Lynas CORPORATION LTD

ABN 27 009 066 648

Interim Unaudited Condensed Consolidated Financial Report
For the half year ended December 31, 2012

Corporate Directory Information

ABN 27 009 066 648

Directors

Nicholas Curtis (Executive Chairman)
William (Liam) Forde (Lead Independent Director)
Kathleen Conlon
David Davidson
Jacob Klein
Zygmunt (Ziggy) Switkowski

Company Secretaries

Andrew Arnold
Sally McDonald

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Auditors

Ernst & Young
680 George Street
Sydney NSW 2000

Internet Address

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Directors' Report

The Board of Directors (the "Board" or the "Directors") of Lynas Corporation Limited (the "Company") and its subsidiaries (together referred to as the "Group") submit their report for the half year period ended December 31, 2012.

Directors

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

Nicholas Curtis - Executive Chairman
William (Liam) Forde - Lead Independent Director
Kathleen Conlon - Non-Executive Director
David Davidson - Non-Executive Director
Jacob Klein - Non-Executive Director
Zygmunt (Ziggy) Switkowski - Non-Executive Director

Highlights for the half year period ended December 31, 2012

- In September 2012, the Malaysian Atomic Energy Licensing Board ("AELB") issued the Temporary Operating Licence ("TOL") for the Lynas Advanced Materials Plant ("LAMP") after an extensive and detailed regulatory review process.
- The first containers of Rare Earths concentrate arrived at the LAMP in November 2012 and first feed of concentrate to the rotary kilns occurred on November 30, 2012.
- In November the Company announced an equity raising to deliver gross proceeds of up to approximately $200 million. In November and December 2012, the Group completed a $150 million Institutional Share Placement and $25 million Share Purchase Plan.
- In September 2012, Lynas announced a significant upgrade of the Ore Reserves at Mount Weld. The Ore Reserves at the Central Lanthanide Deposit are now 9.7 million tonnes, at an average grade of 11.7% REO, for a total of 1.14 million tonnes of contained Rare Earths Oxide ("REO").
- The Phase 2 expansion of the production capacity of the LAMP to 22,000 tonnes per annum of REO was 90% construction complete at the end of the period.
- Lynas' global operations recorded a Lost Time Injury Free Rate ("LTIFR") of 0.2 during the period.

Review and results of operations

Financial performance

For the half year period ended

	December 31,	
In A$ Million	**2012**	**2011**
General and administration expenses	(43.7)	(36.5)
Other expenses	(5.1)	-
Profit (loss) from operating activities	**(48.8)**	**(36.5)**
Financial income	2.4	2.9
Financial expenses	(8.1)	(5.1)
Net financial income (expenses)	**(5.7)**	**(2.2)**
Profit (loss) before income tax	**(54.5)**	**(38.7)**

The loss from operating activities increased by $12.3 million, or 34%, to $48.8 million for the half year period ended December 31, 2012, compared to $36.5 million for the half year period ended December 31, 2011. During the period, the Group continued its pre-production planning and operational readiness activities ahead of the announcement on November 30, 2012 of the initial Feed to Kiln ("FTK") in Malaysia. As a result of these activities period-on-period, an additional $6.6 million in salary and associated staffing costs were incurred predominately in Malaysia. In addition during the period the Group recognised a $5.1 million write down of externally acquired raw materials associated with the Malaysian operations.

Net financial expenses increased by $3.5 million, or greater than 100%, to $5.7 million for the half year period ended December 31, 2012 compared to $2.2 million for the half year period ended December 31, 2011. During the period the Group realised an overall reduction in interest income of $1.6 million combined with an increase of $4.0 million in financing costs as a result of the additional interest under the Sojitz facility and the net impact of the Mt Kellett convertible note which was issued during February, 2012. These amounts have been offset by a net period-on-period $2.1 million foreign exchange movement (2012: net gain $1.2 million; 2011 net loss $0.9 million), primarily attributable to the relative change in Australian to US Dollar and Malaysian Ringgit exchange rates between the periods.

Directors' Report

Cash flow

For the half year period ended

In A$ Million	December 31, 2012	December 31, 2011
Net Operating Cash flow	(53.1)	(51.6)
Net Investing Cash flow	(87.0)	(168.7)
Net Financing Cash flow	162.1	(4.7)
Net cash flow	**22.0**	**(225.0)**

Overall, net cashflows have increased by $247.0 million from a net cash outflow of $225.0 million for the half year period ended December 31, 2011 to a net cash inflow of $22.0 million for the half year period ended December 31, 2012.

Operating cashflows

Net operating cash outflows increased by $1.5 million, or 3%, to $53.1 million for the half year period ended December 31, 2012, compared to $51.6 million for the half year period ended December 31, 2011. The increase in the net cash-outflow period-on-period is in line with the Group's operational readiness and pre-ramp up activities and was principally driven by an increase in employee costs, increased spend on chemicals used in the processing of Rare Earths and increases in other administrative costs. These amounts were largely offset by the one-off purchase of Rare Earth Oxide materials to pre-seed the solvent extraction units at the LAMP in the half year period ended December 31, 2011.

Investing cashflows

Net investing cash outflows decreased by $81.7 million or 48%, to $87.0 million for the half year period ended December 31, 2012, compared with $168.7 million for the half year period ended December 31, 2011. The decrease in the net outflow for the period principally reflects the operational readiness of the LAMP in Malaysia where Phase 1 of the Group's capital programme was completed in the period ($62.3 million reduction in cash payment compared to the comparable period) combined with a $16.6 million reduction in settlements on Phase 2 of the capital programme (compared to the comparable period) due to the timing of the associated progress payments.

Financing cashflows

Net financing cash flows have increased by $166.8 million, or greater than 100%, to an inflow of $162.1 million for the half year period ended December 31, 2012, compared with an outflow of $4.7 million for the half year period ended December 31, 2011. The increase principally reflects the net proceeds of $169.7 million from the Group's equity raising completed during November and December 2012.

Financial position

As at

In A$ Million	December 31, 2012	June 30, 2012
Assets		
Cash and cash equivalents	226.2	205.4
Inventories	74.4	65.7
Property, plant and equipment	804.0	706.6
Deferred exploration, evaluation and development expenditure	26.5	26.3
Available for sale financial assets	2.6	3.8
Other assets	18.4	15.8
Total assets	**1,152.1**	**1,023.6**
Liabilities		
Borrowings	(399.1)	(403.1)
Other liabilities	(42.5)	(57.0)
Total liabilities	**(441.6)**	**(460.1)**
Net assets	**710.5**	**563.5**

In A$ Million	December 31, 2012	June 30, 2012
Equity		
Share capital	994.6	823.1
Retained earnings (accumulated deficit)	(343.7)	(287.1)
Reserves	59.6	27.5
Total equity	**710.5**	**563.5**

The overall net assets of the Group increased by $147.0 million in the six months ended December 31, 2012.

Cash and cash equivalents at December 31, 2012 comprise $189.5 million (June 30, 2011: $124.4 million) of unrestricted cash and $36.7 million (June 30, 2011: $81.0 million) of restricted cash. Restricted cash represents funds provided under the Sojitz loan facility which are principally available to fund capital expenditure required for Phase 2 of the Rare Earths Project.

Both the December 31, 2012 cash and share capital balances include net proceeds of $169.7 million from the equity raising announced during the period which was completed in November and December 2012.

As at December 31, 2012, the Group has capitalised assets under construction for Phase 1 of $449.7 million and Phase 2 of $240.3 million reflecting the progressive completion of the LAMP and Mount Weld Concentration Plant. Construction of Phase 1 of the LAMP was completed in August 2012 while Phase 2 construction of the LAMP was 90% complete as at December 31, 2012 and Phase 2 construction of the Mount Weld Concentration Plant was 69% complete as at December 31, 2012.

Borrowings of $399.1 million represent the US$225 million Sojitz loan facility revalued at the December 31, 2012 exchange rate, and the liability component of the convertible bonds issued to funds managed or selected by Mt Kellett Capital Management.

The movement in reserves of $32.1 million during the current period reflects movements in the equity settled employee benefits, foreign currency translation and investment revaluation reserves.

Capital structure

At the start of the half year period ended December 31, 2012, the Group had 1,715,029,131 ordinary shares on issue. During the half year period ended December 31, 2012 an additional 245,772,161 shares were issued as follows:

	Number
Shares on issue June 30, 2012	1,715,029,131
Issue of shares pursuant to Institutional Share Placement	200,000,000
Issue of shares pursuant to Share Purchase Pan	44,641,929
Issue of shares pursuant to option conversion	1,130,232
Shares on issue December 31, 2012	1,960,801,292

In addition to the ordinary shares on issue there were 72,520,191 unlisted options and performance rights and 171,594,000 unlisted convertible bonds on issue.

Review of operations

During the half year period ended December 31, 2012, the Company made significant progress in becoming a major supplier of Rare Earths products. On September 5, 2012, the Malaysian AELB announced the issuance of the TOL for the LAMP after an extensive and detailed regulatory review process. Subsequently, the Company announced in November 2012 that the first containers of Rare Earths concentrate had arrived at the LAMP. On November 30, 2012 the Company advised that first feed of Rare Earths concentrate into the rotary kilns at the LAMP had been achieved. Since then, the LAMP operations have been ramping up and subsequent to the end of the period, Lynas confirmed that the cracking and leaching units of the LAMP had been successfully commissioned in early January 2013.

Western Australia operations

Since commissioning in May 2011, the Mount Weld Concentration Plant has performed ahead of management's expectations with Final Concentrate Grade in line with, and REO recovery ahead of, internal targets. The Plant was temporarily shut down on May 1, 2012 due to sufficient stocks of REO concentrate having been produced ahead of the commencement of operations at the LAMP. Activities during the shutdown include Phase 2 construction and tie-ins, maintenance, system development and training. A number of short production trials were conducted during October and November of 2012 to commission the equipment and process modifications made during the shutdown. The first parcel of concentrate was shipped to Kuantan, Malaysia from Fremantle Port during November 2012. As at December 31, 2012, 15,200 dry tonnes of concentrate containing 5,410 tonnes of REO were bagged ready for export.

Directors' Report

In August 2012, Lynas Western Australia's integrated management systems were externally audited by Bureau Veritas who have confirmed external certification to the following standards:

- OHSAS 18001:2007, Occupational Health and Safety Systems.
- ISO 14001:2004, Environmental Systems.
- ISO 9001:2008, Quality Management Systems.

On September 21, 2012, Lynas announced a significant upgrade of the Ore Reserves at Mount Weld. The Ore Reserves at the Central Lanthanide Deposit are now 9.7 million tonnes, at an average grade of 11.7% REO, for a total of 1.14 million tonnes of contained REO. This represents a 362% increase in Ore Reserves and a 260% increase in contained REO compared with the prior Ore Reserves contained in the 2005 Feasibility Study. The Ore Reserves represent more than 25 years mine life based on an expected production capacity of 22,000 tonnes per annum REO.

The overall cumulative progress of the LampsUp (Phase 2) Project in Western Australia (expansion of the production capacity of the LAMP to 22,000 tonnes per annum REO) as at December 31, 2012 was 84% complete, with engineering activities being 96% complete, procurement activities being 98% complete and construction 69% complete. The Project remains LTI free after 78,269 construction hours worked. Total headcount on the construction site as at December 31, 2012 was 58.

Malaysia operations

Construction and pre-commissioning of Phase 1 of the LAMP was completed during the period and subsequent to the issuance of the TOL, the first containers of Rare Earths concentrate arrived at the LAMP in November 2012. On November 30, 2012, the Company advised that first feed of Rare Earths concentrate into the rotary kilns at the LAMP had been achieved. Since then, and subsequent to the end of the period, the LAMP operations have been ramping up including the successful commissioning of the cracking and leaching units of the LAMP in early January 2013.

The overall cumulative progress of the LampsUp Project in Malaysia (expansion of the production capacity of the LAMP to 22,000 tonnes per annum REO) as at December 2012 was 96% complete; with engineering and procurement activities complete and construction activities 90% complete. Total headcount at site peaked at about 2,300 in mid-December and has since started to decrease as the project nears completion. The LampsUp project in Malaysia continues to achieve excellent safety performance with overall recorded project hours up to December 31, 2012 of 4.1 million hours LTI free.

In August 2012, Lynas announced plans to invest in a range of programmes aimed at building an innovative approach to creating shared value in host communities. These programmes follow an earlier commitment to fund additional research and development by investing from revenues generated by the LAMP. These research and development activities will be aimed at supporting Malaysia's economic goals and will see the sponsorship of research activity within Malaysia.

On September 5, 2012, Malaysia's AELB announced the issuance of the TOL for the LAMP. The AELB will monitor the LAMP's operations and adherence to prescribed safety standards, including the conditions attached to the TOL. Compliance with those standards will be the criteria for conversion of the TOL to a full operating licence during the next two years. A thorough and diligent process was undertaken by all relevant authorities prior to the issuance of the TOL, in accordance with all applicable regulatory requirements. The Malaysian Department of Environment, the International Atomic Energy Agency, the Malaysian Atomic Energy Licensing Board, the Minister of Science, Technology and Innovation and a Parliamentary Select Committee have all scrutinised various aspects of Lynas' plant and Lynas' compliance with the required domestic and international standards, and all have found in favour of Lynas. Importantly, all of these reviews were independent and none were commissioned by Lynas.

During the half year period ended December 31, 2012, the Malaysian courts decided on two occasions that parties associated with the Save Malaysia Stop Lynas ("SMSL") group are not entitled to an interim injunction against Lynas' TOL. The key decisions were by the Kuantan High Court on November 8, 2012 and the Malaysian Court of Appeal on December 19, 2012. SMSL may appeal to the Federal Court of Malaysia, however Lynas expects that the grounds of appeal would be the same as those that were rejected by the Court of Appeal.

In addition, during the half year period ended December 31, 2012, three judicial review challenges were pursued by SMSL against the TOL. Two of those challenges have now been dismissed. The key decision dates were September 10, 2012 (Court of Appeal) and January 29, 2013 (Kuantan High Court). Subject to SMSL appealing to the Court of Appeal or the Federal Court, only one judicial review challenge remains. The remaining judicial review challenge was originally scheduled to be heard by the Kuantan High Court on February 5, 2013. That date has been postponed to enable the court to deal with some preliminary matters and no new date has been set.

Lynas and the Malaysian Government intend to strongly defend the remaining judicial review challenge.

Earnings (loss) per share

	December 31,	
Earnings (loss) per share	**2012**	**2011**
Basic loss per share (cents per share)	(3.21)	(2.24)
Diluted loss per share (cents per share)	(3.21)	(2.24)

Dividends

There were no dividends declared or paid during the half year period ended December 31, 2012 (half year period ended December 31, 2011: nil). There were no dividends declared or paid since December 31, 2012.

Directors' Report

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 a Risk Management, Safety, Health and Environment Committee.

Significant changes in the state of affairs

Except as disclosed in the review of results and operations, and subsequent events (note 16), there have been no significant changes in the state of affairs of the Group during the current reporting period.

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.

Competent person's statement

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Brendan Shand, who is a member of The Australasian Institute of Mining and Metallurgy. Brendan Shand is an employee of the Group and has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (2004 edition) ("The JORC Code"). Brendan Shand consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The Ore Reserves statement in this report has been compiled in accordance with the guidelines defined in The JORC Code. The Ore Reserves have been compiled by Ross Bertinshaw of Golder Associates, who is a fellow of The Australasian Institute of Mining and Metallurgy and a Chartered Professional (Mining). Mr Bertinshaw has had sufficient experience in Ore Reserve estimation relevant to the style of mineralisation and type of deposit under consideration to qualify as Competent Person as defined in The JORC Code. Mr Bertinshaw consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Auditor's independence declaration

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

Rounding of amounts

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

Subsequent events

On January 7, 2013 the Group announced the successful commissioning of the cracking and leaching Rare Earths extraction units at the LAMP in Malaysia. With these activities complete, the facility has commenced its scheduled ramp up to its full Phase 1 production capacity.

On January 29, 2013, the Kuantan High Court dismissed a judicial review challenge by parties associated with the "SMSL" group. An earlier similar challenge was dismissed by the Courts on April 12, 2012 (Kuala Lumpur High Court) and September 10, 2012 (Court of Appeal). Subject to SMSL appealing to the Court of Appeal or the Federal Court, only one judicial review challenge remains. The remaining judicial review challenge was originally scheduled to be heard by the Kuantan High Court on February 5, 2013. That date was postponed to enable the Court to deal with some preliminary matters and no new date has been set.

On January 20, 2013, the Group lodged an R&D tax incentive claim for the year ended June 30, 2012 as part of the Australian Group's income tax return. The claim principally related to the testing and commissioning of the Mount Weld plant and processes. On February 15, 2013, the Australian Taxation Office (ATO) processed the income tax return and acknowledged that the cash payment of $15.2 million in connection with the claim would be made by March, 1 2013.

With the exception of the above, there have been no other events subsequent to December 31, 2012 that would require accrual or disclosure in the interim unaudited condensed consolidated financial statements.

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

On behalf of the Directors

Nicholas Curtis
Executive Chairman

Sydney
February 22, 2013

Directors' Declaration

In accordance with a resolution of the Directors of the Company, I state that:

In the opinion of the Directors:

(a) the interim unaudited condensed consolidated financial statements of the Group are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of the Group as at December 31, 2012 and of its performance for the half year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, International Accounting Standard IAS 34 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Nicholas Curtis
Executive Chairman

Sydney, Australia
February 22, 2013

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

In relation to our review of the financial report of Lynas Corporation Limited for the half-year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner
Sydney

22 February 2013

Interim Unaudited Condensed Consolidated Statement of Comprehensive Income

For the half year ended

In A$'000	Note	December 31, 2012	December 31, 2011
General and administration expenses		(43,706)	(36,482)
Other expenses	10	(5,078)	-
Profit (loss) from operating activities		**(48,784)**	**(36,482)**
Financial income	7	2,423	2,873
Financial expenses	7	(8,136)	(5,082)
Net financial (expenses) income		**(5,713)**	**(2,209)**
Profit (loss) before income tax		**(54,497)**	**(38,691)**
Income tax (expense) benefit	8	(2,079)	216
Profit (loss) for the period from continuing operations		**(56,576)**	**(38,475)**
Other comprehensive income (loss) for the period net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		34,510	(2,168)
Gain (loss) on the revaluation of available for sale financial assets		(788)	(3,215)
Total other comprehensive income (loss) for the period net of income tax		**33,722**	**(5,383)**
Total comprehensive income (loss) for the period attributable to equity holders of the Company		**(22,854)**	**(43,858)**
Earnings (loss) per share			
Basic loss per share (cents per share)	14	(3.21)	(2.24)
Diluted loss per share (cents per share)	14	(3.21)	(2.24)

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

Interim Unaudited Condensed Consolidated Statement of Financial Position

As at

In A$'000	Note	December 31, 2012	June 30, 2012
Assets			
Cash and cash equivalents	9	226,224	205,438
Trade and other receivables		1,822	932
Prepayments		1,346	1,538
Inventories	10	62,889	52,419
Total current assets		**292,281**	**260,327**
Inventories	10	11,472	13,272
Available for sale - financial assets		2,628	3,754
Property, plant and equipment	11	803,974	706,603
Deferred exploration, evaluation and development expenditure		26,536	26,342
Intangible assets		288	321
Other assets		14,963	13,038
Total non-current assets		**859,861**	**763,330**
Total assets		**1,152,142**	**1,023,657**
Liabilities			
Trade and other payables		(34,137)	(48,331)
Current tax liabilities		(164)	(120)
Employee benefits		(2,372)	(1,382)
Provisions	13	(1,934)	(3,061)
Total current liabilities		**(38,607)**	**(52,894)**
Borrowings	12	(399,057)	(403,062)
Employee benefits		(203)	(430)
Provisions	13	(3,777)	(3,777)
Total non-current liabilities		**(403,037)**	**(407,269)**
Total liabilities		**(441,644)**	**(460,163)**
Net assets (liabilities)		**710,498**	**563,494**
Equity			
Share capital		994,645	823,161
Accumulated deficit		(343,712)	(287,136)
Reserves		59,565	27,469
Total equity attributable to equity holders of the Company		**710,498**	**563,494**

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

Lynas CORPORATION LTD

Interim Unaudited Condensed Consolidated Statement of Changes in Equity

In A$'000	Share capital	Accumulated Deficit	Foreign currency translation reserve	Equity settled employee benefits reserve	Investment revaluation reserve	Other reserves	Total
Balance at the beginning of the period (July 1, 2012)	**823,161**	**(287,136)**	**(36,132)**	**33,993**	**865**	**28,743**	**563,494**
Other comprehensive income (loss) for the period	-	-	34,510	-	(788)	-	**33,722**
Total income (loss) for the period	-	(56,576)	-	-	-	-	**(56,576)**
Total comprehensive income (loss) for the period	**-**	(56,576)	34,510	-	(788)	-	**(22,854)**
Issue of shares, net of issue costs	171,258	-	-	-	-	-	**171,258**
Exercise of options net of issue costs	226	-	-	-	-	-	**226**
Employee remuneration settled through share based payments	-	-	-	(1,626)	-	-	**(1,626)**
Balance at December 31, 2012	**994,645**	**(343,712)**	**(1,622)**	**32,367**	**77**	**28,743**	**710,498**
Balance at the beginning of the period (July 1, 2011)	**821,994**	**(199,366)**	**(25,941)**	**24,562**	**5,518**	**-**	**626,767**
Other comprehensive income (loss) for the period	-	-	(2,168)	-	(3,215)	-	**(5,383)**
Total income (loss) for the period	-	(38,475)	-	-	-	-	**(38,475)**
Total comprehensive income (loss) for the period	-	(38,475)	(2,168)	-	(3,215)	-	**(43,858)**
Exercise of options, net of issue costs	218	-	-	-	-	-	**218**
Issue costs of equity raising	(24)	-	-	-	-	-	**(24)**
Deferred tax	(1,378)	-	-	-	-	-	**(1,378)**
Employee remuneration settled through share based payments	-	-	-	5,069	-	-	**5,069**
Balance at December 31, 2011	**820,810**	**(237,841)**	**(28,109)**	**29,631**	**2,303**	**-**	**586,794**

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

Interim Unaudited Condensed Consolidated Statement of Cash Flows

For the half year ended

In A$'000	Note	December 31, 2012	December 31, 2011
Cash flows from (used in) operating activities			
Cash paid to suppliers and employees		(53,109)	(51,789)
Income taxes paid		4	216
Net cash from (used in) operating activities		**(53,105)**	**(51,573)**
Cash flows from (used in) investing activities			
Payment for property, plant and equipment		(85,113)	(160,536)
Payment for intangible assets		(34)	(7)
Payments for tenement rights		(102)	-
Security bonds paid		(1,702)	(8,167)
Net cash from (used in) investing activities		**(86,951)**	**(168,710)**
Cash flows from (used in) financing activities			
Interest received		1,347	3,979
Interest paid		(7,751)	(4,113)
Other financing costs paid		(1,359)	(4,753)
Proceeds from the issue of share capital		175,000	-
Transaction costs associated with the issue of share capital		(5,350)	-
Proceeds from the issue of share capital resulting from the exercise of options		226	193
Net cash from (used in) financing activities		**162,113**	**(4,694)**
Net increase (decrease) in cash and cash equivalents		22,057	(224,977)
Cash and cash equivalents at the beginning of the period		205,438	433,956
Effect of exchange rate fluctuations on cash held		(1,271)	6,569
Cash and cash equivalents at end of the period	9	**226,244**	**215,548**

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

Interim Unaudited Condensed Consolidated Statement of Cash Flows (continued)

Reconciliation of the profit for the period with the net cash from operating activities

For the half year ended

In A$'000	December 31, 2012	December 31, 2011
Profit (loss) for the period	(56,576)	(38,475)
Adjustments for:		
Depreciation of property, plant and equipment	3,656	448
Amortisation of deferred exploration, evaluation and development expenditure	-	131
Amortisation of intangible assets	66	58
Employee remuneration settled through share based payments	(1,626)	5,069
Impairment loss on inventories	5,078	-
Net financial (income) expenses	5,713	2,209
Income tax (benefit) expense	2,079	(216)
Income taxes (paid) received	(4)	216
Change in prepayments	192	(1,465)
Change in trade and other receivables	(410)	(3,864)
Change in inventories	(8,670)	(24,087)
Change in trade and other payables	(314)	16,346
Change in provisions and employee benefits	(364)	101
Change in other assets and liabilities	(1,925)	(8,044)
Net cash from (used in) operating activities	**(53,105)**	**(51,573)**

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

Lynas CORPORATION LTD

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2012

1. Reporting entity

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

The interim unaudited condensed consolidated financial statements of the Company as at and for the six months or half year period ended December 31, 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

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

The address of the registered office of the Company is Level 7, 56 Pitt Street, Sydney NSW 2000, Australia.

2. Basis of preparation

2.1 Statement of compliance

The interim unaudited condensed consolidated financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*. The unaudited condensed consolidated financial statements also comply with International Financial Reporting Standards and Interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB") where relevant. The disclosures required in these interim unaudited condensed consolidated financial statements are less extensive than the disclosure requirements for annual financial statements. The interim unaudited condensed consolidated financial statements should be read in conjunction with the annual financial report of the Group for the year ended June 30, 2012.

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

2.2 Going concern

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

2.3 Basis of measurement

The interim unaudited condensed consolidated financial statements have been prepared under the historical cost convention except for assets held-for-sale which are measured at fair value less costs to sell, certain components of inventory which are measured at net realisable value and derivatives which are measured at fair value.

2.4 Presentation currency

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

2.5 Rounding of Amounts

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

2.6 Reclassification of comparative information

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

2.7 Accounting policies and recently issued accounting pronouncements

The accounting policies applied by the Group in these interim unaudited condensed consolidated financial statements are the same as those applied by the Group in the annual financial statements for the year ended June 30, 2012.

(a) Standards and Interpretations affecting amounts reported in the current period

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

- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets*
- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*

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

(b) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the interim unaudited condensed consolidated financial report, the following Standards and Interpretations listed below were issued but not yet effective.

Standard/Interpretation	Effective for the annual reporting period beginning on	Expected to be initially applied in the financial year ending
Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20*	July 1, 2013	June 30, 2014
AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*	July 1, 2015	June 30, 2016

Standard/Interpretation	Effective for the annual reporting period beginning on	Expected to be initially applied in the financial year ending
AASB 10 *Consolidated Financial Statements*	July 1, 2013	June 30, 2014
AASB 11 *Joint Arrangements*	July 1, 2013	June 30, 2014
AASB 12 *Disclosure of Interests in Other Entities*	July 1, 2013	June 30, 2014
AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*	July 1, 2013	June 30, 2014
AASB 119 *Employee Benefits* (2011) and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119* (2011)	July 1, 2013	June 30, 2014
AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*	July 1, 2013	June 30, 2014
AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*	July 1, 2013	June 30, 2014

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

3. Use of estimates and judgements

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

The key assumptions concerning the future and other key sources of uncertainty in respect of estimates at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are consistent to those as disclosed in the annual financial report for the year ended June 30, 2012.

4. Seasonality

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

5. Financial risk management

Exposure to market risk (including currency risk, interest rate risk and commodity prices), credit risk and liquidity risk arises in the normal course of the Group's business. During the half year ended December 31, 2012, the Group continued to apply the risk management objectives and policies that were disclosed in the annual financial report of the Group for the year ended June 30, 2012.

6. Segment reporting

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

The Group's CODM are the Board of Directors of the Company, the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer of the Group. Information reported to the Group's CODM for the purposes of resource allocation and assessment of performance is currently focused on of the Group's integrated Rare Earth extraction and processing facilities.

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

The accounting policies applied by each segment are the same as the Group's accounting policies. Results from operating activities represent the profit earned by each segment without the allocation of interest income and expense and income tax benefit (expense).

The CODM assess the performance of the operating segments 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.

Lynas CORPORATION LTD

Notes to the interim unaudited condensed consolidated financial statements
For the half year ended December 31, 2012

In A$'000	Note	For the half year ended December 31, 2012 Rare Earth operations	Corporate/ unallocated	Total continuing operations	For the half year ended December 31, 2011 Rare Earth operations	Corporate/ unallocated	Total continuing operations
Business segment reporting							
Expenses and other income		(44,057)	(4,727)	(48,784)	(27,204)	(9,278)	(36,482)
Earnings before interest and tax ("EBIT")		**(44,057)**	**(4,727)**	**(48,784)**	**(27,204)**	**(9,277)**	**(36,482)**
Financial income				2,423			2,873
Financial expenses				(8,136)			(5,082)
Profit (loss) before income tax				**(54,497)**			**(38,691)**
Income tax benefit (expense)				(2,079)			216
Profit (loss) for the year				**(56,576)**			**(38,475)**
Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")							
EBIT		(44,057)	(4,727)	(48,784)	(27,204)	(9,278)	(36,482)
Depreciation and amortisation		3,566	156	3,722	457	180	637
Earnings before interest, tax, depreciation and amortisation ("EBITDA")		**(40,491)**	**(4,571)**	**(45,062)**	**(26,747)**	**(9,098)**	**(35,845)**
Included in EBITDA:							
Impairment charge – inventory		5,078	-	5,078	-	-	-
Non-cash employee remuneration settled through share based payments comprising:							
- Share based payments expense for the period	15	-	3,866	3,866	-	5,069	5,069
- Impact of options and performance rights forfeited during the period	15	-	(5,492)	(5,492)	-	-	-
Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA")		**(35,413)**	**(6,197)**	**(41,610)**	**(26,747)**	**(4,029)**	**(30,776)**

7. Financial income and expenses

	For the half year ended December 31,	
In A$'000	2012	2011
Interest income on cash and cash equivalents	1,235	2,873
Net foreign currency exchange gain	1,188	-
Financial income	**2,423**	**2,873**
Interest expense on financial liabilities measured at amortised cost*		
Mt Kellett convertible bonds	(2,289)	-
Amortisation of deferred transaction costs – Mt Kellett convertible bonds	(56)	-
Amortisation of Mt Kellett equity conversion option	(4,137)	-
Financing transaction costs and fees	(1,654)	(4,160)
Net foreign currency exchange loss	-	(922)
Financial expenses	**(8,136)**	**(5,082)**
Net financial expenses	**(5,713)**	**(2,209)**

*Interest income (expense) amounts are shown net of amounts capitalised in respect of qualifying assets.

8. Income tax

	For the half year ended December 31,	
In A$'000	2012	2011
Reconciliation of effective tax rate		
Profit (loss) before income tax	(54,497)	(38,691)
Income tax benefit calculated at 30% (2011: 30%)	16,349	11,607
Add (deduct):		
Effect of expenses that are not deductible in determining taxable profit	(9,911)	(4,074)
Effect of unrealised foreign exchange gains and losses on USD assets and liabilities	2,946	-
Effect of unused tax losses not recognised as deferred tax assets and temporary differences now recognised	(12,884)	(7,731)
Other adjustments	1,421	414
Total current period income tax (expense) benefit	**(2,079)**	**216**

9. Cash and cash equivalents

As at

	December 31,	June 30,
In A$'000	2012	2012
Cash at bank and on hand	24,494	26,040
Short-term deposits	165,000	98,337
Restricted cash	36,730	81,061
Total cash and cash equivalents	**226,224**	**205,438**

Restricted cash represents funds provided under the Sojitz loan facility which is only available to fund capital expenditure required for Phase 2 of the Rare Earths Project.

10. Inventories

As at

	December 31,	June 30,
In A$'000	2012	2012
Raw materials and consumables	40,184	41,823
Work in progress	34,177	23,868
Total inventories	**74,361**	**65,691**

As at		
In A$'000	December 31, 2012	June 30, 2012
Current	62,889	52,419
Non-current	11,472	13,272
Total inventories	**74,361**	**65,691**

During the half year period ended December 31, 2012 the write-down of inventories to net realisable value for externally acquired raw materials recognised as a component of other expenses in the profit and loss component of the statement of comprehensive income totalled $5.1 million (period ended December 31, 2011: $nil).

The Group recognised depreciation on its property, plant and equipment and amortisation on its deferred exploration, evaluation and development expenditure and intangible assets for the half year periods ended December 31, 2012 and 2011 respectively in the following categories:

	Recognised in General and Administration Expense		Recognised in Inventory		Total	
In A$'000	2012	2011	2012	2011	2012	2011
Property, plant and equipment	3,656	448	-	4,350	3,656	4,798
Deferred exploration and evaluation expenditure	-	131	-	91	-	222
Intangibles	66	58	-	13	66	71
Total	**3,722**	**637**	**-**	**4,454**	**3,722**	**5,091**

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.

During the half year period ended December 31, 2012 the Group recognised royalties payable to the Western Australian Government totalling $0.3 million (period ended December 31, 2011: $nil). Royalties arise on the shipment of the Group's concentrate from Australia to Malaysia.

11. Property, plant and equipment

As at

In A$'000	Leasehold land	Buildings plant and equipment	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost	28,193	88,212	6,787	1,135	697,796	249	822,372
Accumulated impairment losses	-	(862)	(29)	(164)	(3,902)	-	(4,957)
Accumulated depreciation	(1,298)	(9,062)	(2,626)	(253)	-	(202)	(13,441)
Carrying amount – December 31, 2012	**26,895**	**78,288**	**4,132**	**718**	**693,894**	**47**	**803,974**
Cost	26,962	88,060	5,956	968	598,900	249	721,095
Accumulated impairment losses	-	(845)	(28)	(161)	(3,736)	-	(4,770)
Accumulated depreciation	(1,105)	(6,036)	(2,187)	(202)	-	(192)	(9,722)
Carrying amount – June 30, 2012	**25,857**	**81,179**	**3,741**	**605**	**595,164**	**57**	**706,603**

There are no restrictions on the title of any items of property, plant and equipment except as disclosed in the annual financial report for the year ended June 30, 2012.

During the half year period ended December 31, 2012 the Group continued the pre-commissioning and construction initiatives associated with the Phase I and Phase II capital programmes at the LAMP in Malaysia and the Phase II capital programme at Mount Weld. During the period, direct construction costs associated with the Phase 1 capital programme totalled $31.1 million, whereas the Phase II direct construction costs totalled $37.5 million in Malaysia and $20.6 million at Mount Weld.

As outlined in note 16, the Group announced the successful commissioning of the cracking and leaching Rare Earth extraction units at the LAMP in Malaysia on January 7, 2013. With these activities complete, the facility has commenced its scheduled ramp up to its full Phase 1 production capacity.

Construction activity in respect of the Phase 2 capital programme at December 31, 2012 was 90% complete at the LAMP and 69% complete at Mount Weld.

12. Borrowings

As at

In A$'000	December 31, 2012	June 30, 2012
Sojitz loan facility	(216,951)	(221,479)
Mt Kellett convertible bonds	(182,106)	(181,583)
Non-current borrowings	**(399,057)**	**(403,062)**
Sojitz loan facility	(216,951)	(221,479)
Transaction costs	-	-
Carrying amount	**(216,951)**	**(221,479)**
Mt Kellett convertible bonds	(182,511)	(182,045)
Transaction costs	405	462
Carrying amount	**(182,106)**	**(181,583)**

The terms and conditions of the Group's borrowings (except as outlined further in this report) are consistent with those disclosed in the annual financial report for the year ended June 30, 2012.

Convertible Bonds

The initial conversion price for the 225 million convertible bonds issued by the Company to Mt Kellett Capital Management ("Mt Kellett") and others on February 28, 2012 was $1.25. Further to the Company's ASX announcement dated November 15, 2012, the Company and Mt Kellett are in discussions to determine the appropriate conversion price adjustment under the convertible bond terms arising from the Institutional Share Placement ("ISP") and the share purchase plan ("SPP") that were completed by the Company in late 2012.

13. Provisions

As at

In A$'0000	Restoration and rehabilitation	Onerous contracts	Total
Current	-	(1,934)	(1,934)
Non-current	(3,777)	-	(3,777)
Total provisions at December 31, 2012	**(3,777)**	**(1,934)**	**(5,711)**
Current	-	(3,061)	(3,061)
Non-current	(3,777)	-	(3,777)
Total provisions at June 30, 2012	**(3,777)**	**(3,061)**	**(6,838)**

Restoration and rehabilitation

The activities of the Group give rise to obligations for asset and site restoration and rehabilitation. The provision recognised in the current period relates to site rehabilitation at Mount Weld and is measured at the expected value of future cash flows required to rehabilitate the site, discounted to its present value. As a component of the finalisation of the construction and commissioning of the Phase 1 capital project in Malaysia, management is presently assessing the valuation of the associated restoration and rehabilitation provision which will be recognised on the commencement of continuous production and the completion of the post commissioning activities.

Onerous contracts

The provision for onerous contracts represents the expected value of the "take or pay" obligations the Group is currently obliged to make under non-cancellable supplier contracts. The balance of the provision at December 31, 2012 represents the residual liability of the Group.

14. Equity and other comprehensive income

14.1 Share capital

Number of shares (No'000)	For the half year ended December 31, 2012	For the year ended June 30, 2012
Balance at June 30, 2012	1,715,029	1,713,647
Issue of shares pursuant to Institutional Share Placement ("ISP")	200,000	-
Issue of shares pursuant to Share Purchase Plan ("SPP")	44,642	
Issue of shares pursuant to option conversion	1,130	1,382
Balance at December 31, 2012	**1,960,801**	**1,715,029**

All issued ordinary shares are fully paid and have no par value.

On November 9, 2012 the Company announced an equity raising to deliver gross proceeds of up to approximately $200 million. The equity raising compromised a fully underwritten ISP and a partially underwritten SPP. On November 16, 2012 the Company completed the issue of 80 million shares at a price of $0.75 per share, while on November 23, 2012 the Company completed the issue of a further 120 million shares at a price of $0.75 per share in connection with the ISP.

On December 19, 2012 the Company completed the issue of 45 million shares under the terms of the SPP at a price of $0.56 per share.

Total transaction costs associated with the issue of the above equity totalled $5.3 million.

Details of option conversions during the period to ordinary shares are outlined in Note 15.

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.

14.2 Dividends

There were no dividends declared or paid during the half year period ended December 31, 2012 (half year period ended December 31, 2011: nil).

14.3 Earnings (loss) per share

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

As at / for the half year ended	**December 31, 2012**	**December 31, 2011**
Net loss attributed to ordinary shareholders (in A$'000)	(56,576)	(38,475)
Loss used in calculating basic and diluted loss per share (in A'$000)	**(56,576)**	**(38,475)**
Number of shares		
Weighted average number of ordinary shares used in calculating basic loss per share (No'000):	1,762,998	1,713,793
Diluted earnings per share:		
The number of options which are potential ordinary shares that are not dilutive and hence not used in the valuation of the diluted loss per share (No'000)	72,520	50,034
The number of convertible bonds which are potential ordinary shares that are not dilutive and hence not used in the valuation of the diluted earnings per share – assuming 100% conversion at the inception date of the bonds (No'000)	171,594	-
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share (No'000)	**1,762,998**	**1,713,793**
Basic loss per share (cents per share)	(3.21)	(2.24)
Diluted loss per share (cents per share)	(3.21)	(2.24)

15. 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 which are issued for nil consideration are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee. Each option or performance right is convertible into one ordinary share of the Company during the two years following the vesting date, which is the third anniversary of the grant date. The exercise price for the options is not less than the VWAP for the five days preceding the date the option is granted. The options or performance rights hold no voting or dividend rights and are not transferrable.

Options and performance rights are provided to 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 Director (whether executive of otherwise) of the Group and the Executive; where the Executive includes the President and Chief Operating Officer ("COO"), the Chief Financial Officer ("CFO"), the Group's General Counsel and Company Secretary, and the Executive Vice President of People and Culture.

15.1 Movement in share options and performance rights on issue and period expense

	For the half year ended December 31, 2012	
	Number of options ('000)	**Weighted average exercise price ($)**
Balance at beginning of period	83,029	0.92
Granted during the period	4,122	0.37
Expired during the period	(647)	-
Exercised during the period	(1,130)	0.20
Forfeited during the period	(12,854)	1.09
Balance at end of period	**72,520**	**0.87**
Exercisable at end of period	42,800	0.68

During the half year period ended December 31, 2012 the Group recognised a net benefit of $1.6 million within the profit and loss component of the statement of comprehensive income (2011: net expense $5.1 million). The net benefit during the half year period ended December 31, 2012 included the reversal of expenses totalling $5.5 million associated with the forfeitures of 50% of the outstanding options and performance rights issued on August 19, 2010 resulting from the Group not achieving a specified net operating cash flow target (non-market vesting condition).

15.2 Options and performance rights exercised during the half year ended December 31, 2012

The following share options were exercised during the half year ended December 31, 2012:

Exercise date	Number exercised	Share price at exercise date ($)	Exercise price ($)
September 6, 2012	1,000,000	0.84	0.16
September 6, 2012	100,000	0.84	0.66
September 27, 2012	30,232	0.80	0.00
	1,130,232		

15.3 Options and performance rights outstanding at the end of the half year ended December 31, 2012

The share options outstanding at December 31, 2012 had a weighted average exercise price of $0.87 (June 30, 2012: $0.92) and a weighted average remaining contractual life of 788 days (June 30, 2012: 943 days).

15.4 Options and performance rights issued in the period

During the half year period ended December 31, 2012 the Group issued 1,510,574 options and 2,611,275 performance rights. The conditions attached to Options and Performance Rights issued during the period are summarised as follows:

	Vesting Schedule	For Grants Made in Financial Year 2013
TSR hurdle (50%) **(Performance against ASX 100 companies)**	50% of the TSR portion will vest for:	51st percentile performance
	100% of the TSR portion will vest for:	76th percentile performance
	Pro-rata vesting will occur between each of the above points	
REO Capacity hurdle (50%)	n/a	Lynas Kuantan plant must have demonstrated capacity to produce at a rate equivalent to 22,000 tonnes per annum of REO before the end of calendar year 2013

In addition to these requirements, the employee is required to still be employed by the Group at the end of the three year vesting period unless the condition is waived by the Company.

The weighted average fair value of the share options and performance rights granted during the half year ended December 31, 2012 is $427,550. Options were priced using a Black Scholes Merton methodology. Where relevant the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past three years and peer volatility.

	Option series U	Option series V
Grant date share price ($)	0.795	0.795
Exercise price ($)	1.02	0.00
Expected volatility	50%	50%
Option life	5 years	5 years
Dividend yield	Nil	Nil
Risk-free interest rate	2.63%	2.58%

Details of the share options granted in the previous financial period are outlined in the annual financial report for the year ended June 30, 2012.

16. Subsequent events

On January 7, 2013 the Group announced the successful commissioning of the cracking and leaching Rare Earth extraction units at the LAMP in Malaysia. With these activities complete, the facility has commenced its scheduled ramp up to its full Phase 1 production capacity.

On January 29, 2013, the Kuantan High Court dismissed a judicial review challenge by parties associated with the “SMSL” group. An earlier similar challenge was dismissed by the Courts on April 12, 2012 (Kuala Lumpur High Court) and September 10, 2012 (Court of Appeal). Subject to SMSL appealing to the Court of Appeal or the Federal Court, only one judicial review challenge remains. The remaining judicial review challenge was originally scheduled to be heard by the Kuantan High Court on February 5, 2013. That date was postponed to enable the Court to deal with some preliminary matters and no new date has been set.

On January 20, 2013, the Group lodged an R&D tax incentive claim for the year ended June 30, 2012 as part of the Australian Group’s income tax return. The claim principally related to the testing and commissioning of the Mount Weld plant and processes. On February 15, 2013, the Australian Taxation Office (ATO) processed the income tax return and acknowledged that the cash payment of $15.2 million in connection with the claim would be made by March, 1 2013.

With the exception of the above, there have been no other events subsequent to December 31, 2012 that would require accrual or disclosure in the interim unaudited condensed consolidated financial statements.

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Lynas Corporation Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Lynas Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

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

Ernst & Young

Michael Elliott
Partner
Sydney

22 February 2013