June 30, 2019
AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments	July 1, 2018	June 30, 2019
AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle	July 1, 2017	June 30, 2018
IFRIC 23 Uncertainty over Income Tax Treatments	July 1, 2019	June 30, 2020
IFRS 17 Insurance Contracts	July 1, 2021	June 30, 2022

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

The Group's process of implementation of new pronouncements will be in four stages:
- Diagnostic - the high level identification of accounting issues in the new pronouncement that will impact the Group;
- Confirmation of understanding – the detailed review of contracts or other relevant data and training for finance, commercial, procurement and other teams;
- Solution development – identifying and progressing system and data changes; and
- Implementation.

AASB 9 Financial Instrument
The standard includes a single approach for the classification and measurement of financial assets, based on cash flow characteristics and the business model used for the management of the financial instruments. It introduces the expected credit loss model for impairment of financial assets. Lastly, the standard amends the rules on hedge accounting to align the accounting treatment with the risk management practices of the business.

AASB 15 Revenue from Contracts with Customers
The core principle of AASB 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to the customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration
The Interpretation addresses how to determine the date of a transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income (or part of it) when a related non-monetary asset or liability arising from the payment or receipt of advance consideration in a foreign currency is derecognised.

AASB 16 Leases
Adoption of AASB 16, to apply in FY20 and be implemented retrospectively, will require leases currently treated as operating leases, such as rental of office premises, to be recognised on the balance sheet. This change will impact the classification of certain expenses such as rental expense, deprecation and financing costs. Consequently, non IFRS measures such as EBITDA and EBIT will also be impacted.

The Group anticipates that the remainder of 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

The Group assesses, at each reporting date, whether there is an indication that an assets may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing 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. The value in use calculation is based on a 25-year discounted cash flow (DCF) model. The cash flows are derived from the two-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 product price movement, the discount rate used for the discounted cash flows model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

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.

<u>LAMP Production Residues</u>
The Group continues its commercialisation program of solid residues from the LAMP. Field trials have demonstrated the efficacy of the residue material in enhancing soil structure, adjusting soil pH, enhancing growth and improving yields. A progress report was submitted to Malaysia's Department of Environment (DOE) as part of the commercialisation approval process. DOE confirmed that the soil conditioning product using LAMP residues known as "Condisoil" is safe for agricultural use and that Condisoil increases paddy yield.

The restoration and rehabilitation closure provision excludes costs for the disposal LAMP's production residues.

5. Determination of fair values

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

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.

6. Segment reporting

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

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

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

The accounting policies applied by 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.

78% of the Group's non-current assets are located in Malaysia and the remaining 22% are in Australia.

In A$'000	Note	For the year ended June 30, 2017 Rare Earth Operations	For the year ended June 30, 2017 Corporate/ Unallocated	For the year ended June 30, 2017 Total Continuing Operations	For the year ended June 30, 2016 Rare Earth Operations	For the year ended June 30, 2016 Corporate/ Unallocated	For the year ended June 30, 2016 Total Continuing Operations
Business segment reporting							
Revenue		256,976	-	256,976	190,956	-	190,956
Cost of sales		(242,239)	-	(242,239)	(211,401)	-	(211,401)
Gross profit / (loss)		**14,737**	**-**	**14,737**	**(20,445)**	**-**	**(20,445)**
General expenses and other income		(15,118)	(10,383)	(25,501)	(23,291)	(11,494)	(34,785)
Net foreign exchange (loss) / gain		-	(3,736)	(3,736)	-	798	798
Impairment expenses		-	-	-	(1,468)	-	(1,468)
Earnings before interest and tax ("EBIT")		**(381)**	**(14,119)**	**(14,500)**	**(45,204)**	**(10,696)**	**(55,900)**
Net gain on extinguishment of debts		-	22,882	22,882	-	-	-
Other financial income				233			196
Financial expenses				(44,257)			(38,413)
Loss before income tax				**(35,642)**			**(94,117)**
Income tax (expense) / benefit				20,766			35
Loss for the year				**(14,876)**			**(94,082)**
Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")							
EBIT		(381)	(14,119)	(14,500)	(45,204)	(10,696)	(55,900)
Depreciation and amortisation	16	42,580	1,355	43,935	41,558	1,481	43,039
EBITDA		**42,199**	**(12,764)**	**29,435**	**(3,646)**	**(9,215)**	**(12,861)**
Included in EBITDA:							
Impairment charge – inventory	8	-	-	-	1,468	-	1,468
Non-cash employee remuneration settled through share based payments comprising:							
Share based payments expense for the year	29.1	-	2,622	2,622	-	2,701	2,701
Impact of options and performance rights forfeited during the year	29.1	-	(142)	(142)	-	(315)	(315)
Adjusted EBITDA		**42,199**	**(10,284)**	**31,915**	**(2,178)**	**(6,829)**	**(9,007)**
Total assets		**704,810**	**11,572**	**716,382**	**769,740**	**17,305**	**787,045**
Total liabilities		**(161,590)**	**(463,391)**	**(624,981)**	**(145,161)**	**(570,674)**	**(715,835)**

7. General and administration expenses

In A$'000	For the year ended June 30, 2017	2016
Employee and production costs net of costs recovered through production	8,990	10,415
Depreciation expenses net of cost recovered through production	4,223	11,995
Other	12,288	12,375
Total general and administration expenses	**25,501**	**34,785**

7.1 Employee costs

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

In A$'000	For the year ended June 30, 2017	2016
Wages and salaries	35,108	33,681
Superannuation and pension contributions	1,083	985
Employee remuneration settled through share-based payments (Note 29.1)	2,480	2,386
Other	881	668
Total employee costs	**39,552**	**37,720**

8. Other expenses

In A$'000	Note	For the year ended June 30, 2017	2016
Impairment loss – inventory	16	-	1,468
Total other expenses		**-**	**1,468**

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

No impairment losses were recognised in the current year.

9. Auditor's remuneration

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

In $A	For the year ended June 30, 2017	2016
Auditor's remuneration to Ernst & Young (Australia), comprising:		
Audit fees	286,875	300,000
Tax fees	-	5,850
Total auditor's remuneration Ernst & Young (Australia)	**286,875**	**305,850**
Auditor's remuneration to Ernst & Young (other locations), comprising:		
Audit fees	139,501	150,000
Tax fees	38,747	33,617
Other fees	92	624
Total auditor's remuneration Ernst & Young (other locations)	**178,340**	**184,241**

10. Financial income and expenses

In A$'000	For the year ended June 30, 2017	2016
Net gain on extinguishment of debts*	22,882	-
Interest income on cash and cash equivalents	233	196
Total financial income	**23,115**	**196**
Interest expense on JARE loan facility*	(10,744)	(21,328)
Interest expense on financial liabilities:		
Convertible bond facility	(6,284)	(9,359)
Amortisation of deferred transaction costs - convertible bond facility	(434)	(1,127)
Unwinding of discount on convertible bond facility	(12,035)	(5,688)
Unwinding of discount on JARE loan facility	(4,738)	-
Unwinding of discount on restoration and rehabilitation provision	(875)	(910)
Discount recognition on AELB deposit **	(8,907)	-
Financing transaction costs and fees	(240)	(1)
Total financial expenses	**(44,257)**	**(38,413)**
Net financial expenses	**(21,142)**	**(38,217)**

* refer to Note 22 for more information
** refer to Notes 18 & 32 for more information

11. Income taxes

In A$'000	For the year ended June 30, 2017	2016
Current tax		
Current tax expense / (benefit) in respect of the current year	175	(35)
Adjustments recognised in the current year in relation to the current tax in prior years	-	-
	175	**(35)**
Deferred tax		
Deferred tax expense / (benefit) recognised in the year	(20,941)	-
Total income tax expense / (benefit) relating to the continuing operations	**(20,766)**	**(35)**

11.1 Income tax recognised in profit / (loss)

In A$'000	For the year ended June 30, 2017	2016
Loss before tax for continuing operations	(35,642)	(94,117)
Income tax benefit calculated at 30% (2016: 30%)	(10,693)	(28,235)
Add (deduct):		
Effect of expenses that are not deductible in determining taxable profit	6,497	12,510
Effect of foreign exchange gains and losses	3,858	(4,863)
Effect of unused tax losses not recognised as deferred tax assets	2,721	5,481
Effect of adjustments recognised in equity	20,941	-
Effect of temporary differences not recognised as deferred tax assets	(49,070)	8,304
Effect of different tax rate of subsidiaries and branches	5,251	6,587
Effect of prior year losses not recognised	(31)	-
Other adjustments	(241)	181
Total current year income tax expense / (benefit)	**(20,766)**	**(35)**

11.2 Income tax recognised directly in equity

In A$'000	For the year ended June 30, 2017	2016
Deferred tax		
Initial recognition of equity component of convertible bonds	20,941	-
Total income tax expense / (benefit) recognised directly in equity	**20,941**	**-**

12. Deferred tax assets and liabilities

12.1 Deferred tax balances

In A$'000	Balance at July 1, 2016	Recognised in Profit or loss	Recognised in equity	Recognised in OCI	Balance at June 30, 2017
Temporary differences					
Inventory	774	(774)	-	-	-
Deferred exploration, evaluation and development expenditure	(8,091)	164	-	-	(7,927)
Property plant and equipment	8,367	(7,356)	-	-	1,011
Borrowings	49,151	(7,153)	(20,941)	-	21,057
Costs of equity and debt raisings	867	(864)	-	-	3
Trade payables	42	51	-	-	93
Provisions	8,429	(165)	-	-	8,264
	59,539	**(16,097)**	**(20,941)**	**-**	**22,501**
Unused tax losses and credits					
Tax losses	(59,539)	-	-	-	(59,539)
Deferred tax asset recognised	-	37,038	-	-	37,038
	-	20,941	(20,941)	-	-

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)	2,102	-	-	(8,091)
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	(2,660)	-	-	867
Trade payables	56	(14)	-	-	42
Provisions	7,898	531	-	-	8,429
Other	1,173	(1,173)	-	-	-
	53,322	**6,217**	**-**	**-**	**59,539**
Unused tax losses and credits					
Tax losses	(53,322)	(6,217)	-	-	(59,539)
	-	-	-	-	-

12.2 Unrecognised deferred tax assets

	As at June 30,	
In A$'000	**2017**	**2016**
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	340,414	351,162
Tax losses – capital in nature	370,764	2,145
Deductible temporary differences	74,054	204,277
	785,232	**557,584**

The Group's unused tax losses of a revenue nature for which no deferred tax assets have been recognised relate to Australia (2017: $174.4m, 2016:$177.6m), Malaysia (2017: $165.5m, 2016: $172.5m) and Malawi (2017: $0.5m, 2016: $1.0m). At June 30, 2017 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 $92.0m (2016: $95.0m).

The Group's unused tax losses of a capital nature for which no deferred tax assets have been recognised relate to Australia (2017: $2.1m, 2016: $2.1m) and Malaysia (2017: $368.6m, 2016:333.6m). At June 30, 2017 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 $89.1m (2016: $80.7m).

The Group's net deductible temporary differences for which no deferred tax assets have been recognised relate to Australia (2017: $78.8m, 2016: $175.2m) and Malaysia (2017: $0.0m, 2016: $29.1m). At June 30, 2017 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 $23.6m (2016: $59.5m).

The Group's assessable temporary differences for which no deferred tax liability has been recognised due to the Group having sufficient deferred tax assets to offset relate to Malaysia (2017: 4.8m, 2016: $0.0m).

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	**2017**			**2016**		
	Pre-tax	Tax effect	Total	Pre-tax	Tax effect	Total
Exchange differences on translating foreign operations	(30,099)	-	(30,099)	(28,149)	-	(28,149)
Total other comprehensive income	**(30,099)**	**-**	**(30,099)**	**(28,149)**	**-**	**(28,149)**

14. Cash and cash equivalents

	As at June 30,	
In A$'000	**2017**	**2016**
Cash at bank and on hand	35,858	10,402
Restricted cash	28,067	32,946
Total cash and cash equivalents	**63,925**	**43,348**

Restricted cash for JARE loan facility
In accordance with the terms of the JARE facility, the JARE restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the JARE restricted bank account were applied as follows on August 4, 2017:

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

There is a JARE principal repayment test on each interest payment date that commenced on December 31, 2016. On each interest payment date, when total unrestricted cash balance exceeds $40m, the surplus is paid as a principal repayment to JARE pursuant to a cash sweep mechanism. Under the terms agreed with JARE and the bondholders, if Lynas received the proceeds from an equity raising (such as an issuance of shares or an exercise of warrants), then the following amounts will be exempt from the cash sweep: (i) 75% of the proceeds received up to a cumulative balance of USD50 million, and (ii) 50% of the proceeds above a cumulative balance of USD50 million.

Restricted cash for convertible bond facility
In accordance with the terms of the convertible bond facility, the convertible bond restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the convertible bond restricted bank account were applied on August 4, 2017 in full payment of the interest incurred from January 1, 2015 to December 31, 2015 and additional interest on withdrawals made in 2016.

15. Trade and other receivables

	As at June 30,	
In A$'000	**2017**	**2016**
Trade receivables	2,639	1,483
Other receivables	1,879	1,582
Total current trade and other receivables	**4,518**	**3,065**

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, 2017 (2016: $nil), $21,000 of trade receivables were past due and not impaired.

16. Inventories

	As at June 30,	
In A$'000	**2017**	**2016**
Raw materials and consumables	11,988	13,585
Work in progress	22,075	34,113
Finished goods	3,900	6,164
Total inventories	**37,963**	**53,862**
Current inventories	37,448	53,643
Non-current inventories	515	219
Total inventories	**37,963**	**53,862**

Restrictions on the title of inventories are outlined in Note 22.

During the year ended June 30, 2017 inventories of $242.2m (2016: $212.9m) were recognised as an expense. All of which were included in 'cost of sales' (2016: $211.4m).

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, 2017 and 2016 respectively in the following categories:

	Recognised in General and Administration Expense		**Recognised in Inventory**		**Total**	
In A$'000	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment	1,941	10,141	35,094	29,811	37,035	39,952
Deferred exploration and evaluation expenditure	2,208	1,390	-	-	2,208	1,390
Intangibles	74	464	-	-	74	464
Total	**4,223**	**11,995**	**35,094**	**29,811**	**39,317**	**41,806**

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 $39.7m in the year ended June 30, 2017 (2016: $31.0m).

During the year ended June 30, 2017 the Group recognised royalties paid to the Western Australian Government totalling $5.8m (2016: $4.7m). 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**	**2017**	**2016**
Loss for the year		(14,876)	(94,082)
Adjustments for:			
Depreciation and amortisation		43,935	43,039
Employee remuneration settled through share-based payments		2,480	2,386
Impairment loss on inventories	8	-	1,468
Net financial income expenses	10	21,143	37,419
Loss on disposal of property, plant and equipment		347	-
Income tax expense / (benefit)	11	(20,881)	(35)
Change in trade and other receivables		(2,272)	4,084
Change in inventories		3,262	7,978
Change in trade and other payables		576	2,029
Change in other assets and liabilities		13	(89)
Change in provisions and employee benefits		(2,087)	(1,067)
Change in deferred income		(1,178)	1,178
Foreign exchange		3,531	(161)
Net cash from operating activities		**33,993**	**4,147**

18. Other non-current assets

	As at June 30,	
In A$'000	**2017**	**2016**
Security deposits – banking facilities and other, Malaysia	2,562	4,087
Security deposits – banking facilities and other, Australia	570	636
Security deposits – AELB, Malaysia	23,484	23,536
	26,616	**28,259**

Local banking facilities relate both to cash provided for security bonds issued to secure natural gas and electricity supply to LAMP and restricted deposits pledged as collateral for bank facilities in Australia and Malaysia. The weighted average annual interest rate in Australia was 2.10% (2016: 2.20%) and the weighted average annual interest rate in Malaysia was 2.75% (2016: 3.30%).

Deposits to the Malaysian Government's Atomic Energy Licencing Board ("AELB") 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. During the year, the total amount paid to the AELB to date as a security deposit increased to USD11.03m. In this report, the amount of the security deposit to the AELB is shown as reduced by $0.6m (2016: $10.5m increase) because the amount paid to AELB has been discounted over the life of the LAMP. During the year, it was clarified that the security deposit paid to the AELB are likely to be non-interest bearing, and accordingly the amount paid has been discounted for accounting purposes at 4.94% per annum. This discounting process does not affect the actual amount paid to the AELB as a security deposit.

The discount will be updated as additional deposits are paid to AELB and unwound over the remainder life of the LAMP.

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, 2017							
Cost	55,848	799,452	6,782	947	1,468	18,379	**882,876**
Accumulated impairment losses	-	(172,424)	(394)	(53)	(234)	(6,781)	**(179,886)**
Accumulated depreciation	(5,540)	(151,044)	(4,718)	(668)	-	(2,620)	**(164,590)**
Carrying amount	**50,308**	**475,984**	**1,670**	**226**	**1,234**	**8,978**	**538,400**
As at June 30, 2016							
Cost	56,562	858,543	7,086	698	7,702	20,235	**950,826**
Accumulated impairment losses	-	(192,365)	(360)	(54)	(265)	(7,524)	**(200,568)**
Accumulated depreciation	(4,931)	(125,931)	(4,420)	(582)	-	(2,329)	**(138,193)**
Carrying amount	**51,631**	**540,247**	**2,306**	**62**	**7,437**	**10,382**	**612,065**
Cost at July 1, 2016	56,562	858,543	7,086	698	7,702	20,235	**950,826**
Accumulated depreciation and impairment losses at July 1, 2016	(4,931)	(318,296)	(4,780)	(636)	(265)	(9,853)	**(338,761)**
Carrying amount at July 1, 2016	**51,631**	**540,247**	**2,306**	**62**	**7,437**	**10,382**	**612,065**
Additions	4,897	2,311	5	90	2,078	54	**9,435**
Disposals	-	(238)	-	-	(215)	-	**(453)**
Depreciation for the year	(1,120)	(34,734)	(553)	(98)	-	(530)	**(37,035)**
Transfers of assets under construction	-	7,165	-	-	(7,224)	59	**-**
Transfer to inventory	-	(61)	-	-	-	-	**(61)**
Other movement	-	-	228	179	-	-	**407**
Effect of movements in exchange rates	(5,100)	(38,706)	(316)	(7)	(842)	(987)	**(45,958)**
Carrying amount at June 30, 2017	**50,308**	**475,984**	**1,670**	**226**	**1,234**	**8,978**	**538,400**
Cost at July 1. 2015	58,243	869,912	8,697	681	7,485	20,834	**965,852**
Accumulated depreciation and impairment losses at July 1, 2015	(3,834)	(288,337)	(4,673)	(535)	(249)	(9,871)	**(307,499)**
Carrying amount at July 1, 2015	**54,409**	**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)	(411)	-	(200)	-	**(4,142)**
Effect of movements in exchange rates	(1,575)	(10,630)	(256)	(3)	(247)	(23)	**(12,734)**
Carrying amount at June 30, 2016	**51,631**	**540,247**	**2,306**	**62**	**7,437**	**10,382**	**612,065**

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, 2017					
Cost	21,302	17,542	4,078	24,602	67,524
Accumulated impairment losses	(14,483)	(3,639)	-	-	(18,122)
Accumulated amortisation	(1,871)	(2,445)	(499)	(2,588)	(7,403)
Carrying amount	**4,948**	**11,458**	**3,579**	**22,014**	**41,999**
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**
Cost at July 1, 2016	21,317	17,542	4,078	24,602	67,539
Accumulated amortisation and impairment losses at July 1, 2016	(16,812)	(5,320)	(323)	(1,508)	(23,333)
Carrying amount at July 1, 2016	5,135	12,222	3,755	23,094	44,206
Effect of movements in exchange rates	1	-	-	-	1
Amortisation for the year	(188)	(764)	(176)	(1,080)	(2,208)
Carrying amount at June 30, 2017	**4,948**	**11,458**	**3,579**	**22,014**	**41,999**
Cost at July 1, 2015	21,304	17,543	4,078	24,602	67,527
Accumulated amortisation and impairment losses at July 1, 2015	(15,981)	(4,778)	(198)	(786)	(21,743)
Carrying amount at July 1, 2015	5,323	12,765	3,880	23,816	45,784
Effect of movements in exchange rates	14	-	-	-	14
Amortisation for the year	(202)	(543)	(125)	(722)	(1,592)
Change in rehabilitation obligations	-	-	-	-	-
Carrying amount at June 30, 2016	**5,135**	**12,222**	**3,755**	**23,094**	**44,206**

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

21. Trade and other payables

	As at June 30,	
In A$'000	**2017**	**2016**
Trade payables	8,747	11,370
Accrued expenses	9,136	10,281
Security deposit payable to AELB	20,267	16,718
Other payables	7,498	5,920
Total trade and other payables	**45,648**	**44,289**
Current	44,286	32,770
Non-current	1,362	11,519
Total trade and other payables	**45,648**	**44,289**

Trade and other payables are non-interest bearing and are normally settled on 30 to 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	**2017**	**2016**
Current borrowings		
JARE loan facility	19,516	26,878
Non-current borrowings		
JARE loan facility	213,901	245,935
Convertible bond facility	226,027	289,751
Total borrowings [1]	**459,444**	**562,564**
JARE loan facility	233,417	272,813
Total JARE loan facility carrying amount	**233,417**	**272,813**
Principal value of convertible bond facility [2]	292,512	302,379
Unamortised equity component [2]	(66,485)	(10,265)
Unamortised transaction costs [3]	-	(2,363)
Total convertible bond facility carrying amount	**226,027**	**289,751**

(1) There has been no additional drawdown under the loan facilities. Due to the substantial amendments made to the terms of the Group's debt facilities during the year, the extinguishment of the debt under the previous terms and the establishment of the debt's fair values based on the terms were performed. Details on the revised terms and conditions of the Group's borrowings are set out below.

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

On October 26, 2016 the Company announced debt facility amendments that were agreed with its debt providers. The amendments were subsequently approved by shareholders at the 2016 annual general meeting.

Japan Australia Rare Earths B.V. (JARE) loan facility
The maturity date of the JARE loan facility was extended from June 30, 2018 to June 30, 2020.

Prior to the latest debt facility amendments, interest on the JARE loan and convertible bond facilities was paid into separate restricted bank accounts in the name of Lynas. Interest liabilities would only be paid to the lenders to the extent that there was 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 were as follows:

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

The debt facility amendments came into effect after the 2016 annual general meeting. The interest rate on the JARE facility reduced from 6.0% to 2.5% effective October 26, 2016. If, on the last day of any calendar month ("test date") the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is USD38 per kilogram or greater, the interest rate will increase to 3.75% per annum, effective on and from the day after the test date. The interest rate will remain 3.75% per annum until there have been 6 consecutive test dates on which the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is less than USD38 per kilogram, in which case the interest rate will revert to 2.5% per annum effective on and from the day after such 6th consecutive test date, and will remain 2.5% per annum until any test date on which the weighted average realized sale price of NdPr products sold by the Group in the immediately preceding 6 calendar month is USD38 per kilogram or greater.

Future interest liabilities will be paid directly to the lenders. There are no fixed principal repayments from unrestricted cash during the term of the facility. In accordance with the terms of the JARE facility, the JARE restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the JARE restricted bank account were applied as follows on August 4, 2017:

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

Except as indicated below there are no compulsory principal repayments due until the maturity date. Additional voluntary principal repayments can be made without penalty at any time.

On each interest payment date, when the total unrestricted cash balance exceeds $40m, the surplus is paid as a principal repayment to JARE pursuant to a cash sweep mechanism. Under the terms agreed with JARE and the bondholders, if Lynas received the proceeds from an equity raising (such as an issuance of shares or an exercise of warrants), then the following amounts will be exempt from the cash sweep: (i) 75% of the proceeds received up to a cumulative balance of USD50 million, and (ii) 50% of the proceeds above a cumulative balance of USD50 million.

The payment of interest in respect of the period commencing on January 1, 2016 and ending on December 31, 2016 will be deferred to the maturity date (with no penalty, and no additional interest).

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

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

Mt. Kellett convertible bonds

As at June 30, 2017, the Company had on issue 225,000,000 convertible bonds, each with a face value of USD 1.00. The bonds are convertible at any time prior to maturity of the bonds at the election of the bondholder. None of the convertible bonds had been converted as at June 30, 2017. The maturity of the bonds has been extended from September 30, 2018 to September 30, 2020 and the coupon rate on the convertible bonds reduced from 2.75% to 1.25% p.a. effective December 8, 2016. The conversion price has been reduced from $0.5634 per share to $0.10 per share with the conversion exchange rate adjusted from USD 1.00 = AUD 0.9533 to AUD 1.00 = USD 0.7500. If all of the convertible bonds were converted into ordinary shares, 3,000,000,000 ordinary shares would be issued. In addition, 348,843,836 warrants were issued to the bondholders with an exercise price of $0.05 each and expiry date of September 30, 2020.

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

If, prior to the maturity date, the 30-day VWAP of the shares is equal to or exceeds 160% of the conversion price, the Company may give notice of its intention to redeem all of the convertible bonds on issue by delivering a redemption notice to bondholders.

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

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

The interest payment dates remain the same at 30 June and 31 December each year. Prior to the amendments, payment of interest was made into restricted bank accounts in the name of Lynas. Interest liabilities would only be paid to the lenders to the extent that there was a total cash balance (unrestricted and restricted funds) in excess of $60m after June 30, 2016. The balance in the restricted accounts was available, at the lenders' discretion, for reuse in the Lynas business. Subsequent to the amendment, interest incurred from January 1, 2017 until maturity will be paid directly to the bondholders as they fall due. The interest incurred from January 1, 2016 to December 31, 2016 was deferred to the maturity date with no penalty and no additional interest.

In accordance with the terms of the convertible bond facility, the convertible bond restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the convertible bond restricted bank account were applied on August 4, 2017 in full payment of the interest incurred from January 1, 2015 to December 31, 2015 and additional interest on withdrawals made in 2016.

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	As at June 30, 2017		As at June 30, 2016	
				Face value (USD '000)	Carrying amount (AUD '000)	Face value (USD '000)	Carrying amount (AUD '000)
JARE loan facility	USD	2.50%	2020	200,000	233,417	203,000	272,813
Convertible bond facility*	USD	1.25%	2020	225,000	226,027	225,000	289,751
				425,000	**459,444**	**428,000**	**562,564**

* The carrying amount of the convertible bond facility reflects the current value of the debt component of the instrument.

	Average for the year ended June 30, 2017			Average for the year ended June 30, 2016		
	Base rate	Margin	Total rate	Base rate	Margin	Total rate
JARE loan facility	3.75%	-	3.75%	6.75%	-	6.75%
Convertible bond facility	1.88%	-	1.88%	2.75%	-	2.75%

23. Employee benefits

In A$'000	As at June 30, 2017	As at June 30, 2016
Provision for annual leave	1,893	1,482
Provision for long service leave	385	460
Other	-	563
Total employee benefits	**2,278**	**2,505**
Current	2,112	2,146
Non-current	166	359
Total employee benefits	**2,278**	**2,505**

24. Provisions

In A$'000	Restoration and rehabilitation	Onerous contracts	Other	Total
Balance at the beginning of the year	54,415	1,007	116	55,538
Provisions made during the year	4,897	-	-	4,897
Provisions utilised during the year	-	(457)	-	(457)
Effects of foreign exchange movement	(3,001)	-	-	(3,001)
Unwinding of discount on provision	875	-	-	875
Balance at June 30, 2017	**57,186**	**550**	**116**	**57,852**
Current	-	309	-	309
Non-current	57,186	241	116	57,543
Total provisions at June 30, 2017	**57,186**	**550**	**116**	**57,852**
Current	-	411	-	411
Non-current	54,415	596	116	55,127
Total provisions at June 30, 2016	**54,415**	**1,007**	**116**	**55,538**

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 4.4. 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 financial expense.

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. Due to prevailing market conditions, the Sydney office was sub-let at a rent lower than the rent payable under the head lease. An onerous contract provision of $0.6m 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, 2017		As at June 30, 2016	
	Number of shares '000	A$'000	Number of shares '000	A$'000
Balance at the beginning of the year	3,488,438	1,088,469	3,371,232	1,083,898
Issue of shares pursuant to exercised options	-	-	1,129	160
Issue of shares pursuant to exercised warrants	156,154	5,934	-	-
Issue of shares pursuant to exercised performance rights	33,151	-	-	-
Issue of shares pursuant to settlement of liability	-	-	116,077	4,411
Balance at the end of the year	**3,677,743**	**1,094,403**	**3,488,438**	**1,088,469**

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 or performance right conversion is provided in Note 29.

25.2 Reserves

In A$'000	As at June 30, 2017	As at June 30, 2016
Equity settled employee benefits	39,971	37,490
Foreign currency translation	(156,043)	(125,943)
Warrant reserve	40,413	31,397
Equity component of convertible bond	76,479	28,743
Balance at June 30	**820**	**(28,313)**

The equity settled employee benefits reserve relates to performance rights 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 convertible bond facility issued in 2012 and amended in 2016, net of the associated deferred tax (see Note 22).

25.3 Loss per share

Basic earnings per share amounts are calculated by dividing net profit / (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

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

In A$'000	As at June 30, 2017	As at June 30, 2016
Net loss attributed to ordinary shareholders	(14,876)	(94,082)
Loss used in calculating basic and diluted loss per share	**(14,876)**	**(94,082)**
Number of ordinary shares on issue ('000)	3,677,743	3,488,438
Weighted average number of ordinary shares used in calculating basic loss per share ('000)	3,518,418	3,481,875
Basic and diluted loss per share (cents per share)	(0.42)	(2.70)

Options, warrants, convertible bonds 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 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 convertible bond facility.

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, 2017			
Cash and cash equivalents	980	7,542	8,522
Trade and other receivables	-	2,643	2,643
Trade and other payables	-	(644)	(644)
Total exposure	**980**	**9,541**	**10,521**
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)**

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, 2017		
Net asset exposure – local currency	737.871	1,085,889
June 30, 2016		
Net asset exposure – local currency	1,049,984	980,571

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 year:

	Average rate for the year ended June 30,		Closing rate as at June 30,	
	2017	2016	2017	2016
AUD/USD	0.7545	0.7283	0.7692	0.7441
AUD/MYR	3.2331	3.0098	3.3029	2.9764
USD/MYR	4.2872	4.1329	4.2925	4.0000

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, 2017		Increase/(decrease) in profit after tax For the year ended June 30, 2016	
	10 % Strengthening	**10% Weakening**	**10% Strengthening**	**10% Weakening**
USD	(1,070)	1,070	(203)	203
AUD	195	(195)	12	(12)

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, 2017		Increase/(decrease) in equity For the year ended June 30, 2016	
	10 % Strengthening	**10% Weakening**	**10% Strengthening**	**10% Weakening**
MYR	22,340	(22,340)	35,195	(35,195)
USD	80,539	(80,539)	75,785	(75,785)

(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 flows 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, 2017						
Floating rate instruments						
Cash and cash equivalents	63,925	63,925	-	-	-	-
Other non-current assets	3,132	3,132	-	-	-	-
Convertible bond facility*	(292,512)	-	-	-	(292,512)	-
JARE loan facility**	(260,011)	(19,501)	-	-	(240,510)	-
Total	**(485,466)**	**47,556**	**-**		**(533,022)**	**-**
June 30, 2016						
Fixed rate instruments						
Loans and borrowings	-	-	-	-	-	-
Convertible bond facility	(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)**	**-**	**-**

* If, on the last day of any calendar month ("test date") the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is USD38 per kilogram or greater, the convertible bond interest rate will increase from 1.25% per annum to 1.875% per annum, effective on and from the date after the test date.

** If, on the last day of any calendar month ("test date") the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is USD38 per kilogram or greater, the JARE loan facility interest rate will increase from 2.5% per annum to 3.75% per annum, effective on and from the date after the test date.

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	**2017**	**2016**
50 basis point parallel increase in interest rates	(2,427)	(1,124)
50 basis point parallel decrease in interest rates	2,427	1,124

(c) Commodity and other price risk

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

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, 2017							
Non-derivative financial liabilities							
Trade and other payables	N/A	44,286	44,286	-	-	-	-
Loans and borrowings							
JARE loan facility	(1)	296,829	327	19,501	6,659	270,342	-
Convertible bond facility	(2)	305,583	-	-	4,022	301,561	-
Total		**646,698**	**44,613**	**19,501**	**10,681**	**571,903**	**-**
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	-
Convertible bond facility	(3)	322,197	-	2,287	6,860	313,050	-
Total		**692,508**	**32,770**	**2,287**	**33,738**	**623,713**	**-**

(1) The JARE loan facility has a nominal interest rate of 2.50% and effective interest rate (EIR) is 7.00%. The EIR is the rate at which the debt balance will be unwound through financial expenses over the facility term.
(2) The convertible bond facility has a coupon rate of 1.25% and EIR of 9.50%. The EIR is the rate at which the debt component of the facility will be unwound through financial expenses over the facility term.
(3) The convertible bond facility had a coupon rate of 2.75% and EIR of 4.37%. The EIR is the rate at which the debt component of the facility will be unwound through financial expenses over the facility term.
(4) 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, 2017 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, 2017					
Assets					
Cash and cash equivalents	-	63,924	-	63,924	63,924
Trade and other receivables	-	7,365	-	7,365	7,365
Current tax receivable		98	-	98	98
Other assets	-	26,617	-	26,617	26,617
Total assets	**-**	**98,004**	**-**	**98,004**	**98,004**
Liabilities					
Trade and other payables	-	-	45,648	45,648	45,648
Loans and borrowings					
JARE loan facility	**-**	**-**	233,417	233,417	233,417
Convertible bond facility	-	-	226,027	226,027	226,027
Total liabilities			**505,092**	**505,092**	**505,092**
June 30, 2016					
Assets					
Cash and cash equivalents	-	43,348	-	43,348	43,348
Trade and other receivables	-	5,094	-	5,094	5,094
		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**

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

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

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

As at June 30, 2017 the Group did not hold any Level 1 and Level 2 financial instruments. All financial instruments held are level 3 financial instruments.

26.7 Fair value of borrowings

The fair value of borrowings, which have been determined for disclosure purposes, is calculated by discounting the future contractual cash flows at the current market interest rates that are available for similar financial instruments.

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$	2017	2016
Short-term employee benefits	4,425,560	4,575,277
Long-term employee benefits	15,015	16,032
Post-employment benefits	149,783	205,728
Share based payments	1,980,675	1,818,662
Total compensation paid to key management personnel	**6,571,033**	**6,615,699**

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

			Ownership interest as at June 30,	
Name of Group entity	**Principal activity**	**Country of incorporation**	**2017**	**2016**
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%
ACN 053 160 302 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 options and performance rights

The Group has established an employee share plan whereby, at the discretion of Directors, options and performance rights may be granted over the ordinary shares of the Company for the benefit of Directors, Executives and certain employees of the Group. The options and performance rights are granted in accordance with performance guidelines established by the Nomination, Remuneration and Community Committee. Other than short term incentives, 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 Executives. At year end, the Executives include the Chief Executive Officer, the Chief Financial Officer, the Group's General Counsel and Company Secretary, Vice President for Production, and Vice President for Sales and Marketing.

29.1 Movements in employee performance rights during the year

	For the year ended June 30, 2017		For the year ended June 30, 2016	
	No. of performance rights ('000)	**Weighted average exercise price ($)**	**No. of performance rights ('000)**	**Weighted average exercise price ($)**
Balance at beginning of year	97,090	0.00	33,893	0.29
Granted during the year	34,461	0.00	73,396	-
Expired during the year	-	0.00	(7,850)	1.14
Exercised during the year	(33,151)	0.00	-	-
Forfeited during the year	(3,609)	0.00	(2,349)	0.30
Balance at end of year	**94,791**	**0.00**	**97,090**	**0.00**
Exercisable at end of year	-	0.00	6,413	0.00

During the year ended June 30, 2017 the Group recognised net share based payment expense of $2.5m (2016: $2.4m) within the profit and loss component of the statement of comprehensive income. The net expense during the year included the reversal of expenses totalling $0.1m (2016: $0.4m) associated with the forfeiture of 3,608,491 performance rights.

29.2 Options, warrants and performance rights exercised during the year

No options were exercised during the year.

Warrants have been issued to lenders as part of the amendments in debt facilities. The following warrants were exercised:

Exercise date	Number exercised	Share price on exercise date ($)	Exercise price ($)
March 8, 2017	135,617,585	0.092	0.038
April 28, 2017	20,536,377	0.091	0.038
	156,153,962		

The following performance rights were exercised during the year:

Exercise date	Number exercised	Share price on exercise date ($)	Exercise price ($)
December 12, 2016	32,461,096	0.07	0.00
June 27, 2017	689,922	0.10	0.00
	33,151,018		

29.3 Performance rights 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 1,088 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, 2017 with respect to the performance of the Group's employees during the financial year ended June 30, 2016:

	Vesting schedule	**For grants made in FY17**
TSR hurdle (50%)	50% of the TSR portion will vest for:	51st percentile performance
(performance against ASX 300 Metals and Mining Index 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 2016 to June 30, 2019)	50% of the NdPr production portion will vest for:	13,903 tonnes of NdPr production from July 1, 2016 to June 30, 2019.
	100% of the NdPr production portion will vest for:	15,448 tonnes of NdPr production from July 1, 2016 to June 30, 2019.
	Additional 20% of the NdPr production portion, giving a total of 120% of the NdPr production portion:	16,993 tonnes of NdPr production from July 1, 2016 to June 30, 2019.

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 performance rights granted during the financial year had a weighted average fair value of $166,339 (2016:$ 157,203) and were priced using volume-weighted average share prices, Monte Carlo and Binomial valuation methodologies. 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 AL	Series AM	Series AN	Series AO	Series AP
Grant date	Aug 30, 2016	Aug 30, 2016	Nov 30, 2016	Nov 30, 2016	Nov 30, 2016
5 day VWAP	$0.065	$0.065	$0.065	$0.068	$0.068
Exercise price	$0.00	$0.00	$0.00	$0.00	$0.00
Dividend yield	Nil	Nil	Nil	Nil	Nil
Expected volatility	N/A	N/A	N/A	82.80%	82.80%
Risk-free Rate	N/A	N/A	N/A	1.910%	1.910%
Expiry date	Aug 30, 2017	Aug 30, 2021	Aug 30, 2017	Aug 30, 2021	Aug 30, 2021

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

Performance Rights are issued on the same terms as Options, except there is no consideration payable on exercise. The following table lists any options and performance rights which are still to vest, or have yet to expire.

Series	Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
Y	September 23, 2014	4,698,113	September 23, 2017	September 23, 2019	$ 0.00	$ 0.116
Z	September 23, 2014	3,915,094	September 23, 2017	September 23, 2019	$ 0.00	$ 0.096
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
AG	September 18, 2015	11,553,699	September 18, 2018	September 18, 2020	$ 0.00	$ 0.029
AH	September 18, 2015	15,215,146	September 18, 2018	September 18, 2020	$ 0.00	$ 0.039
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
AL	August 30, 2016	7,600,531	August 30, 2017	August 30, 2017	$ 0.00	$ 0.065
AM	August 30, 2016	13,484,149	August 30, 2019	August 30, 2021	$ 0.00	$ 0.065
AN	November 30, 2016	2,453,488	August 30, 2017	August 30, 2017	$ 0.00	$ 0.065
AO	November 30, 2016	5,581,396	August 30, 2019	August 30, 2021	$ 0.00	$ 0.068
AP	November 30, 2016	4,651,163	August 30, 2019	August 30, 2021	$ 0.00	$ 0.050
Total		**94,790,959**				

30. Warrants

On December 9, 2016 the Group issued 348,843,836 unlisted warrants to the Mt. Kellett led bond holder group as part of the commercial terms relating to the maturity extension of the convertible bond. From the date of issue, each warrant is exercisable into one ordinary share at an exercise price of $0.05 and has an expiry date of September 30, 2020.

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

The following table discloses how the number of warrants has changed over the year:

	September 2015 Issue	December 2016 Issue
Exercise price	$0.038	$0.05
Expiry date	September 30, 2018	September 30, 2020
Balance as at June 30, 2016	174,365,466	-
Issued on December 9, 2016	-	348,843,836
Exercised on March 8, 2017	(135,617,585)	-
Exercised on April 28, 2017	(20,536,377)	-
Balance as at June 30, 2017	**18,211,504**	**348,843,836**

31. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	As at June 30,	
In A$'000	**2017**	**2016**
Less than one year	3,241	3,773
Between one and five years	8,561	10,313
More than five years	-	1,541
Total	**11,802**	**15,627**

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, 2017 other than:

Exploration commitments

	As at June 30,	
In A$'000	**2017**	**2016**
Less than one year	364	317
Between one and five years	1,415	1,237
More than five years	1,767	2,472
Total	**3,546**	**4,026**

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	**2017**	**2016**
Less than one year	1,632	709
Total	**1,632**	**709**

At June 30, 2017 capital commitments relate to on-going capital project costs in Malaysia.

Other commitments

	As at June 30,	
In A$'000	**2017**	**2016**
Less than one year	30,432	6,222
Between one and five years	20,271	52,372
More than five years	-	-
Total	**50,703**	**58,594**

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. The amount due to AELB as at June 30, 2017 has been recorded 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.

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, 2017	2016
Assets		
Cash and cash equivalents	29,572	34,379
Trade and other receivables	228,799	147,928
Inventories	6,655	13,412
Total current assets	**265,026**	**195,719**
Inventories	515	219
Property, plant and equipment	94,969	102,085
Deferred exploration, evaluation and development expenditure	41,999	44,206
Intangible assets – software	13	75
Investments in subsidiaries	375,080	375,080
Other assets	29,636	120,185
Total non-current assets	**542,212**	**641,850**
Total assets	**807,238**	**837,569**
Liabilities		
Interest payable	6,837	49,761
Trade and other payables	34,553	8,322
Borrowings	19,516	26,878
Employee benefits	1,686	1,776
Total current liabilities	**62,592**	**86,737**
Trade and other payables	753	-
Provisions	51,208	25,551
Employee benefits	277	359
Borrowings	439,928	535,686
Total non-current liabilities	**492,166**	**561,596**
Total liabilities	**554,758**	**648,333**
Net assets	**252,480**	**189,236**
Equity		
Share capital	1,094,403	1,088,469
Accumulated deficit	(1,070,456)	(1,075,287)
Reserves	228,533	176,054
Total equity	**252,480**	**189,236**
Statement of comprehensive income		
Revenue	80,758	78,097
Cost of sales	(70,164)	(86,880)
Gross profit / loss	**10,594**	**(8,783)**
Other (expenses) / income	(28)	48
General and administration expenses net of recoveries	(13,697)	6,604
Loss from operating activities	**(3,131)**	**(2,131)**
Financial income	22,905	9
Financial expenses	(34,347)	(37,489)
Net financial expenses	**(11,442)**	**(37,480)**
Loss before income tax	**(14,573)**	**(39,611)**
Income tax benefit / (expense)	20,766	(44)
Profit / (loss) for the year from continuing operations	**6,193**	**(39,655)**
Other comprehensive loss, net of income tax		
Exchange differences on foreign currency transactions	(1,362)	(1,275)
Total other comprehensive loss for the year, net of income tax	**(1,362)**	**(1,275)**
Total comprehensive income / (loss) for the year	**4,831**	**(40,930)**

34. Parent entity information

	As at June 30,	
In A$'000	**2017**	**2016**
Current assets	29,512	33,055
Total assets	**856,205**	**903,221**
Current liabilities	(54,069)	(76,639)
Total liabilities	**(517,283)**	**(610,404)**
Net assets	**338,922**	**292,817**
Share capital	1,094,443	1,088,469
Accumulated deficit	(1,109,826)	(1,116,792)
Reserves	354,305	321,140
Total shareholders' equity	**338,922**	**292,817**
Gain / (loss) of the Company	6,966	(40,544)
Total comprehensive gain / (loss) of the parent Company	**6,966**	**(40,544)**

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 August 2, 2017 the bondholders converted 25 million convertible bonds with a principal value of USD25 million into 333,333,332 ordinary shares. On August 15, 2017 the bondholders converted another 37,833,333 convertible bonds with a principal value of USD37,833,333 into 504,444,440 ordinary shares. The outstanding principal of the convertible bonds has been reduced to USD162,166,667.

In accordance with the terms of the JARE facility, the JARE restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the JARE restricted bank account were applied as follows on August 4, 2017:

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

In accordance with the terms of the convertible bond facility, the convertible bond restricted bank account was scheduled to be closed when the unrestricted cash balance exceeded $25m on any date after July 31, 2017. Subsequent to year end, and following satisfaction of that test, the funds in the convertible bond restricted bank account were applied on August 4, 2017 in full payment of the interest incurred from January 1, 2015 to December 31, 2015 and additional interest on withdrawals made in 2016.

Since June 30, 2017 the company received $692,037 from the exercise of 18,211,504 warrants with an exercise price of $0.038 and $3,759,761 from the exercise of 75,195,227 warrants with an exercise price of $0.05 by the bondholders. As a result of the exercises, 93,406,731 new ordinary shares were issued.