

13 March 2015

## **Lynas Half Year Results And Financing Agreement Announcement**

Lynas Corporation Limited (“Lynas”) (ASX:LYC, OTC:LYSDY) today released its Financial Report for the half year ending 31 December 2014.

In the half year to 31<sup>st</sup> December 2014, Lynas focused on developing stable foundations for sustainable profitable business growth. Key objectives included:

- Achieving Malaysian regulatory endorsement for continuing operation of the LAMP
- Improving production stability and output rates
- Establishing a strong portfolio of strategic customers aligned to the Lynas offering
- Resetting the cost base of the business
- Enhancing environmental and waste management activities
- Refreshing the Lynas Board
- Achieving greater funding certainty to support business development and growth

Lynas has made significant progress with respect to each of these objectives:

- A Full Operating Stage License (FOSL) for the LAMP was granted on 2<sup>nd</sup> September 2014 providing Malaysian regulatory endorsement of operational standards and the basis for continued operations
- Production output continued to increase across the 6 months
  - Both the MT Weld Concentration Plant and the Cracking and Leaching units (C&L) at the LAMP are stable, operating at above design rates and at design utilisation
  - The Solvent Extraction (SX) and Product Finishing (PF) units operated at design rates but below design utilisation leading to variability in output volumes. Commissioning of SX Phase 2 assets commenced in December and this additional capacity should enable greater stability in output
  - The improvements in C&L are in line with expectations for a start up at this stage of its operation. SX performance has been improving, however, there are still significant improvements to be achieved and until fully stable there continues to be a risk of periodic reductions in production output.
- In a difficult market, Lynas focused on growing market share and market penetration
  - Lynas worked closely with its long-term Japanese partner, Sojitz, to grow sales in the valuable Japanese market, particularly with Japanese magnet manufacturers who value the alternate supply chain provided by Lynas
  - Sales to major customers grew across this period and new customers were acquired in all key segments
  - Lynas successfully engaged with end use customers seeking environmental assurance leading to first orders from an end use manufacturer who specified the use of Lynas product to their magnet manufacturer

- By establishing these points of difference, Lynas will build a defensible long term market position
- The cost base of the Lynas business was reset in this 6 months with significant savings in expenditure on overheads and operating costs:
  - Office locations were rationalised delivering cost savings and improvements in operational effectiveness and productivity
  - Use of contract labour was significantly reduced
  - Input costs decreased as major contracts were reviewed, including the selection of some new suppliers
  - The full financial effect of these reductions is not yet evident due to substantial restructuring charges incurred in the half year
- Significant progress was made in the management of water and tailings in Mt Weld, improving both water re-use and deposition of waste water. Trials on the productive use of all LAMP residues commenced with positive early results.
- Board renewal was completed with the appointment of a new Chairman, Mike Harding, and a new non-Executive Director, Philippe Etienne
- An equity raising was completed with \$83.0 million received (less expenses)

Lynas CEO, Amanda Lacaze said, "Through the half year Lynas has improved core capabilities and grown strategic customer relationships providing a platform for future growth. I am pleased that these continuing improvements have been recognised by our 2 key debt providers who have agreed to make changes to our debt agreements to support the continued growth of the Lynas business."

## Amendment to Financing Agreement

Lynas and its debt providers have worked collaboratively to agree amendments to its financing agreements that provide the company with a secure and simple solution to support the Company's growth.

After site visits with extended teams and management discussions to assess the company's performance and operations, JARE and the convertible bondholders led by Mount Kellett, have each reached an informed view to further support Lynas, with amendments to the financing agreements.

Both recognize the importance of retaining sufficient cash buffer in the business as Lynas continues to increase production volumes.

JARE will delay amortization payments that were due on 31<sup>st</sup> March 2015 and 30<sup>th</sup> June 2015 and extend the due date for those payments to 30<sup>th</sup> June 2016.

In addition, JARE and the convertible bondholders led by Mount Kellett, have agreed that Lynas will deposit the interest payments due to each debt provider in calendar year 2015 into specific bank accounts. Lynas will have the option, at the lenders' discretion, to apply for a cash withdrawal of monies in those accounts, if required for the business in the coming 12-month period.



The delay in the amortization payments has the benefit of providing Lynas with a simple and certain solution for preserving cash as the company continues its progress to becoming a sustainable and profitable operating business in a difficult economic environment. This proactive support from its debt providers is welcomed by Lynas.

As disclosed in the Financial Report, Lynas' half-year financial statements have been prepared on the basis of a going concern, subject to certain risks as outlined in Note 2.2 on pages 17 and 18. These include achieving stable production output, specifically from the SX units. In addition, Lynas now has significant repayments due under the Sojitz facility on 31 March 2016, and the ability of Lynas to meet those repayments will be dependent on further improvements in business performance. In addition, Lynas expects that it will require a combination of extension of the final repayment dates of the Sojitz facility and the convertible bonds and /or a refinance of those facilities in order for Lynas to be able to repay the principal amounts of those facilities on the final repayment dates.

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

For all media enquiries please contact:

Renée Bertuch

Cannings Corporate Communications

+61 8284 9990

+61 409 550 389

Andrew Arnold

Company Secretary



Lynas Corporation HQ  
PT17212 Jalan Gebeng 3, Kawasan Perindustrian Gebeng, 26080 Kuantan, Pahang Darul Makmur, Malaysia  
Tel: +60 9 582 5200 +60 9 582 5800  
Fax: +60 9 582 5291 +60 9 582 5292  
www.lynascorp.com  
ACN 009 066 648





**ABN 27 009 066 648**

**Interim Unaudited Condensed Consolidated Financial Report  
For the half year ended December 31, 2014**



## **Corporate Directory Information**

**ABN 27 009 066 648**

### **Directors**

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

### **Company Secretaries**

Andrew Arnold  
Ivo Polovineo

### **Registered Office**

Level 1, 7 Tully Road  
East Perth WA 6004  
Telephone: +61 8 6241 3800  
Fax: + 61 8 9242 7219  
Email: [general@lynascorp.com](mailto:general@lynascorp.com)

### **Share Register**

Boardroom Pty Ltd  
Level 7, 207 Kent Street  
Sydney NSW 2000  
Telephone: +61 2 9290 9600  
Fax: +61 2 9279 0664  
Email: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

### **Auditors**

Ernst & Young  
680 George Street  
Sydney NSW 2000

### **Internet Address**

[www.lynascorp.com](http://www.lynascorp.com)

## Contents

	Page
Directors' report	4
Directors' declaration	11
Independent auditor's independence declaration	12
Interim unaudited condensed consolidated statement of comprehensive income	13
Interim unaudited condensed consolidated statement of financial position	14
Interim unaudited condensed consolidated statement of changes in equity	15
Interim unaudited condensed consolidated statement of cash flows	16
Notes to the interim unaudited condensed consolidated financial statements	17
Independent auditor's review report	26

## 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, 2014.

### 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 unless otherwise stated.

William (Liam) Forde – Non-Executive Director  
Kathleen Conlon – Non-Executive Director  
Jake Klein – Non-Executive Director  
Amanda Lacaze – Managing Director  
Mike Harding – Chairman (appointed with effect from January 1, 2015)  
Philippe Etienne – Non-Executive Director (appointed with effect from January 1, 2015)  
Nicholas Curtis – Chairman (ceased with effect January 1, 2015), Non-Executive Director (from January 1, 2015, resigned with effect February 1, 2015)

As announced at the company's AGM in November 2014, Nicholas Curtis stood down after 14 years of service to the Company, with effect from February 1, 2015.

Effective January 1, 2015, Mike Harding is the new Non-Executive Chairman and Philippe Etienne is a new Non-Executive Director.

Mr. Harding has significant experience with industrial businesses, having previously held management positions around the world with British Petroleum (BP), including as President and General Manager of BP Exploration Australia.

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

Mr. Etienne is currently a Non-Executive Director of Transpacific Limited and Sedgman Limited, and a former Managing Director and Chief Executive Officer of Innovia Security Pty Ltd. He was previously Chief Executive Officer of Orica Mining Services and was a member of Orica Limited's Executive Committee.

### Highlights for the half year period ended December 31, 2014

In the half year to December 31, 2014 Lynas focused on developing foundations for sustainable business growth. Key achievements included:

- Secured Malaysian regulatory endorsement for continuing operation of the LAMP
- Improved production stability and output rates
- Implemented initiatives to establish a strong portfolio of strategic customers aligned to the Lynas offering
- Reset the cost base of the business
- Enhanced environmental and waste management activities
- Refreshed the Lynas Board

### Basis of preparation of financial statements

Note 2.2, Going concern, and the emphasis of matter paragraph in the Independent Auditor's Report, contain additional information relating to the preparation of the financial statements using the going concern assumption.

## Directors' Report

### Financial performance

#### For the half year period ended

In A\$ Million	December 31,	
	2014	2013
Revenue	65.0	14.6
Cost of sales	(96.5)	(14.6)
<b>Gross profit (loss)</b>	<b>(31.5)</b>	<b>-</b>
Other income	-	14.7
General and administration expenses	(49.4)	(66.3)
Other expenses	(8.1)	(0.2)
<b>Profit (loss) from operating activities</b>	<b>(89.0)</b>	<b>(51.8)</b>
Financial income	5.7	2.6
Financial expenses	(20.2)	(10.1)
<b>Net financial income (expenses)</b>	<b>(14.5)</b>	<b>(7.5)</b>
<b>Profit (loss) before income tax</b>	<b>(103.5)</b>	<b>(59.3)</b>

Commercial production and sales of REO products progressively increased in the half year to December 31, 2014.

Gross loss for the period was \$31.5 million reflecting the current stage of production ramp up. This compares to a gross profit/(loss) of nil in the July to December 2013 period. The gross loss in the current period reflects the fixed nature of many production costs, which have not been fully absorbed based on the production volumes in the period. Lower selling prices also contributed to this gross loss.

The loss from operating activities increased by \$37.2 million, to \$89.0 million for the half year period ended December 31, 2014, compared to \$51.8 million for the half year period ended December 31, 2013. On an adjusted EBITDA basis (refer to note 6 to the Financial Report for the basis of this measure) the Group reported a loss of \$57.7 million in the half year ended December 31, 2014, compared to a loss of \$55.0 million in the half year ended December 31, 2013.

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

Other income during the half year period December 31, 2013 refers to R&D related tax refunds not available to the Group in the 2014 period.

During the half year period December 31, 2014, the other expenses include mainly assets and inventory write-offs.

Net financial expenses increased by \$7.0 million, to \$14.5 million for the half year period ended December 31, 2014 compared to \$7.5 million for the half year period ended December 31, 2013. Interest expense on the Sojitz facility was higher by \$7 million following the completion of the Phase 2 capital programme in Malaysia from which time interest was no longer capitalised and also by negative foreign exchange movements as the underlying loan and the interest charge is in US\$. The convertible bonds related cost was higher (\$1.4 million) mainly driven by negative foreign exchange movements (loan and interest are denominated in US\$).

## Directors' Report

### Cash flow

For the half year period ended

In A\$ Million	December 31,	
	2014	2013
Net Operating Cash flow	(15.9)	(54.3)
Net Investing Cash flow	(3.8)	(3.3)
Net Financing Cash flow	50.9	(9.5)
<b>Net cash flow</b>	<b>31.2</b>	<b>(67.1)</b>

Overall, net cash flows have increased by \$98.3 million from a net cash outflow of \$67.1 million for the half year period ended December 31, 2013 to a net cash inflow of \$31.2 million for the half year period ended December 31, 2014.

#### Operating cash flows

Net operating cash outflows decreased by \$38.4 million, or 71%, to \$15.9 million for the half year period ended December 31, 2014, compared to \$54.3 million for the half year period ended December 31, 2013.

During the period, the Group's cash receipts from sales were \$78.0 million (December 31, 2013: \$10.2 million) reflecting the continued ramp up of the Group's operations compared to prior year. The net operating cash flow was negative for most of the period with December 2014 showing net cash inflow of \$1.2 million.

#### Investing cash flows

Net investing cash outflows increased by \$0.5 million, or 15%, to \$3.8 million for the half year period ended December 31, 2014, compared with \$3.3 million for the half year period ended December 31, 2013. Besides investing cash flow related to stay in business capital expenditures (mainly related to waste disposal at the LAMP), \$1.1 million is due to retention payments to suppliers in regards to the Phase 1 project.

#### Financing cash flows

Net financing cash flows have increased by \$60.4 million, or greater than 100%, to an inflow of \$50.9 million for the half year period ended December 31, 2014, compared with an outflow of \$9.5 million for the half year period ended December 31, 2013. The increase principally reflects the net proceeds of the Group's equity raising completed in October 2014 (\$83.0 million before transaction costs).

## Directors' Report

### Financial position

As at

In A\$ Million	December 31, 2014	June 30, 2014
<b>Assets</b>		
Cash and cash equivalents	70.8	38.1
Inventories	63.1	73.4
Property, plant and equipment	682.4	669.1
Deferred exploration, evaluation and development expenditure	46.5	46.9
Other assets	25.5	24.8
<b>Total assets</b>	<b>888.3</b>	<b>852.3</b>
<b>Liabilities</b>		
Borrowings	(506.3)	(443.6)
Other liabilities	(144.5)	(106.7)
<b>Total liabilities</b>	<b>(650.8)</b>	<b>(550.3)</b>
<b>Net assets</b>	<b>237.5</b>	<b>302.0</b>
<b>Equity</b>		
Share capital	1,083.9	1,034.6
Retained earnings (accumulated deficit)	(879.7)	(776.2)
Reserves	33.3	43.6
<b>Total equity</b>	<b>237.5</b>	<b>302.0</b>

The overall net assets of the Group decreased by \$64.5 million in the six months ended December 31, 2014.

Cash and cash equivalents at December 31, 2014 comprise \$64.1 million (June 30, 2014: \$33.3 million) of unrestricted cash and \$6.7 million (June 30, 2014: \$4.8 million) of restricted cash. The restricted cash is used to fund the semi-annual interest payable to Sojitz which is next due in March 2015.

Inventory has reduced by \$10.3 million, or 14% to \$63.1 million at December 31, 2014 compared to \$73.4 million at June 30, 2014. Holdings of raw materials and consumables are stable at \$33.5 million versus \$33.1 million at June 30, 2014. Finished goods have decreased by \$0.5 million to \$6.4 million at December 31, 2014. However, during the half year period ended December 31, 2014 the Group recognised write-downs on inventories held to their net realisable value totalling \$0.8 million driven by lower market prices. Working capital inventories were reduced by \$10.2 million to \$23.2 million at December 31, 2014. As at December 31, 2014 the Group holds 8,473 tonnes of processed concentrate containing 3,229 tonnes of REO bagged and ready for export at its Mt Weld operations.

Property, plant and equipment has increased by \$13.3 million, or 2%, to \$682.4 million at December 31, 2014 compared to \$669.1 million as at June 30, 2014. The increase in the period is largely driven by the foreign currency translation as a result of weakening of AUD against MYR (\$31.9 million), partially offset against the depreciation charged during the period (\$18.6 million).

Borrowings of \$506.3 million represent the US\$205 million Sojitz loan facility revalued at the December 31, 2014 exchange rate, and the US\$225 million liability component of the Convertible Bonds issued to funds managed or selected by Mt Kellett Capital Management. The significant increase in the period is largely driven by the effect of foreign currency translation (\$75.0 million) despite the principal repayment made for the Sojitz loan facility of US\$10 million.

The movement in reserves of \$10.3 million during the current period reflects movements in the foreign currency translation (\$38.7 million) significantly offset against the options granted pursuant to rights issue (\$28.1 million) and share based payments expense (\$0.3 million).

## Directors' Report

### Capital structure

At the start of the half year period ended December 31, 2014, the Group had 2,333,661,566 ordinary shares on issue. During the half year period ended December 31, 2014 an additional 1,037,293,468 shares were issued as follows:

	Number
Shares on issue June 30, 2014	2,333,661,566
Issue of shares pursuant to Institutional Share Placement ("ISP")	150,000,000
Issue of shares pursuant to Entitlement Offer	887,071,988
Issue of shares pursuant to exercise of options and performance rights	221,480
Shares on issue December 31, 2014	3,370,955,034

In addition to the ordinary shares on issue there were 740,226,191 listed options, 39,305,322 unlisted options and performance rights and 225,000,000 unlisted convertible bonds on issue with a conversion price of A\$0.5634 (based on a US\$: A\$ exchange rate of 0.9533).

### Review of operations

Highlights include:

- A Full Operating Stage License (FOSL) for the LAMP was granted on September 2, 2014 providing Malaysian regulatory endorsement of operational standards and the basis for continued operations
- Production output continued to increase across the 6 months
  - Both the Mt Weld Concentration Plant and the Cracking and Leaching units (C&L) at the LAMP are stable, operating at above design rates and at design utilisation
  - The Solvent Extraction (SX) and Product Finishing (PF) units operated at design rates but below design utilisation leading to variability in output volumes. Commissioning of SX Phase 2 assets commenced in December and this additional capacity should enable greater stability in output.
  - The improvements in C&L are in line with expectations for a start up at this stage of its operation. SX performance has been improving, however, there are still significant improvements to be achieved and until fully stable there continues to be a risk of periodic reductions in production output.

Lynas has implemented extensive processes to ensure that production is safe for employees, safe for the environment and community and secure for its customers. In the December quarter the Company achieved an excellent safety record with the Company-wide 12-month rolling Lost Time Injury Frequency Rate as at the end of December 2014 at 2.6 per million hours worked.

The Company sustained two lost time injuries in Western Australia and none in Malaysia during the half year ended December 31, 2014.

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

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

#### Western Australia operations

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

Significant progress was made in the management of water and tailings. Water from the tailings storage facility was successfully treated and reused in the flotation plant. A trial using the ETD (Enhanced Tailings Deposition) process was successful in depositing beached tailings and this process is currently being used. Further work on long term water and tailings management solutions are still in progress.

The Western Australian 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 period.

#### Malaysia operations

Significant improvements were realised in the performance of the cracking and leaching units of the LAMP which have been the production constraint since commissioning. All four kiln lines (both Phase 1 and Phase 2) can now operate at >120% of design rates.

The production constraint for the LAMP during the period was solvent extraction, in particular the complex SX5 trains which separate the lanthanum and cerium from the praseodymium and neodymium. Phase 1 SX contains 2 trains with 110 stages each. Phase 2 SX also contains 2 trains with 110 stages each.

Only the Phase 1 SX5 separation trains were in production with the commissioning of one of the Phase 2 SX5 trains commencing in mid-December 2014. This train is expected to be fully operational during the first quarter of 2015.

## Directors' Report

The two Phase 1 SX5 trains have operated for periods producing on-spec NdPr chloride at design rates. However the operation of these circuits are still susceptible to process upsets resulting in periodic reduced production rates and/or off-spec production.

The commissioning of the Phase 2 Product Finishing units was completed during the period.

On 2 September 2014, the Malaysian Atomic Energy Licensing Board (AELB) issued Lynas with a Full Operating Stage Licence (FOSL) for the Lynas Advanced Materials Plant (LAMP).

The Malaysian Operations maintained certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards.

### Malawi operations

The company is continuing to work with the Malawi Government with the aim of resolving the issues affecting Lynas' title to the Kangankunde Rare Earths ("KGK") resource development in Malawi. Since fiscal year 2012, no further capital investment has been made and the project remains on hold.

### Strategic Marketing and Sales

In a difficult market, Lynas focused on growing market share and market penetration.

- Lynas worked closely with its long-term Japanese partner, Sojitz, to grow sales in the valuable Japanese market, particularly with Japanese magnet manufacturers who value the alternate supply chain offered by Lynas
- Sales to major customers grew across this period and new customers were acquired in all key segments
- Lynas successfully engaged with end use customers seeking environmental assurance leading to first orders from an end use manufacturer who specified the use of Lynas product to its magnet manufacturer
- By establishing these points of difference, Lynas will build a defensible long term market position

### Sales by Tonnage and Value

	FY14	Q1 FY15	Q2 FY15	YTD FY15
Sales Volume Total	3008 REOt	1546 REOt	2014 REOt	3560 REOt
Cash Receipts From Customers Total	A\$58.6m	A\$32.9m	A\$45.1m	A\$78.0m

Japan, the biggest Rare Earths market outside China, is Lynas' key market in terms of revenue and volume. In the December quarter, sales to Lynas' Japanese customers represented 75% of revenue and 43% of volume sold. Our focus on providing excellence in customer service and quality of product to the Japanese market has resulted in increased market share and stronger customer relationships. In the Japanese Rare Earths market, Lynas supplies at least one leading customer in each market segment, providing a strong platform for growth in the future.

In addition Lynas grew its share of consumption with a number of key customers, entered into regular supply arrangements with four new customers and engaged with new customers in new segments. Most significantly, we concluded our first deal where an end use manufacturer specified the use of Lynas materials to its magnet supplier.

### Earnings (loss) per share

Earnings (loss) per share	December 31,	
	2014	2013
Basic loss per share (cents per share)	(3.64)	(2.69)
Diluted loss per share (cents per share)	(3.64)	(2.69)

### Dividends

There were no dividends declared or paid during the half year period ended December 31, 2014 (half year period ended December 31, 2013: nil). There were no dividends declared or paid since December 31, 2014.

### 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.

## Directors' Report

### 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.

### Significant changes in the state of affairs

Except as disclosed in the review of results and operations, and subsequent events (note 18), there have been no significant changes in the state of affairs of the Group during the current reporting period.

### Auditor's independence declaration

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

### Rounding of amounts

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

### Subsequent events

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

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

Further details are set out in Note 2.2.

With the exception of the above, there have been no other events subsequent to December 31, 2014 that would require accrual or disclosure in the interim unaudited condensed consolidated financial statements.

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

On behalf of the Directors



Mike Harding  
Chairman

Sydney  
March 13, 2015

## 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, 2014 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



Mike Harding  
Chairman

Sydney, Australia  
March 13, 2015



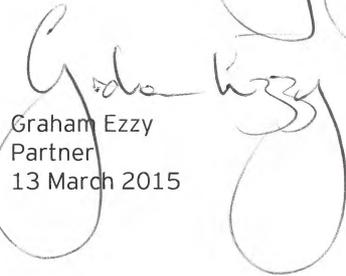
Ernst & Young  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
ey.com

## 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 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

  
Ernst & Young

  
Graham Ezzy  
Partner  
13 March 2015

## Interim Unaudited Condensed Consolidated Statement of Comprehensive Income

For the half year ended

In A\$'000	Note	December 31,	
		2014	2013
Revenue		65,048	14,593
Cost of sales		(96,458)	(14,593)
<b>Gross profit (loss)</b>		<b>(31,410)</b>	<b>-</b>
Other income	7	-	14,726
General and administration expenses		(49,426)	(66,240)
Other expenses		(8,115)	(245)
<b>Profit (loss) from operating activities</b>		<b>(88,951)</b>	<b>(51,759)</b>
Financial income	8	5,737	2,625
Financial expenses	8	(20,235)	(10,136)
<b>Net financial (expenses) income</b>		<b>(14,498)</b>	<b>(7,511)</b>
<b>Profit (loss) before income tax</b>		<b>(103,449)</b>	<b>(59,270)</b>
Income tax (expense) benefit	9	(62)	(23)
<b>Profit (loss) for the period</b>		<b>(103,511)</b>	<b>(59,293)</b>
<b>Other comprehensive income (loss) for the period net of income tax that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translating foreign operations		(38,690)	(23,194)
Gain (loss) on the revaluation of available for sale financial assets		-	976
<b>Total other comprehensive income (loss) for the period net of income tax</b>		<b>(38,690)</b>	<b>(22,218)</b>
<b>Total comprehensive income (loss) for the period attributable to equity holders of the Company</b>		<b>(142,201)</b>	<b>(81,511)</b>
<b>Earnings (loss) per share</b>			
Basic loss per share (cents per share)	16	(3.64)	(2.69)
Diluted loss per share (cents per share)	16	(3.64)	(2.69)

## Interim Unaudited Condensed Consolidated Statement of Financial Position

As at

In A\$'000	Note	December 31, 2014	June 30, 2014
<b>Assets</b>			
Cash and cash equivalents	10	70,780	38,144
Trade and other receivables	11	4,441	9,586
Current tax receivables		-	24
Prepayments		2,634	3,865
Inventories	12	59,520	64,427
<b>Total current assets</b>		<b>137,375</b>	<b>116,046</b>
Inventories	12	3,651	8,976
Property, plant and equipment	13	682,442	669,075
Deferred exploration, evaluation and development expenditure		46,544	46,857
Intangible assets		274	350
Other assets		18,126	11,042
<b>Total non-current assets</b>		<b>751,037</b>	<b>736,300</b>
<b>Total assets</b>		<b>888,412</b>	<b>852,346</b>
<b>Liabilities</b>			
Trade and other payables		(43,494)	(31,953)
Borrowings	14	(98,087)	(122,094)
Employee benefits		(1,978)	(2,733)
Provisions	15	(23,297)	(14,033)
<b>Total current liabilities</b>		<b>(166,856)</b>	<b>(170,813)</b>
Finance lease liabilities		(1,354)	(1,381)
Borrowings	14	(408,235)	(321,477)
Employee benefits		(104)	(295)
Provisions	15	(74,316)	(56,340)
<b>Total non-current liabilities</b>		<b>(484,009)</b>	<b>(379,493)</b>
<b>Total liabilities</b>		<b>(650,865)</b>	<b>(550,306)</b>
<b>Net assets</b>		<b>237,547</b>	<b>302,040</b>
<b>Equity</b>			
Share capital		1,083,888	1,034,634
Accumulated deficit		(879,690)	(776,179)
Reserves		33,349	43,585
<b>Total equity attributable to equity holders of the Company</b>		<b>237,547</b>	<b>302,040</b>

## 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
<b>Balance at the beginning of the period (July 1, 2014)</b>	1,034,634	(776,179)	(19,432)	34,274	-	28,743	<b>302,040</b>
Other comprehensive income (loss) for the period	-	-	(38,690)	-	-	-	<b>(38,690)</b>
Total income (loss) for the period	-	(103,511)	-	-	-	-	<b>(103,511)</b>
Total comprehensive income (loss) for the period	-	<b>(103,511)</b>	<b>(38,690)</b>	-	-	-	<b>(142,201)</b>
Exercise of options, net of issue costs	7	-	-	-	-	-	<b>7</b>
Issue of shares and equity options from equity raising, net of issue costs	49,247	-	-	-	-	28,132	<b>77,379</b>
Employee remuneration settled through share based payments	-	-	-	322	-	-	<b>322</b>
<b>Balance at December 31, 2014</b>	<b>1,083,888</b>	<b>(879,690)</b>	<b>(58,122)</b>	<b>34,596</b>	-	<b>56,875</b>	<b>237,547</b>
<b>Balance at the beginning of the period (July 1, 2013)</b>	<b>994,645</b>	<b>(430,691)</b>	<b>883</b>	<b>35,128</b>	-	<b>28,743</b>	<b>628,708</b>
Other comprehensive income (loss) for the period	-	-	(23,194)	-	976	-	<b>(22,218)</b>
Total income (loss) for the period	-	(59,293)	-	-	-	-	<b>(59,293)</b>
Total comprehensive income (loss) for the period	-	(59,293)	(23,914)	-	976	-	<b>(81,511)</b>
Exercise of options, net of issue costs	16	-	-	-	-	-	<b>16</b>
Employee remuneration settled through share based payments	-	-	-	(1,020)	-	-	<b>(1,020)</b>
<b>Balance at December 31, 2013</b>	<b>994,661</b>	<b>(489,984)</b>	<b>(22,311)</b>	<b>34,108</b>	<b>976</b>	<b>28,743</b>	<b>546,193</b>

## Interim Unaudited Condensed Consolidated Statement of Cash Flows

For the half year ended

In A\$'000	Note	December 31,	
		2014	2013
<b>Cash flows from (used in) operating activities</b>			
Receipts from customers		78,046	10,158
Receipt of government grants		-	14,082
Cash paid to suppliers and employees		(91,402)	(77,875)
Royalties paid		(2,513)	(584)
Income taxes (paid) received		(29)	(48)
<b>Net cash from (used in) operating activities</b>		<b>(15,898)</b>	<b>(54,267)</b>
<b>Cash flows from (used in) investing activities</b>			
Payment for property, plant and equipment		(4,094)	(9,354)
Payment for intangible assets		(6)	(25)
Security bonds paid		(35)	(6,802)
Security bonds refunded		382	12,819
<b>Net cash from (used in) investing activities</b>		<b>(3,753)</b>	<b>(3,362)</b>
<b>Cash flows from (used in) financing activities</b>			
Interest received		204	1,854
Interest and other financing costs paid		(14,977)	(11,388)
Proceeds from the issue of share capital		82,966	-
Payment of transaction costs – issue of share capital		(5,062)	-
Proceeds from the issue of share capital resulting from the exercise of options		7	16
Repayment of long-term borrowing (Sojitz facility)		(12,261)	-
<b>Net cash from (used in) financing activities</b>		<b>50,877</b>	<b>(9,518)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>31,226</b>	<b>(67,147)</b>
Cash and cash equivalents at the beginning of the period		38,144	141,371
Effect of exchange rate fluctuations on cash held		1,410	460
<b>Cash and cash equivalents at end of the period</b>	10	<b>70,780</b>	<b>74,684</b>

**Notes to the interim unaudited condensed consolidated financial statements  
For the half year ended December 31, 2014**

**1. Reporting entity**

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

The interim unaudited condensed consolidated financial statements of the Company as at and for the half year period ended December 31, 2014 comprise the Company and its subsidiaries (together referred to as the “Group”).

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

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

**2. Basis of preparation**

**2.1 Statement of compliance**

The interim unaudited condensed consolidated financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*. The unaudited condensed consolidated financial statements also comply with International Financial Reporting Standards and Interpretations (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) where relevant. The disclosures required in these interim unaudited condensed consolidated financial statements are less extensive than the disclosure requirements for annual financial statements. The interim unaudited condensed consolidated financial statements should be read in conjunction with the annual financial report of the Group for the year ended June 30, 2014.

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.

**Debt Facilities**

Full details of the Group’s material debt facilities were set out in note 24 of the Group’s annual financial report for the year ended June 30, 2014. The Group has two material debt facilities as follows.

**Sojitz facility**

The Sojitz loan facility in the original principal amount of US\$225 million was received from a Special Purpose Company (“Senior Lender”) established by Sojitz Corporation and Japan, Oil, Gas and Metals National Corporation (“JOGMEC”). The facility is fully drawn. As announced on March 30, 2011, the purpose of the Sojitz loan facility was to fund construction and commissioning of Phase 2 of the Group’s plant at Mt Weld and the LAMP.

The Sojitz loan facility is secured over all of the assets of the Group, other than the Malawi assets.

The principal repayment schedule of the Sojitz facility (as set out in note 24 of the Group’s annual financial report for the year ended June 30, 2014) was as follows:

<b>Repayment Date:</b>	<b>Instalment</b>
January 19, 2014	US\$10 million (already paid)
September 30, 2014	US\$10 million (already paid)
March 31, 2015	US\$15 million (now deferred to June 30, 2016)
June 30, 2015	US\$15 million (now deferred to June 30, 2016)
September 30, 2015	US\$30 million
December 21, 2015	US\$20 million
March 31, 2016	US\$20 million
June 30, 2016	US\$105 million

Interest is payable half-yearly on the Sojitz facility at 7.00% per annum. Pursuant to a binding term sheet dated March 12, 2015, the Senior Lender and Lynas agreed to reduce the cash flow burden of the Sojitz loan facility on Lynas, including by deferring the repayments previously due on March 31, 2015 and June 30, 2015 until June 30, 2016. The Senior Lender and Lynas also agreed that each interest payment that is due in calendar year 2015 will be deposited into a restricted bank account, with the payments available, at the lender’s discretion, for reuse in the Lynas business in the coming 12 month period.

The other key repayment provisions, and the other key terms and conditions of the Sojitz loan facility were summarized in note 24 of the Group’s annual financial report for the year ended June 30, 2014.

**Notes to the interim unaudited condensed consolidated financial statements  
For the half year ended December 31, 2014**

**Convertible bonds**

On January 24, 2012, the Company executed binding documentation for a US\$225 million unsecured convertible bonds issue (the "Convertible Bonds") with Mt Kellelt Capital Management ("Mt Kellelt"), a US-based investment firm. Initial funding for the Convertible Bonds was received on January 25, 2012 (US\$50 million) with the final payment of US\$175 million being received on February 28, 2012. The purpose of this facility was to fund construction, commissioning and working capital for the Group's plant at Mt Weld and the LAMP.

The Convertible Bonds are unsecured. The conversion price of the Convertible Bonds is currently A\$0.5634 per share. None of the Convertible Bonds had been converted into shares as at the end of the period. If not earlier converted into shares in the Company, the principal amount of the convertible bonds is repayable in full on July 25, 2016.

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

**Going Concern**

The ability of the Group to pay its operating expenses and the principal and interest payments due on its debt facilities over the next 12 months will depend on a variety of factors, only some of which are within the control of the Group, including but not limited to, production volumes, sales volumes, operating expenses and Rare Earths market prices. The Group continues to ramp up production at the LAMP, and issues may arise from time to time that may affect the speed of ramp up. As noted in the Review of Operations on page 8:

- Both the Mt Weld Concentration Plant and the Cracking and Leaching units (C&L) at the LAMP are stable, operating at above design rates and at design utilisation
- The Solvent Extraction (SX) and Product Finishing (PF) units operated at design rates but below design utilisation leading to variability in output volumes. Commissioning of SX Phase 2 assets commenced in December and this additional capacity should enable greater stability in output.
- The improvements in C&L are in line with expectations for a start up at this stage of its operation. SX performance has been improving, however, there are still significant improvements to be achieved and until fully stable there continues to be a risk of periodic reductions in production output.

The Group now has significant repayments due under the Sojitz facility on 31 March 2016, and the ability of the Group to meet those repayments will depend on the factors summarized above. In addition, the Group expects that it will require a combination of extensions of the final repayment dates of the Sojitz facility and the convertible bonds and/or a refinance of those facilities in order for the Group to be able to repay the principal amounts of those facilities on the final repayment dates.

While there is some uncertainty as to whether the lenders will agree to extensions or whether a refinance will be available to the Group, these financial statements have been prepared on a going concern basis, because the directors and management, including as a result of consultation with relevant advisers, are confident that there are reasonable grounds to believe that to the extent that either extensions or a refinance will be required, they will be obtained in a timely manner.

**2.3 Basis of measurement**

The interim unaudited condensed consolidated financial statements have been prepared under the historical cost convention except for certain components of inventory which are measured at net realisable value 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, 2014.

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

New and revised Standards and Interpretations that have been adopted in the current period include the following:

- AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*.
- Interpretation 21 *Levies*
- AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*
- AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*
- AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities [AASB 1, 3, 7, 10, 12, 107, 112, 124, 127, 132, 134 and 139]*

## Notes to the interim unaudited condensed consolidated financial statements For the half year ended December 31, 2014

- AASB 2013-7 *Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policy Holders [AASB 1038]*
- AASB 1031 *Materiality*
- Annual Improvements 2010-2012 Cycle
- Annual Improvements 2011-2013 Cycle
- AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*
- AASB 2014-1 *Amendments to Australian Accounting Standards – Defined Benefit Plans: Employee Contributions*
- AASB 2014-2 *Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements*

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

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

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2014 reporting periods. The Group has not adopted these new standards and interpretations. The Directors have not yet assessed whether their adoption will have a material impact on the financial report of the Group on future financial statements.

### 3. Use of estimates and judgements

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

The key assumptions concerning the future and other key sources of uncertainty in respect of estimates at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period are consistent to those as disclosed in the annual financial report for the year ended June 30, 2014.

### 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, 2014, 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, 2014.

### 6. Segment reporting

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

The Group's CODM are the Board of Directors of the Company, the Chief Executive Officer and the Chief Financial Officer of the Group. Information reported to the Group's CODM for the purposes of resource allocation and assessment of performance currently focuses on the operation and ramp up of the Group's integrated rare earth extraction and process facilities.

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

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

**Notes to the interim unaudited condensed consolidated financial statements**  
**For the half year ended December 31, 2014**

	Note	For the half year ended December 31, 2014			For the half year ended December 31, 2013		
		Rare Earth operations	Corporate/unallocated	Total continuing operations	Rare Earth operations	Corporate/unallocated	Total continuing operations
In A\$'000							
<b>Business segment reporting</b>							
Revenue		65,048	-	65,048	14,593	-	14,593
Cost of sales		(96,458)	-	(96,458)	(14,593)	-	(14,593)
<b>Gross profit (loss)</b>		<b>(31,410)</b>	<b>-</b>	<b>(31,410)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Expenses and other income		(53,261)	(4,280)	(57,541)	(60,161)	8,402	(51,759)
<b>Earnings before interest and tax ("EBIT")</b>		<b>(84,671)</b>	<b>(4,280)</b>	<b>(88,951)</b>	<b>(60,161)</b>	<b>8,402</b>	<b>(51,759)</b>
Financial income				5,737			2,625
Financial expenses				(20,235)			(10,136)
<b>Profit (loss) before income tax</b>				<b>(103,449)</b>			<b>(59,270)</b>
Income tax benefit (expense)				(62)			(23)
<b>Profit (loss) for the year</b>				<b>(103,511)</b>			<b>(59,293)</b>
<b>Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")</b>							
EBIT		(84,671)	(4,280)	(88,951)	(60,161)	8,402	(51,759)
Depreciation and amortisation		23,574	358	23,932	12,041	204	12,245
<b>Earnings before interest, tax, depreciation and amortisation ("EBITDA")</b>		<b>(61,097)</b>	<b>(3,922)</b>	<b>(65,019)</b>	<b>(48,120)</b>	<b>8,606</b>	<b>(39,514)</b>
Included in EBITDA:							
Impairment charge – inventory	12	840	-	840	152	-	152
Write-off of property, plant and equipment		5,917	249	6,166	92	-	92
Receipt of government grants		-	-	-	-	(14,726)	(14,726)
Non-cash employee remuneration settled through share based payments comprising:							
- Share based payments expense for the period	17	-	1,594	1,594	-	1,591	1,591
- Impact of options and performance rights forfeited during the period	17	-	(1,271)	(1,271)	-	(2,611)	(2,611)
<b>Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA")</b>		<b>(54,340)</b>	<b>(3,350)</b>	<b>(57,690)</b>	<b>(47,876)</b>	<b>(7,140)</b>	<b>(55,016)</b>

**Notes to the interim unaudited condensed consolidated financial statements  
For the half year ended December 31, 2014**

**7. Other income**

In A\$'000	For the half year ended December 31,	
	2014	2013
Other income	-	14,726
<b>Total other income</b>	<b>-</b>	<b>14,726</b>

During the half year period ended December 31, 2013, \$14.7 million eligible R&D expenditures related to cash payments from the Australian Taxation Office (ATO) was recognised in other income to match the treatment of the underlying R&D expenditure. No further cash payments were received in this context which would have required a similar treatment in the period ending December 2014 as the company exceeded the revenue threshold of \$ 25 million.

**8. Financial income and expenses**

In A\$'000	For the half year ended December 31,	
	2014	2013
Interest income on cash and cash equivalents	307	1,554
Net foreign currency exchange gain	5,430	1,071
<b>Financial income</b>	<b>5,737</b>	<b>2,625</b>
Interest expense on Sojitz Facility	(8,035)	(948)
Interest expense on financial liabilities measured at amortised cost		
Convertible bonds	(4,417)	(3,564)
Amortisation of deferred transaction costs – Convertible bonds	(40)	(56)
Amortisation of Convertible Bond equity conversion option	(5,641)	(5,122)
Financing transaction costs and fees	(2,102)	(446)
<b>Financial expenses</b>	<b>(20,235)</b>	<b>(10,136)</b>
<b>Net financial expenses</b>	<b>(14,498)</b>	<b>(7,511)</b>

**9. Income tax**

The significant driver of the difference between income tax benefit / expense calculated at 30% (2013: 30%) and actual tax expense is due to unrecognised tax losses that are not recognised as deferred tax assets in Australia, Malaysia and Malawi. These unrecognised tax losses will be recognised when it becomes probable that the Group will have future taxable profits in these jurisdictions against which these tax losses can be utilised.

**10. Cash and cash equivalents**

As at In A\$'000	December 31,	June 30,
	2014	2014
Cash at bank and on hand	46,580	33,289
Short-term deposits	17,525	-
Restricted cash	6,675	4,855
<b>Total cash and cash equivalents</b>	<b>70,780</b>	<b>38,144</b>

Under the terms of the Sojitz loan facility (refer to note 14), the restricted cash amount as at December 31, 2014 will be used to fund the next semi-annual interest payment due to Sojitz in March 2015.

**11. Trade and other receivables**

As at In A\$'000	December 31,	June 30,
	2014	2014
Trade receivables	1,484	7,795
Other receivables	2,957	1,791
<b>Total trade and other receivables</b>	<b>4,441</b>	<b>9,586</b>

The Group's exposure to credit risk is primarily in its trade receivables. Credit risk is assessed on a customer by customer basis and includes a credit analysis of each customer, negotiated payment terms, and payment history. As at December 31, 2014, no trade receivables were past due or impaired (none past due or impaired as at June 30, 2014).

**Notes to the interim unaudited condensed consolidated financial statements**  
**For the half year ended December 31, 2014**

**12. Inventories**

**As at**

In A\$'000	December 31, 2014	June 30, 2014
Raw materials and consumables	33,545	33,081
Work in progress	23,209	33,392
Finished goods	6,417	6,930
<b>Total inventories</b>	<b>63,171</b>	<b>73,403</b>
Current	59,520	64,427
Non-current	3,651	8,976
<b>Total inventories</b>	<b>63,171</b>	<b>73,403</b>

During the half year period ended December 31, 2014 the Group recognised write-downs on inventories held to their net realisable value totalling \$0.8 million (half year period ended December 31, 2013: \$29 thousand). The write downs were recognised as a component of other expenses in the profit and loss component of the statement of comprehensive income.

The Group recognised depreciation on its property, plant and equipment and amortisation on its deferred exploration, evaluation and development expenditure and intangible assets for the half year periods ended December 31, 2014 and 2013 respectively in the following categories:

In A\$'000	Recognised in General and Administration Expense		Recognised in Inventory		Total	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment	4,723	8,916	13,458	8,859	18,181	17,775
Deferred exploration and evaluation expenditure	305	420	-	-	305	420
Intangibles	79	87	-	-	79	87
<b>Total</b>	<b>5,107</b>	<b>9,423</b>	<b>13,458</b>	<b>8,859</b>	<b>18,565</b>	<b>18,282</b>

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 \$18.8 million in half year period ended December 31, 2014 (December 31, 2013: \$2.8 million).

During the half year period ended December 31, 2014 the Group recognised royalties payable to the Western Australian Government totalling \$2.4 million (period ended December 31, 2013: \$1.3 million). Royalties arise on the shipment of the Group's concentrate from Australia to Malaysia.

**13. 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	59,006	880,566	7,476	1,035	3,905	21,265	973,253
Accumulated impairment losses	-	(197,377)	(410)	(254)	(220)	(7,849)	(206,110)
Accumulated depreciation	(3,254)	(76,031)	(3,394)	(470)	-	(1,552)	(84,701)
<b>Carrying amount – December 31, 2014</b>	<b>55,752</b>	<b>607,158</b>	<b>3,672</b>	<b>311</b>	<b>3,685</b>	<b>11,864</b>	<b>682,442</b>
Cost	55,658	832,344	8,803	958	8,604	20,129	926,496
Accumulated impairment losses	-	(187,726)	(30)	(174)	(191)	(7,404)	(195,525)
Accumulated depreciation	(2,475)	(53,351)	(4,278)	(409)	-	(1,383)	(61,896)
<b>Carrying amount – June 30, 2014</b>	<b>53,183</b>	<b>591,267</b>	<b>4,495</b>	<b>375</b>	<b>8,413</b>	<b>11,342</b>	<b>669,075</b>

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, 2014.

**Notes to the interim unaudited condensed consolidated financial statements**  
**For the half year ended December 31, 2014**

In A\$'000	Leasehold land	Buildings plant and equipment	Fixtures and fittings	Motor vehicles	Assets under construction	Leasehold improvements	Total
Cost at the beginning of the year	55,658	832,344	8,803	958	8,604	20,129	926,496
Accumulated depreciation and impairment losses at the beginning of the year	(2,475)	(241,077)	(4,308)	(583)	(191)	(8,787)	(257,421)
Carrying amount at the beginning of the year	<b>53,183</b>	<b>591,267</b>	<b>4,495</b>	<b>375</b>	<b>8,413</b>	<b>11,342</b>	<b>669,075</b>
Additions	-	395	9	-	4,255	-	4,659
Depreciation for the period	(530)	(16,799)	(509)	(53)	-	(290)	(18,181)
Write-offs for the period	-	(5,917)	(249)	-	(418)	-	(6,584)
Transfers of assets under construction	-	8,931	116	-	(9,047)	-	-
Transfers from inventory	-	2,121	-	-	-	-	2,121
Effect of movements in exchange rates	3,099	27,160	(190)	(11)	482	812	31,352
<b>Carrying amount at December 31, 2014</b>	<b>55,752</b>	<b>607,158</b>	<b>3,672</b>	<b>311</b>	<b>3,685</b>	<b>11,864</b>	<b>682,442</b>

**14. Borrowings**

**As at**

In A\$'000	December 31, 2014	June 30, 2014
<b>Current Borrowings</b>		
Sojitz loan facility	98,087	122,094
	<b>98,087</b>	<b>122,094</b>
<b>Non - Current Borrowings</b>		
Sojitz loan facility	153,261	106,168
Convertible bonds	254,974	215,309
	<b>408,235</b>	<b>321,477</b>
<b>Total borrowings</b>	<b>506,322</b>	<b>443,571</b>
Sojitz loan facility	251,348	228,262
<b>Total Sojitz loan facility carrying amount</b>	<b>251,348</b>	<b>228,262</b>
Convertible bonds <sup>(1)</sup>	275,871	238,879
Unamortised equity component	(20,718)	(23,335)
Unamortised transaction costs	(179)	(235)
<b>Total Convertible bonds carrying amount</b>	<b>254,974</b>	<b>215,309</b>

(1) The principal balance reflects the full value of the convertible bonds. On initial recognition, part of this value was recognized as a component of equity.

Further details on the terms and conditions of the Group's borrowings are set out in Note 18.

**15. Provisions**

In A\$'000	Restoration and rehabilitation	Onerous contracts	Other provisions	Total
Current	-	22,216	1,081	23,297
Non-current	54,279	20,037	-	74,316
<b>Total provisions at December 31, 2014</b>	<b>54,279</b>	<b>42,253</b>	<b>1,081</b>	<b>97,613</b>
Current	-	10,210	3,823	14,033
Non-current	52,166	4,174	-	56,340
<b>Total provisions at June 30, 2014</b>	<b>52,166</b>	<b>14,384</b>	<b>3,823</b>	<b>70,373</b>

## Notes to the interim unaudited condensed consolidated financial statements For the half year ended December 31, 2014

### Restoration and rehabilitation

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

### Onerous contracts

The provision for onerous contracts represents the expected value of obligations arising under 'take or pay' clauses of non-cancellable supply agreements. The provision at December 31, 2014 represents management's current estimate of the value of materials that the Group will be unable to take under these contracts over the life of the agreement as well as the value of materials not delivered under the agreement through to December 31, 2014.

Subsequent to June 30, 2014 the Group has continued to review this provision and, as a result of forecast production output and usage rates, has increased the balance of the overall liability by \$27.9 million to \$42.3 million at December 31, 2014.

However, the Group is in advanced negotiations with the supplier, and it is likely that the forward looking penalties can be avoided as the Group moves to a new agreement. The Group expects the negotiations to be finalised within the next quarter.

## 16. Equity and other comprehensive income

### 16.1 Share capital

	For the half year ended	For the year ended
	December 31, 2014	June 30, 2014
Number of shares (No'000)		
Opening balance	2,333,661	1,960,801
Issue of shares pursuant to Institutional Share Placement ("ISP")	150,000	106,195
Issue of shares pursuant to Entitlement Offer	887,072	266,181
Issue of shares pursuant to option conversion	222	484
<b>Total</b>	<b>3,370,955</b>	<b>2,333,661</b>

All issued ordinary shares are fully paid and have no par value. Details of option conversions during the period to ordinary shares are outlined in Note 17. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share. All shares rank equally with regard to the Group's residual assets in the event of a wind-up.

### 16.2 Dividends

There were no dividends declared or paid during the half year period ended December 31, 2014 (half year period ended Dec. 31, 2013: nil).

### 16.3 Earnings (loss) per share

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

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

	December 31,	December 31,
	2014	2013
Net loss attributed to ordinary shareholders (in A\$'000)	(103,511)	(59,293)
Weighted average number of ordinary shares used in calculating basic and diluted loss per share (No'000)	2,846,688	2,206,101
<b>Basic loss per share (cents per share)</b>	<b>(3.64)</b>	<b>(2.69)</b>
<b>Diluted loss per share (cents per share)*</b>	<b>(3.64)</b>	<b>(2.69)</b>

\*The following have been excluded from the calculation of diluted earnings per share because they are anti-dilutive for the current and prior periods presented:

- The number of options and performance rights which are potential ordinary shares (No'000)	39,305	53,823
- The number of convertible bonds which are potential ordinary shares – assuming 100% conversion at the inception date of the bonds (No'000)	380,711	186,515
- The number of listed options from equity raising which are potential ordinary shares (No'000)	740,226	-

2013 EPS has been restated to take account the extra shares issued arising from 2014 equity raisings.

**Notes to the interim unaudited condensed consolidated financial statements**  
**For the half year ended December 31, 2014**

**17. Employee share options and performance rights**

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

**17.1 Movement in share options and performance rights on issue and period expense**

	For the half year ended December 31, 2014	
	Number of options and performance rights ('000)	Weighted average exercise price (\$)
Balance at beginning of period	49,035	0.81
Granted during the period	21,095	-
Expired during the period	(24,500)	0.66
Exercised during the period	(145)	-
Forfeited during the period	(6,180)	1.11
<b>Balance at end of period</b>	<b>39,305</b>	<b>0.43</b>
Exercisable at end of period	14,129	1.15

During the half year period ended December 31, 2014 the Group recognised a net expense of \$0.3 million within the profit and loss component of the statement of comprehensive income (2013: net benefit \$1.0 million). The net expense during the half year period ended December 31, 2014 included the reversal of expenses totalling \$1.3 million associated with the forfeitures of 67% of the outstanding options issued on September 23, 2011, November 30, 2011, December 12, 2011 and September 25, 2012 as well as 67% of the specific performance rights issued on September 22, 2011, September 25, 2012 and September 23, 2013. These forfeitures were resulting from the pro-rated shares of resigned employees.

**17.2 Options and performance rights exercised during the half year ended December 31, 2014**

The following share options were exercised during the half year ended December 31, 2014:

Exercise date	Number exercised	Share price at exercise date (\$)	Exercise price (\$)
October 7, 2014	4,651	0.08	-
August 12, 2014	140,000	0.16	-
	<b>144,651</b>		

**17.3 Options and performance rights issued during and outstanding at the end of the half year ended December 31, 2014**

During the period the Group issued a total 21,095,252 performance rights over a series of four tranches with varying performance conditions.

The share options and performance rights outstanding at December 31, 2014 had a weighted average exercise price of \$0.43 (June 30, 2014: \$0.81) and a weighted average remaining contractual life of 1105 days (June 30, 2014: 497 days).

**18. Subsequent events**

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

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

Further details are set out in Note 2.2.

With the exception of the above, there have been no other events subsequent to December 31, 2014 that would require accrual or disclosure in the interim unaudited condensed consolidated financial statements.

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

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Lynas Corporation Limited ("the Company"), which comprises the condensed statement of financial position as at 31 December 2014, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

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

#### ***Auditor's Responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001*. As the auditor of Lynas Corporation Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

#### ***Independence***

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

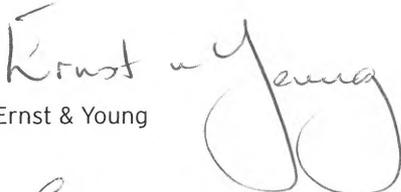
**Conclusion**

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

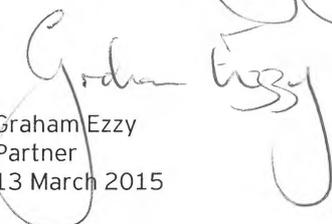
- i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- ii. complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

**Emphasis of Matter**

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



Ernst & Young



Graham Ezzy  
Partner  
13 March 2015