

Appendix 4E (Listing Rule 4.3A)

Lynas Rare Earths Ltd (ACN 009 066 648) And Controlled Entities

For the year ended 30 June 2021

Reporting Period: Year ended 30 June 2021

Comparative Reporting Period: Year ended 30 June 2020

Results for announcement to market

In AUD (000's)	30 June 2021	30 June 2020	Change	% Change
Revenue from ordinary activities	489,024	305,111	183,913	60.3%
Earnings before interest, tax, depreciation, amortisation and treasury charges (EBITDA)	235,284	59,722	175,562	294.0%
Profit / (loss) from ordinary activities after tax attributable to members.	157,083	(19,395)	176,478	909.9%
Net profit / (loss) for the period attributable to members	157,083	(19,395)	176,478	909.9%

Dividend Information

No dividends have been paid or proposed at 30 June 2021

Net Tangible Assets

	30 June 2021 (cents)	30 June 2020 (cents)
Net Tangible Assets per share	120.19	74.06

Other

Additional Appendix 4E disclosure requirements and commentary on significant features of the operating performance, results of segments, trends in performance and other factors affecting the results for the current period are contained in the 2021 Financial Report.

The Company's independent auditor Ernst & Young has completed an audit of the Company's 30 June 2021 Financial Report on which this report is based and has provided an unqualified audit opinion. A copy of the Company's Financial Report, inclusive of the audit report, is attached.



ACN 009 066 648

and

Controlled Entities

Consolidated Financial Report

For the year ended 30 June 2021

For personal use only

Corporate Directory Information

ABN 27 009 066 648

Directors

Kathleen Conlon
Amanda Lacaze
Philippe Etienne
John Humphrey
Grant Murdoch
Vanessa Guthrie

Company Secretary

Sarah Leonard

Registered Office

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East Perth WA 6004
Telephone: +61 8 6241 3800
Email: general@lynasre.com

Share Register

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Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Auditors

Ernst & Young
11 Mounts Bay Road
Perth WA 6000

Internet Address

www.lynasrareearths.com

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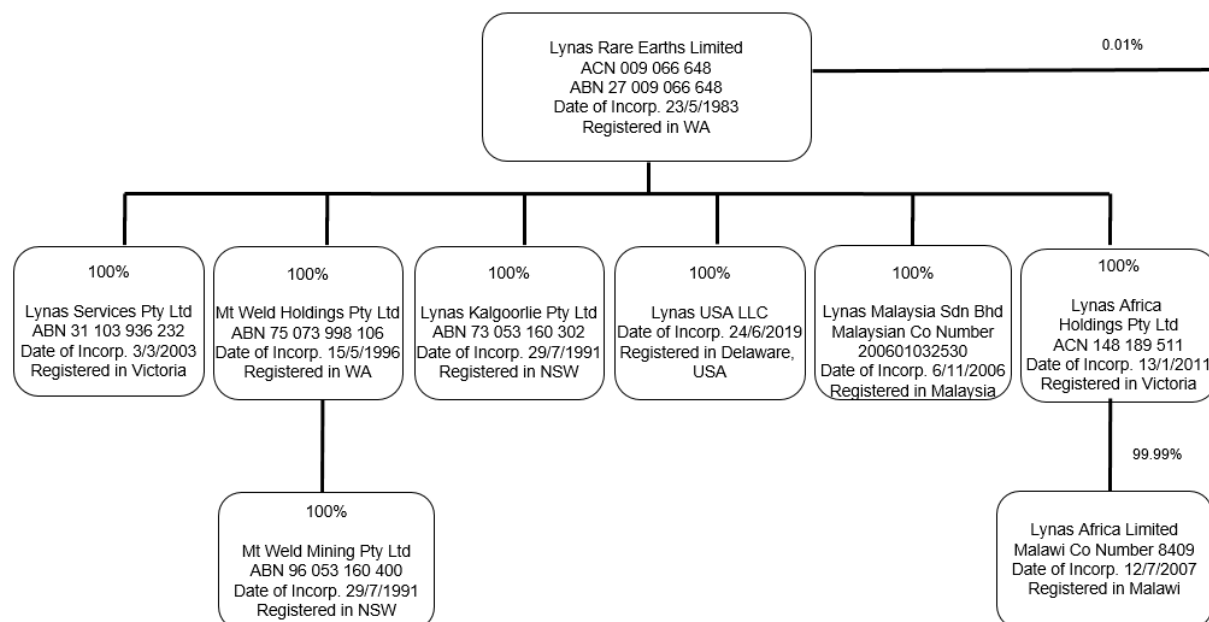
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Directors' Report

The Board of Directors (the "Board" or the "Directors") of Lynas Rare Earths Limited (the "Company") and its subsidiaries (together referred to as the "Group") submit their report for the year ended 30 June 2021. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

CORPORATE INFORMATION

Lynas Rare Earths Limited is limited by shares and is incorporated and domiciled in Australia. The Group's corporate structure is as follows:



DIRECTORS

The names and details of the Company's Directors who were in office during or since the end of the financial year are as set out below. All Directors were in office for this entire period unless otherwise stated.

Kathleen Conlon BA (Econ) (Dist.), MBA, FAICD
Non-Executive Chair (Appointed to Chair 30 September 2020)

Ms Conlon was appointed as a Non-Executive Director from 1 November 2011. Ms Conlon is currently a Non-Executive Director of REA Group Limited, Aristocrat Leisure Limited, BlueScope Steel Limited and The Benevolent Society and is a former Non-Executive Director of CSR Limited. She is a member of Chief Executive Women, former President of the NSW division of the Australian Institute of Company Directors and a former member of the National Board of the Australian Institute of Company Directors. Ms Conlon is a former Chairperson of the audit committee of the Commonwealth Department of Health. Prior to her Non-Executive Director career, Ms Conlon spent 20 years in professional consulting where she successfully assisted companies to achieve increased shareholder returns through strategic and operational improvements in a diverse range of industries.

Ms Conlon is one of the pre-eminent thought leaders in the area of operations and change management, both in Australia and globally. In 2003, Ms Conlon was awarded the Commonwealth Centenary medal for services to business leadership.

Ms Conlon is a member of the Nomination, Remuneration and Community Committee and the Health, Safety and Environment Committee.

Mike Harding MSc (MecEn)
Non-Executive Chair (Resigned 30 September 2020)

Mr Harding joined the Company as Non-Executive Chairman on 1 January 2015 and has significant experience with industrial businesses, having previously held management positions around the world with British Petroleum (BP), including as President and General Manager of BP Exploration Australia.

Mr Harding is currently Chairman of Downer EDI Ltd, Chairman of Horizon Oil Limited, and a Non-Executive Director of Cleanaway Waste Management Limited (formerly Transpacific Industries Group Ltd). He is a former Chairman of Roc Oil Company Limited and a former Non-Executive Director of Santos Limited and Clough Limited.

Mr Harding resigned from the Company effective 30 September 2020.

Lynas Rare Earths Limited and Controlled Entities

Amanda Lacaze BA, MAICD **Managing Director**

Ms Lacaze was appointed as Managing Director and Chief Executive Officer of the Company on 25 June 2014 following her appointment as a Non-Executive Director of the Company on 1 January 2014.

Ms Lacaze brings more than 25 years of senior operational experience to Lynas, including as Chief Executive Officer of Commander Communications, Executive Chairman of Orion Telecommunications and Chief Executive Officer of AOL[7]. Prior to that, Ms Lacaze was Managing Director of Marketing at Telstra and held various business management roles at ICI Australia (now Orica and Incitec Pivot). Ms Lacaze's early experience was in consumer goods with Nestle.

Ms Lacaze is a member of Chief Executive Women and the Australian Institute of Company Directors. She was a Non-Executive Director of ING Bank Australia until 30 May 2021. Ms Lacaze holds a Bachelor of Arts Degree from the University of Queensland and postgraduate Diploma in Marketing from the Australian Graduate School of Management.

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

Mr Etienne joined the Company as a Non-Executive Director on 1 January 2015. He is a Non-Executive Director of Cleanaway Waste Management Limited (formerly Transpacific Industries Group Ltd), Aristocrat Leisure Limited and Chairman of ANZ Terminals Pty Ltd. Mr Etienne was also the former Managing Director and Chief Executive Officer of Innovia Security Pty Ltd.

Previously, he was Chief Executive Officer of Orica Mining Services and was a member of Orica Limited's Executive Committee. Mr Etienne is a graduate of the Australian Institute of Company Directors. His career includes senior executive positions with Orica in Australia, the USA and Germany including strategy and planning and responsibility for synergy delivery of large scale acquisitions.

Mr Etienne is the Chair of the Health, Safety and Environment Committee and a member of the Audit and Risk Committee.

John Humphrey LLB **Non-Executive Director**

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

Mr Humphrey is a senior consultant to King & Wood Mallesons. He was the Dean of the Faculty of Law at Queensland University of Technology from January 2013 until June 2019. He was a Senior Partner at King & Woods Mallesons between 1998 and 2012 and a Partner at Corrs Chambers Westgarth between 1980 and 1998. He is an experienced Non-Executive Director having previously been Chairman and a Non-Executive Director of Spotless Group Holdings until 31 January 2021 and Chairman and Non-Executive Director of Auswide Bank Limited (formerly Wide Bay Australia Limited) until 31 December 2020. He was appointed as Chairman and a Non-Executive Director of Titles Queensland in August 2021 and he has previously served as Chairman and Non-Executive Director of Horizon Oil Limited and Villa World Limited, Deputy Chairman of King & Wood Mallesons and as a Non-Executive Director of Cromwell Property Group, Downer Group Limited, and Sunshine Broadcasting Group Limited. He has also served as a member of the Australian Takeovers Panel.

Mr Humphrey is the Chair of the Nomination, Remuneration and Community Committee and a member of the Audit and Risk Committee.

Grant Murdoch, M COM (Hons), FAICD, FCA **Non-Executive Director**

Mr Murdoch joined the Company as a Non-Executive Director on 30 October 2017. Mr Murdoch has more than 38 years of chartered accounting experience. From 2004 to 2011, Mr Murdoch led the corporate finance team for Ernst & Young Queensland and was an audit and corporate finance partner with Deloitte from 1980 to 2000. Mr Murdoch has extensive experience in providing advice in relation to mergers, acquisitions, takeovers, corporate restructures, share issues, pre-acquisition pricing due diligence advice, expert reports for capital raisings and initial public offerings.

Mr Murdoch is currently a Non-Executive Director and chair of the audit committee of the listed entity OFX Ltd and Auswide Bank Ltd (from 1 January 2021). He was previously a director and the chair of the audit committee for ALS Limited, Redbubble Limited and QIC. He is a senator of the University of Queensland (as well as chair of the risk committee and member of the finance committee), an adjunct professor at the University of Queensland Business School and a director of UQ Holdings Limited. Mr Murdoch has a Master's degree in Commerce (Honours) from the University of Canterbury, New Zealand, is a graduate of the Kellogg Advanced Executive Program and the Advanced Leadership Program at Northwestern University. He is a fellow of both the Institute of Chartered Accountants in Australia and New Zealand and of the Australian Institute of Company Directors. He is a member of the AICD State Council for Queensland for the Australian Institute of Company Directors.

Mr Murdoch is the Chair of the Audit and Risk Committee and a member of the Nomination, Remuneration and Community Committee.

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Dr Vanessa Guthrie AO, Hon DSc, PhD, BSc (Hons)
Non-Executive Director (Appointed 1 October 2020)

Dr Guthrie was appointed as a Non-Executive Director on 1 October 2020. Dr Guthrie has qualifications in geology, environment, law and business management including a PhD in Geology and over 30 years' experience in the resources sector.

Dr Guthrie is currently a non-executive Director of Santos Limited, Tronox Holdings PLC and Cricket Australia, a Lead Independent Director and Deputy Chair of Adbri Limited, and Pro-Chancellor of Curtin University. Dr Guthrie was formerly the Deputy Chair of the WACA and non-executive Director of the Australian Broadcasting Corporation. In 2017, Dr Guthrie was awarded an Honorary Doctor of Science from Curtin University for her contribution to sustainability, innovation and policy leadership in the resources industry. Dr Guthrie was appointed an Officer of the Order of Australia in 2021 for contribution to the minerals and resources sector.

Dr Guthrie is a member of the Nomination, Remuneration and Community Committee and the Health, Safety and Environment Committee.

Resignations

Mike Harding resigned effective 30 September 2020. There have been no other resignations from the Board.

COMPANY SECRETARIES

Andrew Arnold (Resigned 16 April 2021)

Mr Arnold was appointed as General Counsel and Company Secretary to the Group on 23 July 2008, following 15 years as a lawyer at Deacons, including six years as a Partner. During that time Mr Arnold also spent two years on secondment at Riddell Williams, Seattle. In his role at Deacons he had been overseeing the legal work of the Group since 2001. Mr Arnold was the responsible person for communication with the Australian Securities Exchange (ASX) in relation to listing rule matters.

Mr Arnold resigned from the Company effective 16 April 2021.

Ivo Polovineo (Resigned 16 April 2021)

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

Mr Polovineo resigned from the Company effective 16 April 2021.

Sarah Leonard (Effective 27 January 2021)

Ms Leonard is an experienced General Counsel and is a leading resources and infrastructure lawyer. She was previously the Group Legal Counsel at Monadelphous Group Limited, an ASX listed contractor in the resources sector. In that role, she was responsible for governance, compliance and regulatory matters in relation to the Group. Prior to her role as Group Legal Counsel, Sarah was a partner at Corrs Chambers Westgarth in the construction and infrastructure team.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Information about the remuneration of key management personnel is set out in the remuneration report of this Directors' Report. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director of the Company.

DIRECTORS SHAREHOLDINGS

As at the date of this report, the Directors' shareholdings are consistent with the shareholdings table described in Section I(i) of the remuneration report.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the Group are:

- Integrated extraction and processing of Rare Earth minerals, primarily in Australia and Malaysia; and
- Development of Rare Earth deposits.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Except as disclosed in the review of operations, the factors and business risks that affect future performance and the subsequent events, there have been no significant changes in the state of affairs of the Group during the current financial year.

PERFORMANCE REVIEW

The Directors together with Management monitor the Group's overall performance including development and implementation of the strategic plan and the operating and financial performance of the Group.

Lynas Rare Earths Limited and Controlled Entities

REVIEW OF OPERATIONS

Financial Highlights

A record profit was delivered in FY2021. The external environment was very challenging primarily due to the effects of the COVID-19 pandemic. Direct effects of the pandemic included the need to implement COVID-19 health and safety protocols such as limiting the number of employees on site, shipping disruptions and delays and disrupted supply of certain key raw materials. Despite these challenges production was sustained at 75% of Lynas NEXT production capacity (equivalent to original nameplate production). As a result of careful management Lynas was able to meet the needs of key customers throughout the year.

Increased sales revenue, continuing strong cost control and strengthened market prices contributed to a Net Profit After Tax (NPAT) of \$157.1m. This represents a 910% increase on the FY2020 NPAT (which was heavily influenced by the 6-week temporary shutdown of the Lynas Malaysia plant due to movement controls implemented by the Malaysia Government at the start of the pandemic).

	FY21	FY20	Movement	
	\$m	\$m	\$m	%
Net Sales Revenue	489.0	305.1	183.9	60%
Cost of Sales	(302.2)	(257.3)	(44.9)	17%
Gross Profit	186.8	47.8	139.0	291%
Net Profit / (loss) after tax	157.1	(19.4)	176.5	910%

	30 June 21	30 June 20	Movement	
	\$m	\$m	\$m	%
Cash and short- term deposits	680.8	101.7	579.1	569%
Net Assets	1,083.4	518.4	565.0	109%
Market Capitalisation	5,145.2	1,262.1	3,883.1	308%

Lynas raised \$425m from equity holders (less \$11m equity raising costs) in September 2020. The funds raised will be used for the Lynas 2025 foundation projects, primarily the construction of the Kalgoorlie Rare Earths Processing plant and associated upgrades at the Lynas Malaysia plant.

Broader recognition of Rare Earth growth prospects, Lynas' unique market position, and improved business performance underpinned a significant uplift in market capitalisation during the year.

Mt Weld

As part of the Lynas 2025 growth vision, Lynas Rare Earths is focused on developing the Mt Weld resource to meet forecast demand growth.

As announced on 26 November 2020, two new exploration drill holes were successfully established to a depth of 100 metres and 106 metres respectively below the current Mt Weld pit floor. Both holes were extended for exploration purposes below the current Life of Mine pit design depth and significant and continuous intersections of Rare Earth minerals were encountered, including Light Rare Earth elements and Heavy Rare Earth elements.

Subsequent to 30 June 2021, Lynas announced the successful completion of 1020m deep core drilling into fresh carbonatite below the current Rare Earth Mining open pit mine on 2 August 2021. The exploration drilling program was completed ahead of schedule in June 2021 and was designed to expand the ore body knowledge of Mt Weld by understanding the primary Rare Earth Elements mineralisation and the geology and structure of the carbonatite host rock. Further detailed analytical work including metallurgical test work will be conducted on the drillhole samples and follow-up geological work will be conducted. First pass geochemical assay results, microscopic petrology and mineralogical study reports are expected by November 2021 and the drilling report is expected to be completed in December 2021.

Mining at Mt Weld has been conducted on a campaign basis due to the high REO ore grades and relatively low tonnages treated through the on-site concentration plant. No mining campaigns were undertaken in FY2021, preparation for the next mining campaign commenced in late FY2021.

Commissioning of the second Stack Cell also commenced in late June. This follows the very successful implementation of the Pre-Rougher Stack Cell in 2019. The Stack flotation cells are high intensity flotation cells that incorporate froth washing which removes fine impurities that are entrained in the froth stream. Both Stack Cells produce final concentrate grade and provide a capital efficient upgrade path. A second concentrate dryer has been lifted into place and installed. The new dryer is significantly larger than the initial smaller trial dryer and will be capable of drying all the concentrate produced. It is expected to be in operation in early FY22. The concentrate dryer will improve the physical quality of the RE concentrate produced at Mt Weld which will contribute to improved performance at our Malaysian plant.

Lynas Malaysia

Malaysia has faced extensive challenges as a result of the COVID-19 pandemic with vigorous 2nd and 3rd waves of infections. The Malaysian government has implemented significant controls on the movement of the population and limitations on staff numbers allowed to attend workplaces. Lynas has complied with all government SOPs and implemented further controls to protect the health and safety of our people, including extensive testing of our workforce and contractors prior to admission to site. To date we have had no workplace transmission of COVID-19. A small number of staff have acquired infections outside of the workplace. This has led to certain of our team members being required to isolate at times throughout the year.

Lynas Rare Earths Limited and Controlled Entities

Despite these significant challenges Malaysian operations continued at approximately 75% of Lynas NEXT rates, sufficient to meet the needs of our key customers. In addition, we increased our contributions to our local communities to mitigate the economic and health effects of the pandemic.

During the year the Malaysian team conducted a thorough plant audit and is now implementing a comprehensive preventative maintenance programme. The plant has performed well throughout the year and the additional work will ensure it is well placed to uprate production as the effects of the pandemic abate.

We have continued to work diligently on the development of the PDF required as a condition of our Malaysian operating licence. The regulator has extended the deadline for satisfaction of the licence condition related to the commencement of construction of the Permanent Disposal Facility (PDF) for WLP residue to 2 March 2022.

Kalgoorlie

The new Rare Earths Processing Facility in Kalgoorlie is a foundation project of the Lynas 2025 growth vision.

There was continued progress on the Facility during the year, including:

- EPA (Environmental Protection Authority of Western Australia) level of assessment for the project set as "Assessment on Referral Information with additional Information", additional information submitted to the EPA and the updated Environmental Review Document (ERD) completed. The EPA commenced the four-week public review of the ERD on 9 June 2021 and a Community Pop-up Information Point was established in Kalgoorlie during the month of June to enable community members to visit the shopfront and discuss plans for the project with Lynas team members.
- Minor and preliminary site works approved by the EPA commenced in March 2021. An access road, site office and a pad suitable for the delivery of equipment such as a number of steel tanks that were fabricated in Perth have been established.
- Employed the first Kalgoorlie-based members of the Lynas team.
- Procurement of key process equipment is well progressed with placement of orders for all long lead time items and 60% of total equipment requirements.
- Manufacture of ordered equipment continues. Fabrication of the five kiln shell sections is close to completion.

Lynas USA

In keeping with the Lynas 2025 growth vision to have upstream processing close to our resource and downstream processing close to our customers, Lynas is currently in the planning phase for our proposed U.S. Rare Earths Separation Facility.

Lynas has now received 2 separate funding grants from the United States Government:

1. Contract signed for Phase 1 work (detailed market and strategy study plus detailed planning and design work) for the construction of a Heavy Rare Earths (HRE) separation facility in the United States (announced 27 July 2020).
2. Contract signed with the United States Government to build a commercial Light Rare Earths separation plant in the United States (announced 22 January 2021) with Department of Defense funding to be capped at approximately US\$30 million with Lynas contributing a matching amount.

In the June quarter, detailed engineering and design work for the Heavy Rare Earths (HRE) facility was submitted to the U.S. Government in line with U.S. Department of Defense (DoD) Phase 1 milestones. The DoD is now conducting a merit evaluation of the submission.

Malawi deposit

Since fiscal year 2012, no further capital investment has been made on the Kangankunde Rare Earths resource development in Malawi and the project remains on hold while the Malawi deposit remains the subject of an ongoing title dispute. As announced on 22 January 2019, the Malawi government has purported to cancel the Group's Malawi mining lease and the Group has initiated judicial review proceedings in the Malawi courts challenging that decision.

Health, safety and environment

Lynas is committed to ensuring the Group's operations in Australia and Malaysia are consistent with national and international safety and sustainability best practice. Lynas has established extensive processes to ensure that our operations are safe for employees, safe for the environment and community, and secure for our customers.

The 12-month rolling lost time injury frequency rate as at 30 June 2021 was 0.8 per million hours worked (June 2020: 0.8 per million hours worked). In addition, the 12-month total recordable injury frequency rate at 30 June 2021 was 2.1 per million hours worked (June 2020: 3.5 per million hours worked).

Since October 2020, Malaysia has experienced a significant third wave of COVID-19 infections. We have reinforced and strengthened our well-established health and hygiene protocols in both Malaysia and Western Australia to protect the health and wellbeing of our people and communities. This includes communication and education, disclosure and reporting, testing, physical distancing, hygiene and precautionary isolation procedures.

Lynas cares for the communities in which we operate and we have increased our contributions to our local communities in Malaysia who have been affected by recent flood and storm events on the east coast of Malaysia in addition to the COVID-19 pandemic.

The annual ISO audits were successfully completed for Lynas Malaysia and Mt Weld during the year for recertification of ISO 9001:2015 (Quality Management) and ISO 14001:2015 (Environmental Management) as well as for ISO 45011:2018 which was a migration from OHSAS 18001:2007 (Occupational Health and Safety Management) standards. Both Lynas sites have been certified since 2012.

Lynas Rare Earths Limited and Controlled Entities

In FY21 a review of Greenhouse Gas (GHG) emissions target frameworks was undertaken. Lynas will confirm its commitment to the Science-Based Targets initiative and release our Greenhouse Gas Policy in FY2022.

In line with our commitment to international environmental best practice, detailed environmental monitoring since the start of Lynas Malaysia's operations in Kuantan in 2012 has consistently demonstrated that Lynas Malaysia is compliant with regulatory requirements and international standards. Information concerning the Company's environmental monitoring programs, including monitoring data, is available at www.lynasrareearths.com.

Lynas Rare Earths Limited and Controlled Entities

FINANCIAL AND OPERATIONAL PERFORMANCE

Sales volume, revenue and costs

		FY21	FY20	FY19	FY18	FY21 Percentage change
Sales by tonnage and value						
Sales volume	(REOt)	16,405	14,172	19,154	17,672	16%
Cash receipts from customers	(A\$m)	465.4	321.8	367.5	383.1	45%
Sales revenue	(A\$m)	489.0	305.1	363.5	374.1	60%
Average selling price	(A\$/kg)	29.8	21.5	19.0	21.6	39%
Cost of sales	(A\$m)	(302.2)	(257.3)	(273.1)	(253.0)	17%

The demand for Lynas products, in particular for our NdPr product family, continued to grow through the year. This led to record sales and cash collection in the final quarter of FY21. Despite the global shortage of semi-conductors which affects all industries and in particular, the automotive industry, the NdFeB market is experiencing very strong growth, supporting the demand for NdPr and the HRE produced by Lynas. At the same time, the demand for catalyst from the automotive and the FCC sectors is back to its pre-COVID levels.

Market prices

The average China domestic price of NdPr (VAT excluded) increased from US\$36.0/kg in June 2020 to US\$64.7/kg in June 2021. Future market price trends continue to depend on end product demand (in particular in the automotive industry).

Lynas has developed an excellent reputation as a reliable supplier of quality products. Lynas has focused on developing strong customer relationships with strategic customers, primarily outside China. Lynas is the leading supplier of the NdPr family of products to the Japanese market. Demand from our key customers has consistently increased over the past few years, with accelerated growth in the last 12 months.

Costs and production volumes

		FY21	FY20	FY19	FY18	FY21 Percentage change
Costs by tonnage and value						
Ready for sale production volume total	(REOt)	15,761	14,562	19,737	17,753	8%
Ready for sale production volume NdPr	(REOt)	5,461	4,656	5,898	5,444	17%

Total production volumes have increased despite the ongoing challenges of the COVID-19 pandemic in Malaysia. The EMCO (Enhanced Malaysian Control-Order) enforced by the Malaysian Government for the 3rd wave of COVID-19 required staff on site to be limited to 40% of our total workforce. Despite this, and water supply disruptions to the Gebeng industrial estate in the June quarter, the team successfully maintained production at just over 75% of Lynas NEXT production capacity. This provided stable supply to our key customers.

Cash and cash flows

In A\$m	FY21	FY20
Net operating cash inflows	215.0	32.1
Net investing cash outflows	(138.3)	(21.8)
Net financing cash outflows	405.6	2.0
Net cash flows	482.4	12.3
Impact of foreign exchange	(3.3)	(0.3)
Cash and cash equivalents	580.8	101.7
Short term deposits	100.0	-

The equity raising completed in September 2020 resulted in net proceeds of \$413.9m (approximately \$425m less equity raising costs). In addition, operating cash flows increased significantly from FY20. Net investing cash outflows included the initial payments for property plant and equipment in relation to the Lynas 2025 Kalgoorlie project as well as \$100.0m of cash transferred into short term deposits.

At 30 June 2021, in addition to the \$580.8m in cash and cash equivalents, \$100.0m was held in short term deposits.

Lynas Rare Earths Limited and Controlled Entities

Debt and capital

In A\$m	FY21	FY20
JARE loan	171.1	181.2
Convertible bonds	-	18.8
Total borrowings	171.1	200.0
Financial income	2.9	2.7
Financial expenses	(13.4)	(15.6)

On 3 August 2020, bondholders converted the remaining US\$12.2m (A\$16.4m) convertible bonds which resulted in an additional 16.2m shares being issued. As a result of these conversions, the remaining liability in respect to the convertible bonds has been fully extinguished.

No principal repayments were made on the JARE facility. The balance increased due to the unwinding of the discounting of the future cash outflows. The financial expenses have decreased by 14% as a result of lower interest expense based on lower \$A equivalent principal balances for both the JARE facility and the convertible bonds throughout the year.

During the year ended 30 June 2021, the Company issued shares as shown below:

	Number (000's)
Shares on issue 30 June 2020	699,209
Issue of shares pursuant to conversion of convertible bonds	16,203
Issue of shares pursuant to exercised performance rights	744
Issue of shares pursuant to equity raise	184,923
Shares on issue 30 June 2021	901,079

Performance rights

At 30 June 2021, the Company had the following options and performance rights on issue:

	Number (000's)
Performance rights	4,678

Earnings / (loss) per share

For the year ended 30 June	FY21	FY20
Basic earnings / (loss) per share (cents per share)	18.08	(2.79)
Diluted earnings / (loss) per share (cents per share)	17.99	(2.79)

Dividends

There were no dividends declared or paid during the year ended 30 June 2021 (2020: nil) and no dividends have been declared or paid since 30 June 2021.

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

Lynas Rare Earths has a Risk Management Policy and a Risk Management Framework for oversight and management of material business risks.

FACTORS AND BUSINESS RISKS THAT AFFECT FUTURE PERFORMANCE

Lynas operates in a changing environment and is therefore subject to factors and business risks that will affect future performance. Lynas has a Risk Management Policy and a Risk Management Framework for oversight and management of material business risks.

We identify risks, then evaluate the inherent risk of an activity and the mitigation required. Risk assessments are updated by operations and management and reported to the Board of Directors.

In FY2021, the Lynas Board commissioned an external risk assurance mapping exercise aligned to the Board's risk appetite to support decision making relating to resource and capital allocation.

Set out below are the principal risks and uncertainties that could have a material effect on Lynas' future results, both operationally and financially. It is not possible to determine the likelihood of these risks occurring with any certainty. In the event that one or more of these risks materialise, Lynas' reputation, strategy, business, operations, financial condition and future performance could be materially and adversely affected. There may also be other risks that are currently unknown or are deemed immaterial, but which may subsequently become known and/or material. These may individually or in aggregate adversely affect Lynas.

1. Impact of COVID-19 and general economic conditions

In light of recent global macroeconomic events, including the impact of COVID-19, it is likely that some of the countries in which Lynas operates will experience an economic recession or downturn of uncertain severity and duration. These economic disruptions could have a material adverse effect on Lynas' operating and financial position and performance and could affect the price of Lynas shares.

Additionally, the events relating to COVID-19 have resulted in significant market changes and volatility of supply and demand. The outbreak and its impacts are rapidly evolving and outcomes are uncertain and dependent upon many factors beyond Lynas' control.

Many of the risks highlighted in further detail below may be heightened due to the impacts of the COVID-19 pandemic. There continues to be considerable uncertainty as to the further short- and long-term impact of COVID-19 including in relation to governmental responses, international trade impacts, potential taxation changes, work stoppages, lockdowns, quarantines, travel restrictions and the impact on the global economy and share markets.

The potential effects of these possible outcomes on Lynas include:

- closure of and/or reduced capacity at Lynas' plants and facilities;
- delays or interruption in supply chains leading to an inability to obtain raw materials, finished products or components, or to distribute products to customers;
- health outcomes for Lynas' employees or its customers' employees, which could result in the closure of a plant or facility for a period and could adversely affect the availability of technically equipped and qualified personnel needed to conduct certain operations;
- a reduction in processing of downstream products and production of end-products that utilize Lynas' Rare Earths or other industrial activity, leading to a decrease in demand for Lynas' Rare Earths;
- counterparty non-performance or claims under existing contractual arrangements;
- insolvency of counterparties (including customers);
- delays of projects with large associated capital spend, deferral of discretionary capital spend and impact on valuation of assets;
- disruptions to international trade resulting from policies developed by governments in response to COVID-19 or as a result of disputes or disagreements amongst governments on matters relating directly or indirectly to COVID-19.

2. Operational risks

2.1 Rare earth prices

Lynas' revenue is affected by market fluctuations in Rare Earth prices. This is because the product prices used in the majority of Lynas' sales are calculated by pricing formulae that reference published pricing for various Rare Earths materials. The market price has been volatile in the past because it is influenced by numerous factors and events that are beyond the control of Lynas. These include:

- **Supply side factors:** Supply side factors are a significant influence on price volatility for Rare Earth materials. Supply of Rare Earth materials is dominated by Chinese producers. The China Central Government regulates production via quotas and environmental standards. Over the past few years, there has been significant restructuring of the Chinese market in line with China Central government policy. However, periods of restricted supply, over supply or speculative trading of Rare Earths can lead to significant fluctuations in Rare Earth pricing.
- **Demand side factors:** Demand side factors are also a significant influence on price volatility for Rare Earth materials. Demand for end-products that utilise Lynas' Rare Earths including internal combustion vehicles, hybrid vehicles, electric vehicles and electronic devices fluctuates due to factors including global economic trends, regulatory developments and consumer trends.
- **Geopolitical factors:** Recently Rare Earths have been the focus of significant attention, including as a result of supply chain issues highlighted by the COVID-19 pandemic.

Lynas Rare Earths Limited and Controlled Entities

The table below illustrates how China domestic prices of NdPr (excluding VAT) have moved over FY21:

	September 2020 Quarter	December 2020 Quarter	March 2021 Quarter	June 2021 Quarter
US\$/kg	40.8	48.7	68.2	69.9

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

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

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

- Sustained demand from the Japanese market and selected customers in China;
- The recognition by the market that Lynas is now well established as the only supplier of scale of separated Rare Earths outside China;
- End users placing more importance on being able to trace the origin of rare earths from an ethical and environmentally responsible source of production to their end products, which Lynas can fulfil.

Strong Rare Earth prices, as well as real or perceived disruptions in supply, may create economic incentives to identify or create alternate technologies that ultimately could depress future long-term demand for Rare Earths. This may, at the same time, incentivise the development of additional mining properties to produce Rare Earths. If industries reduce their reliance on Rare Earth products, the resulting change in demand could have a material adverse effect on Lynas' business. In particular, if prices or demand for Rare Earths were to decline, this could impair Lynas' ability to obtain financing for current or additional projects and its ability to find purchasers for its products at prices acceptable to Lynas.

It is impossible to predict future Rare Earths price movements with certainty. Any sustained low Rare Earths prices or further declines in the price of Rare Earths, including as a result of periods of over-supply and/or speculative trading of Rare Earths, will adversely affect Lynas' business, results of operations and its ability to finance planned capital expenditures, including development projects.

2.2 Market competition

Lynas Rare Earths supply contracts and profits may be adversely affected by the introduction of new mining and separation facilities and any increase in competition in the global Rare Earths market, either of which could increase the global supply of Rare Earths. If this is at a rate faster than demand growth it could potentially lead to lower prices.

2.3 Exchange rates

Lynas is exposed to fluctuations in the US dollar as all sales are denominated in US dollars. Lynas borrows money and holds a portion of cash in US dollars, which provides Lynas with a partial natural hedge. Accordingly, Lynas' income from customers, and the value of its business, will be affected by fluctuations in the rate by which the US dollar is exchanged with the Chinese Renminbi and the Australian dollar.

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

Adverse movements in the Australian dollar against the US dollar and the MYR may have an adverse impact on Lynas' financial position and operating results. The following table shows the average USD/AUD and MYR/AUD exchange rates over the past five years:

	30 June 2021	30 June 2020	30 June 2019	30 June 2018	30 June 2017
	\$	\$	\$	\$	\$
USD/AUD	0.7468	0.6714	0.7156	0.7391	0.7545
MYR/AUD	3.0806	2.8233	2.9521	2.9837	3.2331

In-China market prices for Rare Earths are denominated in the Chinese Renminbi. A devaluation in the Chinese Renminbi would increase attractiveness in Chinese exports and China's internal supply. Fluctuation in the Chinese Renminbi against the US Dollar therefore also increases the foreign exchange exposure on Lynas.

2.4 Operational and development risks

Lynas' operations and development activities could be affected by various unforeseen events and circumstances, such as hazards in exploration, the ability of third parties to meet their commitments in accordance with contractual arrangements, and the delivery and grades of ore and performance of processing facilities at design specification. Factors such as these may result in increased costs, lower production levels and, following on from that, lower revenue levels. Any negative outcomes flowing from these operational risks could have an adverse effect on Lynas' business, financial condition, profitability and performance.

2.5 Nature of mining

Mineral mining involves risks, which even with a combination of experience, knowledge and careful evaluation may not be able to be fully mitigated. Mining operations are subject to hazards normally encountered in exploration and mining. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment, which may cause a material adverse impact on Lynas' operations and its financial results. Projects may not proceed to plan with potential for delay in the timing of targeted output, and Lynas may not achieve the level of targeted mining output. Mining output levels may also be affected by factors beyond Lynas' control.

2.6 Mineral and ore reserves

No assurance can be given that the anticipated tonnages and grades of ore will be achieved during production or that the anticipated level of recovery will be realised. Mineral resource and ore reserve estimates are based upon estimates made by Lynas personnel and independent consultants. Estimates are inherently uncertain and are based on geological interpretations and inferences drawn from drilling results and sampling analyses. There is no certainty that any mineral resources or ore reserves identified by Lynas will be realised, that any anticipated level of recovery of minerals will be realised, or that an identified ore reserve or mineral resource will be a commercially mineable (or viable) deposit which can be legally and economically exploited.

Further, the grade of mineralisation which may ultimately be mined may differ materially from what is predicted. The quantity and resulting valuation of ore reserves and mineral resources may also vary depending on, amongst others, metal prices, cut-off grades and estimates of future operating costs (which may be inaccurate). Production can be affected by many factors. Any material change in the quantity of ore resources, mineral reserves, grade, or stripping ratio may affect the economic viability of any project undertaken by Lynas.

Lynas' estimated mineral resources and ore reserves should not be interpreted as assurances of commercial viability or potential or of the profitability of any future operations. Investors should be cautioned not to place undue reliance on any estimates made by Lynas. Lynas cannot be certain that its mineral resource and ore reserve estimates are accurate and cannot guarantee that it will recover the expected quantities of metals. Future production could differ dramatically from such estimates for the following reasons:

- actual mineralisation or Rare Earth grade could be different from those predicted by drilling, sampling, feasibility or technical reports;
- increases in the capital or operating costs of the mine;
- decreases in Rare Earth oxide prices;
- changes in the life-of-mine plan;
- the grade of Rare Earths may vary over the life of a Lynas project and Lynas cannot give any assurances that any particular mineral reserve estimate will ultimately be recovered; or
- metallurgical performance could differ from forecast.

The occurrence of any of these events may cause Lynas to adjust its mineral resource and reserve estimates or change its mining plans. This could negatively affect Lynas' financial condition and results of operations. Moreover, short-term factors, such as the need for additional development of any Lynas project or the processing of new or different grades, may adversely affect Lynas.

Lynas reports its mineral resources and ore reserves in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code").

2.7 Processing operations

Lynas' operations are subject to the operating risks associated with Rare Earth processing, including performance of processing facilities, and the related risks associated with storage and transportation of raw materials, products and residues. These operating risks have the potential to cause personal injury, property damage and environmental contamination, and may result in the shutdown of affected facilities and in business interruption and the imposition of civil or criminal penalties, and negatively impact the reputation of Lynas.

The hazards associated with Lynas' mining and processing operations and the related storage and transportation of products and residues include:

- pipeline and storage tank leaks and ruptures;
- explosions and fires;
- mechanical failures; and
- chemical spills and other discharges or releases of toxic or hazardous substances or gases.

These hazards may cause personal injury and loss of life, damage to property and contamination of the environment, which may result in suspension of operations and the imposition of civil or criminal penalties, including fines, expenses for remediation and claims brought by governmental entities or third parties. Although Lynas has detailed and closely managed plans to mitigate these risks and maintains property, business interruption and casualty insurance of types and in the amounts that it believes is customary for the chemicals industry, Lynas is not fully insured against all potential hazards incidental to its businesses.

2.8 Availability of key inputs, Including water

The Mt Weld Concentration Plant and the Lynas Malaysia Plant rely on the ready availability of key inputs, including chemical reagents, water, electricity and gas. Any inability of Lynas to obtain such inputs in sufficient quantities on a timely basis could materially adversely affect Lynas' operations. For example, the insolvency of key suppliers may adversely affect the availability of chemical reagents. In addition, the water supply to the Mt Weld Concentration Plant is primarily sourced from a local aquifer supplemented by recycling, and the water supply to the Lynas Malaysia plant is primarily sourced from the local Kuantan water supply infrastructure, supplemented by recycling. Reductions in water availability from those sources, for example due to changes in weather patterns or failures of infrastructure, could materially adversely affect the availability of water to the Lynas operations.

2.9 Supply chain and counterparty risk

Lynas is dependent on contractors and suppliers to supply vital goods and services to its operations, including for the supply of chemicals and other materials. Lynas is therefore exposed to the possibility of adverse developments in the business environments of its contractors and suppliers, including in respect of the ability of those contractors and suppliers to meet their commitments under sales contracts. Any disruption to services or supplies may have an adverse effect on Lynas' financial business and financial condition.

2.10 Reliance on key personnel

Lynas' execution capacity is substantially attributable to the role played by a group of its senior management and key employees. Lynas' future success depends significantly on the full involvement of these key executives and employees and its ability to continue to retain and recruit high-level personnel. The loss of key employees could significantly affect Lynas' operations.

In addition, industrial and labour disputes, work stoppages and accidents, and logistical and engineering difficulties may also have an adverse effect on Lynas' profitability and share price.

2.11 Customer risks

Lynas' revenue is dependent on continuing sales to its key customers, many of whom require delivery to specific timetables of products that comply with detailed specifications. The loss of key customers could significantly affect Lynas' business, for example due to disputes with customers, customers switching to other suppliers or technologies, or customer businesses being adversely affected by events outside the control of Lynas, including customer insolvency or declining markets for the end-products of customers.

2.12 Industry Trends, including changes in technology

Changes in technology, including switches to renewable energy sources, present both opportunities and risks to the Lynas business. As technologies and consumer trends continue to evolve, new competing technologies may emerge that may reduce demand for Lynas Rare Earth products. Any significant trends away from technologies that utilize Lynas Rare Earths products could materially adversely affect the Lynas business.

2.13 Project development risks

Lynas is undertaking significant and complex construction projects, primarily related to the new Lynas Rare Earth facility in Kalgoorlie. Construction projects are subject to numerous risks, many of which are outside the control of Lynas, including project delays and cost overruns, disputes with contractors, insolvency of contractors, problems with design, delays in commissioning or ramp-up and new facilities not performing in accordance with expectations.

3. Regulatory, legal and environmental risks

3.1 General regulatory risks

Lynas' business is subject, in each of the countries in which Lynas operates, to various national and local laws and regulations relating to the mining, production, marketing, pricing, transportation and storage of Lynas' products and residues. A change in the legislative and administrative regimes, taxation laws, interest rates, and other legal and government policies may have an adverse effect on the assets, operations and ultimately the financial performance of Lynas and the market price of Lynas shares. Other changes in the regulatory environment (including applicable accounting standards) may have a material adverse effect on the carrying value of material assets or otherwise have a material adverse effect on Lynas' business and financial condition.

3.2 Licences, permits, approvals, consents and authorisations

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

3.3 Political risks and government actions

Lynas' operations could be affected by government actions in Australia, Malaysia and other countries or jurisdictions in which it has interests. Lynas is subject to the risk that it may not be able to carry out its operations as it intends, including because of a change in government, legislation, guidelines, regulation or policy, including in relation to the environment, the Rare Earths sector, competition policy, native title and cultural heritage. Such changes could affect land access, the granting of licences and other tenements, the approval of developments and freedom to conduct operations.

The possible extent of introduction of additional legislation, regulations, guidelines or amendments to existing legislation that might affect Lynas' business is difficult to predict. Any such government action may require increased capital or operating expenditures and could prevent or delay certain operations by Lynas, which could have a material adverse effect on Lynas' business and financial condition.

Lynas also may not be able to ensure the security of its assets located outside Australia, and is subject to risks of, among other things, loss of revenue, property and equipment as a result of hazards such as expropriation, war, insurrection and acts of terrorism and other political risks and increases in taxes and government royalties. The effects of these factors are difficult to predict and any combination of one or other of the above may have a material adverse effect on Lynas' business and financial position.

3.4 Malaysian regulatory matters

Without limiting the generality of the risks specified above in this section, as announced on 27 February 2020, the Malaysian Atomic Energy Licensing Board (AELB) has renewed the current operating licence for the Lynas Malaysia plant for three years expiring March 2023, subject to the following key conditions:

- Lynas to begin the process of developing the Permanent Disposal Facility (PDF) within the first year from the date of approval of the licence. As per the announcement on 23 August 2021, this timeline has been extended to March 2022.
- Lynas must submit a work development plan for the construction of the PDF and report on its development status as determined by the AELB.
- Lynas must ensure that the Cracking and Leaching plant outside Malaysia is in operation before July 2023. After that period, Lynas will no longer be allowed to import raw materials containing Naturally Occurring Radioactive Material (NORM) into Malaysia.
- Holding of the financial deposit will be maintained for compliance with the relevant licence conditions.

To the extent that Lynas does not, or is unable to, comply with relevant licence conditions including the key conditions specified above, and/or comply with licence conditions within the timeframes prescribed, then Lynas' licences and approvals may be revoked. Government action, including legal action, may be also taken by or at the direction of the Malaysian government in order to ensure that the terms and conditions of Lynas' licences and approvals are complied with to levels satisfactory to, and within the timeframes prescribed by, the Malaysian government.

3.5 Environmental risks

Lynas' activities are subject to extensive laws and regulations controlling not only the mining of, exploration for and processing of Rare Earths, but also the possible effects of such activities upon the environment and interests of local communities. In the context of obtaining environmental permits, including the approval of reclamation plans, Lynas must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. With increasingly heightened government and public sensitivity to environmental sustainability, environmental regulation is becoming more stringent, and Lynas could be subject to increasing environmental responsibility and liability, including laws and regulations dealing with air quality, water and noise pollution and other discharges of materials into the environment, plant and wildlife protection, the reclamation and restoration of certain of its properties, greenhouse gas emissions, the storage, treatment and disposal of residues and the effects of its business on the water table and groundwater quality.

Sanctions for non-compliance with these laws and regulations may include administrative, civil and criminal penalties, revocation of permits and corrective action orders. These laws sometimes apply retroactively. In addition, a party can be liable for environmental damage without regard to that party's negligence or fault. Given the sensitive nature of this area, Lynas may be exposed to litigation and foreseen and unforeseen compliance and rehabilitation costs despite its best efforts.

3.6 Climate change risks

In 2020, Lynas committed to continue to progress our disclosure against the recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD). We will report against the TCFD framework in the 2021 ESG Report to be released in October 2021.

In FY21 a review of Greenhouse Gas (GHG) emissions target frameworks was undertaken and Lynas expects to confirm its commitment to the Science-Based Targets initiative and release a Greenhouse Gas Policy in FY2022.

Climate change and the rapidly evolving response to it may lead to a number of risks, including but not limited to:

- Increased political, policy and legal risks (e.g. the introduction of regulatory changes aimed at reducing the impact of, or addressing climate change, including reducing or limiting carbon emissions);
- Increased capital and operational costs, including increased costs of inputs and raw materials; and
- Technological change and reputational risks associated with Lynas' conduct.

Climate change may also result in more extreme weather events and physical impacts on Lynas due to the energy intensive nature of Lynas' operations, and Lynas' current reliance on fossil fuels for mining and processing activities. To mitigate this risk, and meet customer demand for sustainable production, Lynas is committed to transitioning to a hybrid energy solution for our Mt Weld mine and concentration plant, including renewable energy.

3.7 Disposal of residues

At the Mt Weld Mine and Concentration Plant, the Lynas Malaysia Plant, and the new Lynas Kalgoorlie Rare Earths Processing Plant, Lynas operations generate/will generate residue materials in the form of solids, liquids and gases. Lynas has appropriate plans in place for the treatment, sale or disposal each of those residues. Failure to implement those plans could have a material effect on Lynas' licensing conditions and may adversely affect its operations.

3.8 Community acceptance and reputation

Lynas recognises that a strong mutual relationship with each community in which it operates is a pre-condition to successful operations. Failure to maintain those relationships and the acceptance by those communities may have an adverse effect on Lynas' operations.

In addition, Lynas recognises the importance of maintaining its reputation with its stakeholders including shareholders, regulatory authorities, communities, customers and suppliers. Failure to maintain its reputation with some or all stakeholders may have a negative effect on the future performance of Lynas.

3.9 Legal action

As announced on 29 July 2021, the judicial review application lodged in Malaysia challenging the processes followed during the August 2019 renewal of the Lynas Malaysia operating licence was dismissed with a costs order made in favour of Lynas. As announced on 23 August 2021, a notice of appeal has been lodged challenging the dismissal of the judicial review application.

It is possible that in the future, Lynas could be exposed to other litigation or proceedings, either from shareholders, financiers, regulators or members of the communities in which Lynas operates.

3.10 Health and safety

Lynas is subject to extensive laws and regulation in respect of the health and safety of its people and communities, and the protection and rehabilitation of the environments within which it operates. Lynas must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and the implementation of the regulations by the permitting authority.

3.11 Tax risks

Lynas is subject to taxation and other imposts in Australia, Malaysia and other countries or jurisdictions in which it has interests. In addition to the normal level of income tax imposed on all industries, companies in the resources sector are required to pay government royalties, direct and indirect taxes and other imposts. The profitability of companies in these industries can be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies. Further, changes in tax law, or changes in the way tax law is expected to be interpreted, in the various jurisdictions in which Lynas operates, may affect the tax liabilities of Lynas.

4. Financial risks

4.1 Debt facilities and covenants

Lynas has financing arrangements in place which are subject to acceleration and enforcement rights in the event of a default. To date, the Japan Australia Rare Earths B.V. (JARE) loan facility has been secured over all the assets of Lynas, other than Malaysia and Malawi assets.

Enforcement may involve enforcement of security over the assets of Lynas and its material subsidiaries, including appointing a receiver. The principal amount of the JARE facility was US\$145m as at 30 June 2021. The principal amount will be due for repayment in fixed loan repayments between 31 December 2021 and 30 June 2030.

In the event significant uncertainty arises in relation to Lynas' ability to fully repay, refinance or reschedule the outstanding balances of the JARE loan facility by the maturity date of 30 June 2030, Lynas' ability to continue as a going concern may also be affected.

In addition, Lynas' existing debt facilities are subject to a range of covenants. A failure to comply with any of these debt covenants may require Lynas to seek amendments, waivers of covenant compliance or alternative borrowing arrangements. There is no assurance that its lenders would consent to such an amendment or waiver in the event of non-compliance, or that such consent would not be conditional upon the receipt of a cash payment, revised payout terms, increased interest rates, or restrictions in the expansion of debt facilities in the foreseeable future, or that its lenders would not exercise rights that would be available to them, including among other things, calling an event of default and demanding immediate payment of outstanding borrowings. If such a demand was made and appropriate forbearance or refinance arrangements could not be reached, Lynas may not have sufficient available funds to meet that demand.

4.2 Funding risk

Lynas' existing debt facility agreements restrict its ability to incur further debt except in certain circumstances. Should Lynas experience a protracted decline in earnings, there is a possibility that the quantum of debt and/or equity funding available to Lynas would not be sufficient to execute its strategy (including its development of large scale projects) which could have a negative impact on the future financial performance or position of Lynas.

5. General risks

5.1 General economic conditions

Lynas' operating performance and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, interest rates, exchange rates and government fiscal, monetary and regulatory policies. Prolonged deterioration in general economic conditions, including an increase in interest rates or decrease in consumer and business demand, could be expected to have an adverse impact on Lynas' business, results of operations or financial condition and performance.

5.2 Accounting standards

Accounting standards may change. This may affect the reporting earnings of Lynas and its financial position from time to time. Lynas has previously and will continue to assess and disclose, when known, the effect of adopting new accounting standards in its periodic financial reporting.

5.3 Force majeure events

Events may occur within or outside Lynas' key markets that could affect global economies and the operations of Lynas. The events include, but are not limited, to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, changes in weather patterns or other severe weather events, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on market conditions, the demand for Lynas' product offering and services and Lynas' ability to conduct business.

BASIS OF REPORT

The report is based on the guidelines in The Group 100 Incorporated publication *Guide to the Review of Operations and Financial Condition*.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

We continue to focus on ensuring positive relationships with regulators and local communities, and compliance with regulatory requirements in both jurisdictions in which we operate.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Except as disclosed in the review of operations, the factors and business risks that affect future performance and the subsequent events, there have been no significant changes in the state of affairs of the Group during the year ended 30 June 2021.

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement of the Group, current on the date that the Directors' Report is signed in accordance with a resolution of Directors made pursuant to s.298 (2) of the Corporations Act 2001, is located on the Group's website, www.lynasrareearths.com.

SHARES ISSUED UPON EXERCISE OF PERFORMANCE RIGHTS

During the financial year 743,643 Performance Rights were exercised as set out in Note E.7 to the Financial Statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

The insurance contract prohibits disclosure of the premiums payable under the contract. The premiums are not included as part of the Directors' remuneration in Section H of the Remuneration Report or Note E.7 to the Financial Statements.

INDEMNIFICATION AND INSURANCE OF AUDITOR

During or since the end of the financial year, the Group entered into an agreement with its auditors, Ernst & Young, indemnifying them against any claims by third parties arising from their report on the Annual Financial Report, except where the liability arises out of conduct involving a lack of good faith. No payment has been made to indemnify Ernst & Young during or since the financial year.

NON-AUDIT SERVICES

During the year Ernst & Young, the Group's auditor, has performed certain other services in addition to the audit and review of the Financial Statements.

Details of amounts paid or payable to the auditor for non-audit services provided during the year are outlined in Note E.3 to the Financial Statements. The Directors have considered the non-audit services provided during the year by the auditor, and are satisfied that the provision of non-audit services by the auditor during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and

The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

COMMITTEE MEMBERSHIP

During the financial year, the Group had the following Committees of the Board of Directors: Audit & Risk Committee, Health Safety & Environment Committee, and Nomination, Remuneration and Community Committee.

Directors acting on the Committees of the Board during the year ended 30 June 2021:

From 1 July 2020 to 30 September 2020, the structure of the Board committees was as follows:

Audit & Risk	Health, Safety & Environment	Nomination, Remuneration & Community
G. Murdoch ^(c)	P. Etienne ^(c)	K. Conlon ^(c)
P. Etienne	K. Conlon	M. Harding
J. Humphrey	M. Harding	J. Humphrey

(c) Chair of Committee

Between 1 October 2020 and 24 February 2021, the structure of the Board committees has been as follows:

Audit & Risk	Health, Safety & Environment	Nomination, Remuneration & Community
G. Murdoch ^(c)	P. Etienne ^(c)	J. Humphrey ^(c)
P. Etienne	K. Conlon	K. Conlon
J. Humphrey	V. Guthrie	G. Murdoch

(c) Chair of Committee

From 24 February 2021 to 30 June 2021, the structure of the Board committees has been as follows:

Audit & Risk	Health, Safety & Environment	Nomination, Remuneration & Community
G. Murdoch ^(c)	P. Etienne ^(c)	J. Humphrey ^(c)
P. Etienne	K. Conlon	K. Conlon
J. Humphrey	V. Guthrie	G. Murdoch
		V. Guthrie

(c) Chair of Committee

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

The number of Directors' meetings held during the year and the number of Board and Board committee meetings attended by each Director was as follows:

	Directors' Meetings	Audit & Risk	Health, Safety & Environment	Nomination, Remuneration & Community
Number of meetings held:	14	4	2	5
Number of meetings attended:				
M. Harding ⁽¹⁾	7	-	-	3
A. Lacaze	14	-	-	-
K. Conlon	14	-	2	5
P. Etienne	14	4	2	-
J. Humphrey	14	4	-	5
G. Murdoch	14	4	-	2
V. Guthrie ⁽²⁾	6	-	2	2

(1) Resigned effective 30 September 2020

(c) Appointed effective 1 October 2020

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

SUBSEQUENT EVENTS

On 23 August 2021, the Malaysian regulator, the Atomic Energy Licensing Board (AELB), extended the deadline for satisfaction of the licence condition related to the commencement of construction of the Permanent Disposal Facility (PDF) for WLP residue to 2 March 2022. This recognises the constraints presented by current COVID-19 conditions. Lynas continues to engage productively with the relevant government and regulatory authorities to progress the approvals for the PDF.

As announced on 29 July 2021, on 28 July 2021 the High Court of Malaya at Kuala Lumpur dismissed the judicial review proceedings commenced by the anti-Lynas activists seeking review of the processes followed by the Government of Malaysia in reaching the August 2019 decision to renew Lynas Malaysia's fourth operating licence. Lynas has received a notice of appeal by the anti-Lynas activists. Lynas intends to defend the appeal. The Lynas Malaysia plant currently operates under the fifth operating licence granted in February 2020.

As announced on 22 July 2021, Lynas was awarded a \$14.8m grant as part of the Australian governments' Modern Manufacturing Initiative. The grant will enable Lynas to commercialise an industry-first Rare Earth carbonate refining process that has been developed by our inhouse research and development team.

With the exception of the above, there have been no other events subsequent to 30 June 2021 that would require accrual or disclosure in this financial report.

Sustainability Statement

Financial Year Ended 30 June 2021

Operating, at all times, in accordance with best practice sustainability principles is a core value for Lynas and its people. We set high standards for ourselves. We seek at all times to have a positive effect on our people, our customers, our suppliers, our communities and the environment.

The products we sell are traceable from our mine in Western Australia. Our customers can receive product assurance certificates to confirm that the Rare Earths they purchase from Lynas are sourced from our mine in Mt Weld, Western Australia, and processed at our plant in Gebeng, Malaysia. Our products are used in industries where environmental provenance and sustainability of business practices are of high importance. Life Cycle Assessments conducted in conjunction with customers provide environmental assurance for the Lynas Rare Earths used in customer products. Our local communities also expect us to consistently comply with high standards in this area.

The Lynas Environmental, Social and Governance Report (ESG Report) for FY2021 will be sent to shareholders at the same time as our Annual Report 2021 is sent to shareholders. In addition, a copy of the Lynas ESG Report for FY2021 will be available on the Group's website, www.lynasrareearths.com.

Remuneration Report – Audited

Dear Shareholder,

I am pleased to present our Remuneration Report for the financial year ended 30 June 2021 (FY2021).

Lynas has achieved excellent performance for its shareholders in FY2021. Despite the many challenges presented by COVID-19, production has been maintained to meet the strong demand for Lynas' NdPr products. This has required a high level of commitment from the Lynas team, in particular in Malaysia. The performance of the Lynas team is reflected in the FY2021 STI Awards.

We believe our incentive structures are well aligned with shareholder outcomes. For FY2022, the performance conditions of the STI and LTI Plans are focused on financial and non-financial measures that are consistent with Lynas' strategic goals.

We hope the report will assist your understanding of our remuneration objectives and policies.

Yours sincerely,



John Humphrey
Chair - Nomination, Remuneration and Community Committee

Lynas Corporation Limited and Controlled Entities

Directors' Report

This report sets out Lynas' remuneration framework and outcomes for Key Management Personnel for the financial year ended 30 June 2021. This report has been prepared and audited in accordance with the requirements of the *Corporations Act 2001* and its regulations.

A. LIST OF KMPS

The KMP during the financial year ended 30 June 2021 were as follows:

KMP	Position	Location	Term as KMP
Executive Director			
A. Lacaze	CEO and Managing Director	Australia	Full Financial Year
Non-Executive Directors			
K. Conlon	Chairman, Non-Executive Director	Australia	Full Financial Year (Chairman from 30 September 2020)
M. Harding	Chairman, Non-Executive Director	Australia	Retired 30 September 2020
P. Etienne	Non-Executive Director, Chair of the HSE Committee	Australia	Full Financial Year
V. Guthrie	Non-Executive Director	Australia	Commenced 1 October 2020
J. Humphrey	Non-Executive Director, Chair of the Nomination, Remuneration & Community Committee	Australia	Full Financial Year
G. Murdoch	Non-Executive Director, Chair of the Audit & Risk Committee	Australia	Full Financial Year
Executives			
A. Arnold	General Counsel and Company Secretary	Australia	Retired 16 April 2021
G. Sturzenegger	CFO	Malaysia	Full Financial Year
S. Leonard	General Counsel and Company Secretary	Australia	Commenced 27 January 2021
K. Leung	Vice President – Upstream	Australia	Full Financial Year
P. Le Roux	Vice President – Downstream	Malaysia	Full Financial Year
M. Ahmad	Vice President - Malaysia	Malaysia	Full Financial Year

B. OUR REMUNERATION GOVERNANCE

The Nomination, Remuneration and Community Committee is responsible for reviewing and making recommendations to the Board on the remuneration arrangements for Directors and Executives. The Nomination, Remuneration and Community Committee assesses, on a regular basis, the appropriateness of the nature and amount of KMP remuneration.

In fulfilling these duties and to support effective governance processes, the Committee:

- consists of independent Non-Executive Directors and has an independent Chair;
- has unrestricted access to management and any relevant documents; and
- engages external advisers for assistance to the extent appropriate and necessary (e.g. detailing market levels of remuneration).

Directors' Report

C. OUR REMUNERATION FRAMEWORK

Overview

Lynas' remuneration objective is to maximise shareholder benefits by attracting, retaining and motivating a high quality board of directors and executive management team. We remunerate our people fairly and consistently with comparable employment market conditions. Lynas is the largest producer of separated Rare Earths outside of China and our remuneration framework takes into account the global nature of the rare earths business and the complexity of the critical minerals supply chain.

Our Executive remuneration is linked to Lynas' financial and operational performance. 'At risk' components of individual remuneration are based upon the achievement of organisational goals, both short and long term.

Executive remuneration consists of a fixed pay component and an 'at risk' or performance related component (comprising both short term and long term incentives).

Component	Description	How does it link to performance and strategy?
Fixed Remuneration	Fixed remuneration consists of base salary, non-monetary benefits and statutory superannuation contributions.	Fixed remuneration is set at a level that enable Lynas to attract and retain talented people, at a cost which is acceptable to shareholders. It reflects the global nature of the rare earths supply chain, the need to attract experienced expatriate personnel to the Lynas Malaysia plant in Gebeng near Kuantan in regional Malaysia and the competition for resources personnel in Western Australia. Individual remuneration reflects the role, responsibilities, and experience of the relevant executive.
Short Term Incentive (STI)	The STI program is based on the achievement of annual financial and non-financial goals. Further details of the STI Plan Structure are set out below.	STI supports the delivery of annual performance goals which are selected by the Board considering the budget and Lynas' strategic initiatives. The STI Plan ensures annual remuneration is competitive to facilitate retention of key personnel. Half of STI is paid as deferred equity (performance rights).
Long Term Incentive (LTI)	The LTI program provides a reward for longer term performance Further details of the LTI Plan Structure are set out below.	LTI focuses on long term performance goals which create sustained value for shareholders. LTI is paid as deferred equity (performance rights) which aligns the interests of Executives and shareholders in ensuring the sustainable, long term performance of Lynas.

Our remuneration mix aims to achieve a balance between fixed and performance related components. This contributes to a high performance culture amongst the Executive team.

The diagrams below illustrate the remuneration mix range for Executives based on the target and maximum LTI and STI opportunities for FY2021. The actual remuneration mix for Executives will vary depending on the level of performance relative to the LTI and STI performance objectives.

	Fixed	STI	LTI
CEO	42.5 - 44.4%	22.2 - 25.5%	31.9 - 33.3%
Other Executive KMP	50.6 - 53.3%	26.6 - 30.3%	18.9 - 20.0%

Lynas Corporation Limited and Controlled Entities

Directors' Report

Short Term Incentive Structure

The structure of the STI Plan is as follows:

Description	<p>Under the STI Plan, Executive KMP can earn an annual incentive based on performance during the year.</p> <p>STI Plan performance conditions align with Lynas' annual operational and financial goals. The performance conditions are chosen to incentivise performance that is consistent with desired business outcomes and which contributes to longer term growth in shareholder value.</p> <p>The STI Plan is at risk remuneration. Actual awards depend on performance against the performance conditions.</p>
Participants	<p>Executive KMP and any employee of Lynas who is invited by the Board are eligible to participate.</p> <p>In addition to the Executive KMP, during FY2021, three members of the Lynas Leadership Team and ten senior employees who are critical to the delivery of Lynas' short-term operational and financial goals were invited to participate in the STI Plan.</p>
STI Opportunity	<p>Target Performance: Up to 50% of fixed remuneration for Executive KMP (including CEO) and Lynas Leadership Team. Up to 20% of fixed remuneration for other employees</p> <p>Maximum Opportunity: Up to 60% of fixed remuneration for over-achievement compared to targets for Executive KMP and Lynas Leadership Team. Up to 24% of fixed remuneration for other employees.</p> <p>Half of the STI opportunity is available in cash and half is available in performance rights.</p> <p>The number of STI performance rights to be granted is calculated by taking the volume weighted average price of Lynas' shares for the 5 trading days up to and including the date of Board approval (the PR Value). The relevant STI grant is divided by the PR Value and rounded to the nearest whole number.</p>
Performance Conditions	<p>The Board selects both financial and non-financial performance conditions based on the Lynas budget and strategic plan.</p> <p>For FY2021, three bands of performance were set for each performance condition:</p> <ul style="list-style-type: none"> Threshold: 90% of budget – 80% award Target: 100% of budget – 100% award Maximum: 110% of budget – 120% award <p>If performance falls between the Threshold and Maximum levels then awards are pro-rated.</p> <p>No STI Plan awards will be made if there is a fatality during the performance period.</p>
Financial Performance Conditions (60% weighting)	<p>Financial performance conditions are selected by the Board using the approved budget. The performance goals are selected based on the budget and considering market conditions. The financial conditions are assessed annually.</p> <p>For the FY2021 STI Plan the three financial performance conditions selected were: (1) EBITDA Target; (2) NdPr Production; and (3) NdPr Operating Costs. Each financial condition has a 20% weighting.</p>
Non-financial Performance Conditions (40% weighting)	<p>The Board selects non-financial conditions for the STI Plan based on the team/individual responsibilities in the context of the Lynas strategic plan. The non-financial conditions are assessed annually.</p> <p>For the FY2021 STI Plan the four areas selected for assessment were: (1) Safety/COVID Management; (2) ESG; (3) Regulatory; and (4) Growth Projects.</p>
Why were these performance conditions selected?	<p>A combination of financial and non-financial performance conditions aligns the STI Plan with growth and sustainable returns for shareholders.</p> <p>The financial conditions selected by the Board in FY2021 are measures which directly affect Lynas' profitability and financial performance. Due to the anticipated increases in capital expenditure for the Lynas Kalgoorlie Project during FY2021, EBITDA rather than EBIT was selected by the Board as the financial growth measure.</p> <p>The non-financial performance conditions reflect areas that are critical for the success of Lynas and complement the measures included in the other quantitative STI and LTI targets. Non-financial performance conditions are designed to address areas of particular importance to shareholders. The non-financial performance conditions for the FY2021 were selected by the Board for the following reasons:</p> <ul style="list-style-type: none"> Safety/COVID-19 management: Critical to the continued safe operations of the Mt Weld and Lynas Malaysia operations. ESG: Important to Lynas' stakeholders and the future sustainable growth of the business. Regulatory: Ensures the careful maintenance of Lynas' key operating licences in the jurisdictions in which it operates. Growth Projects: Supports performance against opportunities for longer term increases in the value of the business through delivery of annual project milestones.

Lynas Corporation Limited and Controlled Entities

Directors' Report

Performance conditions for the STI Plan are reviewed annually by the Board to ensure they remain aligned with business strategy and shareholder interests.

How and when is performance assessed?

Performance is assessed annually.

For the financial conditions, the Board calculates the results after the end of the performance period.

For the non-financial conditions, the Board assesses the performance of the Executives based on the recommendations from the Nomination, Remuneration and Community Committee.

Eligibility for dividends

Holders of performance rights are not eligible for dividends until the performance rights been converted into shares.

Cessation of employment

STI performance rights are subject to a 12 month restriction on exercise, with continued employment at Lynas for a period of 12 months after grant as a condition of exercise.

Clawback

If the Board becomes aware of any material misstatement in its financial statements due to: (i) non-compliance with a financial reporting requirement; (ii) the participant's misconduct; or (iii) the misconduct of any other Lynas personnel under the supervision of the relevant participant, the Board has authority under the clawback policy to require repayment of vested awards, forfeit unvested performance rights or withhold the payment or allocation of all or any part of an award.

Change of Control Event

There is no automatic vesting of performance rights on a change in control. On the occurrence of a change in control event, the Board will determine (in its discretion) how the performance rights may be affected.

Disposal restriction

Performance rights granted under the STI Plan are not transferable.

Lynas Corporation Limited and Controlled Entities

Directors' Report

Long Term Incentive Structure

This section summarises the LTI grants made in FY2021.

Description	Under the LTI Plan, annual grants of performance rights are made to eligible participants to align remuneration with the creation of sustainable shareholder value over the long term.										
Participants	Executive KMP and any employee of Lynas who is invited by the Board are eligible to participate.										
LTI Opportunity	<p>CEO – Up to 75% of fixed remuneration</p> <p>Other KMP and Lynas Leadership Team – Up to 37.5% of fixed remuneration</p> <p>Other invited employees – Up to 25% of fixed remuneration.</p> <p>The number of LTI performance rights to be granted is calculated by taking the volume weighted average price of Lynas' shares for the 5 trading days up to and including the date of Board approval (the PR Value). The relevant LTI grant is divided by the PR Value and rounded to the nearest whole number.</p>										
Vesting Date	9 September 2023										
Performance Conditions	<p>For the CEO, other Executive KMP and Lynas Leadership Team, two vesting conditions apply to the LTI grants made during FY2021:</p> <ul style="list-style-type: none"> Relative Total Shareholder Return (TSR) Lynas 2025 Project Target <p>During FY2021, three members of the Lynas Leadership Team were invited to participate in the LTI Plan.</p> <p>In addition, eight senior employees who are critical to the delivery of Lynas 2025 strategic outcomes were invited to participate in the LTI Plan. For these employees, the sole vesting condition is the Lynas 2025 Project Target.</p>										
Relative TSR – 50% weighting	<p>Relative TSR is assessed over a three year period from 1 July 2020 to 30 June 2023, relative to other companies in the ASX200 index (Peer Group Companies). For any performance rights to vest under the TSR vesting condition, Lynas' performance must be equal to or greater than the 51st percentile of Peer Group Companies.</p> <p>The percentage of the performance rights that may vest is determined as follows:</p> <table> <tr> <th>Lynas TSR Ranking across the TSR Period</th><th>Proportion of Performance Rights that vest</th></tr> <tr> <td>Below 51st percentile</td><td>0%</td></tr> <tr> <td>At the 51st percentile</td><td>50%</td></tr> <tr> <td>Between the 51st percentile and the 76th percentile</td><td>Between 50% and 100% as determined on a straight line basis (rounded to the nearest 5%)</td></tr> <tr> <td>At or above 76th percentile</td><td>100%</td></tr> </table>	Lynas TSR Ranking across the TSR Period	Proportion of Performance Rights that vest	Below 51 st percentile	0%	At the 51 st percentile	50%	Between the 51 st percentile and the 76 th percentile	Between 50% and 100% as determined on a straight line basis (rounded to the nearest 5%)	At or above 76 th percentile	100%
Lynas TSR Ranking across the TSR Period	Proportion of Performance Rights that vest										
Below 51 st percentile	0%										
At the 51 st percentile	50%										
Between the 51 st percentile and the 76 th percentile	Between 50% and 100% as determined on a straight line basis (rounded to the nearest 5%)										
At or above 76 th percentile	100%										
Lynas 2025 Project Target – 50% weighting	The Lynas 2025 Project Target vesting condition is that the Lynas Kalgoorlie plant is commissioned and operational by July 2023.										
Why were these performance conditions selected?	<p>The vesting conditions for the LTI Plan were selected due to their alignment with Lynas' long term strategic goals.</p> <p>The Relative TSR Vesting condition was selected because it ensures alignment between competitive shareholder return and reward for the executive. The comparison with peer group companies in the ASX200 index provides an objective, external market-based performance measure relative to Lynas' peer group companies. Relative TSR is widely understood and accepted by key stakeholders.</p> <p>The Lynas 2025 Project Target was selected as it is the next significant step in the growth of the Lynas business for the benefit of all shareholders. The completion of the Lynas Kalgoorlie plant is a key component of the Lynas 2025 Project.</p> <p>Due to the difficulties setting realistic financial growth targets over a three year performance period caused by the global economic uncertainty associated with COVID-19, the Board elected not to include an EBIT/EBITDA financial growth measure in the FY2021 LTI Plan. An EBITDA measure was included in the STI program to ensure a focus on earnings within the 'at risk' components of remuneration.</p>										
How and when is performance assessed?	<p>Relative TSR will be calculated by Lynas and tested by an external adviser as soon as practicable at the end of the performance period.</p> <p>The Lynas 2025 Project Target will be assessed by the Board at the vesting date of 9 September 2023.</p>										

Lynas Corporation Limited and Controlled Entities

Directors' Report

Eligibility for dividends	Holders of performance rights are not eligible for dividends until the performance rights been converted into shares.
Cessation of employment	<p>If a participant ceases employment prior to the vesting date of the performance rights, then unless otherwise determined by the Board (in its discretion), the unvested performance rights will continue to be subject to the rules of the LTI Plan until the vesting date, at which time the performance rights will vest in accordance with the rules of the LTI Plan.</p> <p>The Board may exercise its discretion to cancel the performance rights, except where the participant has been retrenched where cancellation will occur within 36 months of the Board's decision.</p>
Clawback	If the Board becomes aware of any material misstatement in its financial statements due to: (i) non-compliance with a financial reporting requirement; (ii) the participant's misconduct; or (iii) the misconduct of any other Lynas personnel under the supervision of the relevant participant, the Board has authority under the clawback policy to require repayment of vested awards, forfeit unvested performance rights or withhold the payment or allocation of all or any part of an award.
Change of Control Event	There is no automatic vesting of performance rights on a change in control. On the occurrence of a change in control event, the Board will determine (in its discretion) how the performance rights may be affected.
Disposal restriction	Performance rights granted under the LTI Plan are not transferable.

Lynas Corporation Limited and Controlled Entities

Directors' Report

D. REMUNERATION OUTCOMES IN FY2021

FY21 STI Grant Performance Outcomes

An award at 104.5% will be made under the FY2021 STI Plan. The table below sets out the outcomes of the FY2021 STI Plan.

Performance Outcome – Financial Performance Conditions

Performance condition Lynas has recorded excellent financial performance in FY2021. All financial performance targets in the FY2021 STI Plan have been met or exceeded.

Lynas has repaid all Australian Jobkeeper payments related to FY2021 and therefore these amounts are not included in the calculation of FY2021 STI Performance Outcomes.

Outcome – target achieved

Performance Condition	Target	Actual	Weighting	Threshold	Outcome	Maximum	Weighted Outcome (%)
				90%	100%	110%	
EBITDA	Forecast target*	Greater than 110% of target	20%				24.0%
NdPr Production Targets	5,478 REOt	5,461 REOt	20%				19.9%
NdPr Operating Costs	Forecast Target*	103% of forecast	20%				20.6%

* The NdPr Operating Cost Target is commercial in confidence. The NdPr Operating Cost and EBITDA Targets are set by the Board based on the annual budget. In respect of EBITDA, actual performance significantly exceeded 110% of the target so maximum performance was achieved. In respect of the NdPr Operation Cost, actual operating costs were better than Target and equalled an award at 103% of Target.

Performance Outcome – Non-Financial Performance Conditions

Performance Conditions The Board assessed the performance of the Executives in four key areas: (1) Safety/COVID Management; (2) ESG; (3) Regulatory; and (4) Growth Projects.

Outcome – target achieved

The Board has assessed an award at Target (weighted outcome of 40%) against the non-financial performance conditions.

Performance Condition	Target	Outcome
Safety/ COVID 19 Management	Safety performance was measured on a company-wide basis. Trends in safety statistics were considered, including LTIF, TRIFR, high potential incidents. COVID-19 performance was measured by the success in achieving COVID protocols at both sites, together with the speed and efficacy of responses to COVID issues.	During FY2021, safe workplace conditions were achieved and all COVID-19 cases were handled effectively despite serious second and third waves of infection in Malaysia. Continuous operations of the Malaysian plant were achieved, despite the Malaysian nationwide lockdown and Enhanced Movement Control Orders.
ESG	ESG performance is measured by reference to improvements in ESG performance and reporting during the performance period.	Significant progress was achieved in ESG reporting, as recognised by key investor groups. Further development of ESG initiatives during the year which will be reflected in Lynas' ESG Report.
Regulatory	Regulatory performance is assessed based on regulatory compliance in Malaysia and Australia.	Significant effort was demonstrated by the Executive in progressing the PDF Project in Malaysia. There were no regulatory non-compliances during the period in respect of Lynas' key operating licences.
Growth Projects	Performance in respect of growth projects is measured based on achievements against project milestones.	Progress against milestones for the Lynas Kalgoorlie and Lynas USA Projects was assessed by the Board and judged to be satisfactory

Directors' Report

2018 LTI Grant Performance Outcomes

The LTI performance rights issued on 28 September 2018 were granted subject to the following vesting conditions:

- EBIT Target – 50% weighting
- Relative TSR – 50% weighting

The table below sets the performance outcomes.

Performance Outcome - EBIT Target (50% weighting)																	
Performance Condition	Satisfaction of the EBIT Target vesting condition required Lynas' average annual EBIT growth at the end of the period from 1 July 2018 to 30 June 2021 to be at least 7% per annum using the EBIT figure from 1 July 2017 to 30 June 2018 as a base.																
Outcome – Not achieved	As set out in the table below, due to the EBIT result in FY20, the EBIT Target vesting condition has not been achieved.																
	<table> <tr> <th></th><th>Outcome (EBIT)</th></tr> <tr> <td>FY2018 (Base)</td><td>\$81 million</td></tr> <tr> <td>FY2019</td><td>\$56.4 million</td></tr> <tr> <td>FY2020</td><td>(\$6.2 million)</td></tr> <tr> <td>FY2021</td><td>\$169.5 million</td></tr> <tr> <td>Cumulative Adjusted EBIT over the three years</td><td>\$219.7 million</td></tr> <tr> <td>Base EBIT over the three years</td><td>\$243.0 million</td></tr> <tr> <td>Average % growth over the 3 years compared to the base period figure</td><td>-3.2%</td></tr> </table>		Outcome (EBIT)	FY2018 (Base)	\$81 million	FY2019	\$56.4 million	FY2020	(\$6.2 million)	FY2021	\$169.5 million	Cumulative Adjusted EBIT over the three years	\$219.7 million	Base EBIT over the three years	\$243.0 million	Average % growth over the 3 years compared to the base period figure	-3.2%
	Outcome (EBIT)																
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FY2021	\$169.5 million																
Cumulative Adjusted EBIT over the three years	\$219.7 million																
Base EBIT over the three years	\$243.0 million																
Average % growth over the 3 years compared to the base period figure	-3.2%																
Performance Outcome – Relative TSR (50% weighting)																	
Vesting Condition	Satisfaction of the Relative TSR vesting condition required Lynas' TSR to be at least at the 51 st percentile of ASX 200 companies calculated over the three year period from 31 August 2018 to 31 August 2021.																
	The Relative TSR performance rights will vest in accordance with the following scale:																
	<table> <tr> <th>Lynas TSR Ranking</th><th>Proportion of Performance Rights that vest</th></tr> <tr> <td>Below 51st percentile</td><td>0%</td></tr> <tr> <td>At the 51st percentile</td><td>50%</td></tr> <tr> <td>Between the 51st percentile and the 76th percentile</td><td>Between 50% and 100% as determined on a straight line basis (rounded up or down to the nearest 5%)</td></tr> <tr> <td>At or above 76th percentile</td><td>100%</td></tr> </table>	Lynas TSR Ranking	Proportion of Performance Rights that vest	Below 51 st percentile	0%	At the 51 st percentile	50%	Between the 51 st percentile and the 76 th percentile	Between 50% and 100% as determined on a straight line basis (rounded up or down to the nearest 5%)	At or above 76 th percentile	100%						
Lynas TSR Ranking	Proportion of Performance Rights that vest																
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Between the 51 st percentile and the 76 th percentile	Between 50% and 100% as determined on a straight line basis (rounded up or down to the nearest 5%)																
At or above 76 th percentile	100%																
Outcome – still to be assessed	Performance against the Relative TSR vesting condition will be assessed in September 2021, after the three year performance period ends on 31 August 2021.																

E. LINKING REMUNERATION AND GROUP PERFORMANCE

Sections C and D above set out how the LTI and STI Plan Performance Conditions are linked to Lynas' performance.

The table below provides further information about the financial performance of Lynas over the past five years.

	30 June 2017	30 June 2018	30 June 2019	30 June 2020	30 June 2021
Revenue (\$'000)	256,976	374,105	363,541	305,111	489,024
Profit / (loss) before tax (\$'000)	(24,263)	53,404	83,274	(19,156)	157,487
Profit / (loss) after tax (\$'000)	(534)	53,119	83,079	(19,395)	157,083
Shareholder capital (\$'000)	1,094,403	1,395,417	1,398,264	1,424,847	1,859,598
Annual average share price*	\$0.77	\$2.04	\$1.99	\$2.20	\$4.15
Closing share price at financial year end*	\$1.05	\$2.34	\$2.57	\$1.94	\$5.71
Basic earnings / (loss) per share (cents)**	(0.15)	8.84	12.50	(2.79)	18.08
Diluted earnings / (loss) per share (cents)**	(0.15)	8.29	11.90	(2.79)	17.99

* The share prices for the year ended 30 June 2017 have been restated to reflect the 10 to 1 share consolidation which was completed on 4 December 2017.

** The basic and diluted earnings per share for the year ended 30 June 2017 comparative periods have been restated to reflect the 10 to 1 which was completed on 4 December 2017.

Separately, changes in the share based remuneration from one year to the next reflect the effect of amortising the accounting value of options and performance rights over their vesting period and the impact of forfeitures which can relate to both the current and prior periods in a given fiscal period. In certain periods, a negative value may be presented which results when the forfeitures recognised in a period are greater than the accounting amortisation expense for the current portion of the vesting period.

F. SERVICE AGREEMENTS

The CEO and Managing Director and Executives each have a services contract/ employment contracts which are on reasonable commercial conditions. The key provisions of the agreement are:

	CEO and Managing Director	Other Executives
Type	Services contract	Employment contract
Duration	Ongoing	Ongoing
Notice by Executive	3 months	3 months
Notice by Lynas	6 months Termination without notice for serious misconduct	3 – 6 months Termination without notice for serious misconduct
Treatment of incentives on termination:	On resignation, then unless otherwise determined by the Board (in its discretion), the unvested performance rights will continue to be subject to the rules of the LTI Plan until the vesting date, at which time the performance rights will vest in accordance with the rules of the LTI Plan. The Board may exercise its discretion to cancel the performance rights, except where the participant has been retrenched where cancellation will occur within 36 months of the Board's decision.	On resignation, then unless otherwise determined by the Board (in its discretion), the unvested performance rights will continue to be subject to the rules of the LTI Plan until the vesting date, at which time the performance rights will vest in accordance with the rules of the LTI Plan. The Board may exercise its discretion to cancel the performance rights, except where the participant has been retrenched where cancellation will occur within 36 months of the Board's decision.

Lynas Corporation Limited and Controlled Entities

Directors' Report

G. NON-EXECUTIVE DIRECTOR REMUNERATION

Remuneration policy

Consistent with Lynas' approach, remuneration of Non-Executive Directors is set at a level that enables Lynas to attract and retain talented and motivated people, at a cost which is acceptable to shareholders. We focus on ensuring that the Board of Directors reflects the broad mix of skills, experience and diversity necessary to oversee Lynas in its position as a significant participant in the critical global market for Rare Earth products.

Non-Executive Director fees are set considering: (1) the fees paid by companies of a similar size and/or industry; (2) the time and commitment required; (3) the risk and responsibilities; and (4) the required commercial and industry experience.

To ensure independence, Non-Executive Director fees are fixed, and Non-Executive Directors do not receive any performance-related or 'at-risk' compensation.

Remuneration Structure

Non-Executive Director fees consist of Director fees and Committee fees. Each Non-Executive Director (other than the Chairman of the Board) received a fee for each committee of which they are members (capped at two committees). The Chairman of the Board does not receive committee fees.

The current aggregate fee pool for the Non-Executive Directors of \$1,250,000 was approved at the AGM held on 20 November 2012.

The Non-Executive Director fees payable for the period from 1 July 2020 to 30 June 2021 were:

Board fees per annum	Amount (exclusive of superannuation)
Chairman	\$250,000
Non-Executive Director	\$120,000
Committee Chair (Audit & Risk)	\$30,000
Committee Chair (Nomination Remuneration & Community/ Health, Safety & Environment)	\$25,000
Committee member (Audit & Risk)	\$15,000
Committee member (Nomination Remuneration & Community/ Health, Safety & Environment)	\$12,500

Board fees were reviewed effective from 1 January 2020 for the first time since FY2011. Committee fees remain unchanged from FY2019.

The remuneration for each of the Non-Executive Directors for the financial years ended 30 June 2020 and 30 June 2021 is set out in Section H below.

Directors' Report

H. DETAILS OF REMUNERATION

Short term benefits				Post-employment benefits		Long service leave	Long term benefits		Total
Name	Cash salary and fees	Other short term employee benefits	Non-monetary benefits	Termination payments	Superannuation and other pension payments		Share-based payments (net) ⁽¹⁾	Performance related % Total	
FY21									
Executive Director									
A. Lacaze	1,251,897	133,540	-	-	21,694	64,383	830,776	42%	2,302,290
Non-Executive Directors									
K. Conlon ⁽²⁾	234,375	-	-	-	20,011	-	-	0%	254,386
M. Harding ⁽³⁾	65,000	-	-	-	5,424	-	-	0%	70,424
P. Etienne	175,200	-	-	-	-	-	-	0%	175,200
J. Humphrey	156,875	-	-	-	14,903	-	-	0%	171,778
G. Murdoch	159,375	-	-	-	15,141	-	-	0%	174,516
V. Guthrie ⁽⁴⁾	106,157	-	-	-	3,147	-	-	0%	109,304
Executives									
A. Arnold ⁽⁵⁾	588,365	51,058	-	-	10,892	-	(30,026)	(3%)	620,289
S. Leonard ⁽⁶⁾	146,709	-	-	-	6,058	2,506	39,297	20%	194,570
G. Sturzenegger	533,105	58,043	-	-	-	-	220,628	34%	811,776
K. Leung	532,331	55,975	-	-	21,694	29,945	206,982	31%	846,927
P. Le Roux	466,740	56,980	119,736	-	79,238	-	250,016	32%	972,710
M. Ahmad	336,593	84,069	-	-	42,076	-	174,743	38%	637,481
Total	4,752,722	439,664	119,736	-	240,278	96,834	1,692,416	29%	7,341,650

FY20

Executive Director									
A. Lacaze	1,241,610	261,191	75,509	-	21,003	28,135	419,885	33%	2,047,333
Non-Executive Directors									
K. Conlon	147,500	-	-	-	14,013	-	-	0%	161,513
M. Harding	255,000	-	-	-	21,003	-	-	0%	276,003
P. Etienne	157,600	-	-	-	6,650	-	-	0%	164,250
J. Humphrey	137,500	-	-	-	13,063	-	-	0%	150,563
G. Murdoch	140,000	-	-	-	13,300	-	-	0%	153,300
Executives									
A. Arnold	510,466	100,207	-	-	-	-	100,607	28%	711,280
G. Sturzenegger	578,352	114,315	-	-	-	-	110,051	28%	802,718
K. Leung	505,792	108,737	41,981	-	21,003	13,403	107,779	27%	798,695
P. Le Roux	401,707	114,265	68,318	-	81,078	-	133,522	31%	789,890
M. Ahmad	365,445	133,528	-	-	49,899	-	89,085	35%	637,957
M. Afzan Afza ⁽⁷⁾	302,514	97,912	-	-	72,079	-	71,682	31%	544,187
Total	4,743,486	930,155	185,808	-	313,091	41,538	1,032,611	27%	7,246,689

(1) Represents the impact of amortising the accounting value of Options and Performance Rights over their vesting period including the impact of forfeitures recognised during the period. At times a negative value may be presented which results when the forfeitures recognised in the period (which may relate also to earlier periods) are greater than the accounting expense for the current portion of the vesting period.

(2) Appointed to Chair effect 30 September 2020

(3) Resigned effective 30 September 2020

(4) Appointed effective 1 October 2020

(5) Resigned effective 16 April 2021

(6) Appointed effective 27 January 2021

(7) Lynas reassessed its KMP as of 1 July 2020 and determined the KMP to be limited to the directors and executives including General Counsel and Company Secretary, CFO, Vice President – Upstream, Vice President – Downstream and Vice President – Malaysia. As a result, M. Afzan Afza was not included as a member of the KMP in FY2021.

Lynas Corporation Limited and Controlled Entities

Directors' Report

I. KMP EQUITY HOLDINGS

(i) Shareholdings

The following table outlines the shares held directly, indirectly and beneficially by directors and KMP as at 30 June 2021.

Name	Balance at beginning of year	Purchased during the year	On exercise of performance rights	Sold during the year	Other	Balance at end of year
A. Lacaze	4,389,988	43,825	109,148	(1,800,000)	-	2,742,961
K. Conlon	115,619	15,016	-	-	-	130,635
P. Etienne	66,630	8,654	-	-	-	75,284
M. Harding	65,168	8,464	-	-	(73,632)	-
J. Humphrey	50,000	6,494	-	-	-	56,494
G. Murdoch	142,500	18,507	-	-	-	161,007
V. Guthrie	-	6,000	-	-	-	6,000
A. Arnold	508,995	-	98,106	(602,432)	(4,669)	-
S. Leonard	-	-	-	-	-	-
G. Sturzenegger	1,084,700	-	102,988	(487,689)	-	700,000
K. Leung	739,223	-	107,146	(433,369)	-	413,000
P. Le Roux	1,172,261	-	121,997	(933,138)	-	349,579
M. Ahmad	717,617	-	85,585	(789,202)	-	14,000
Total	9,052,701	106,960	624,970	(5,045,830)	(78,301)	4,648,960

Other movements in relation to KMP shareholdings relate to the person ceasing to be a member of the KMP during the year.

(ii) Share Based Remuneration – Performance Rights

Performance Rights are issued with no consideration payable on exercise. As at year end the Group had on issue to directors and KMP the following Performance Rights to acquire ordinary fully paid shares:

Series	Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per performance right at grant date
AO	30 November 2016	532,373	30 August 2019	30 August 2021	\$ 0.00	\$ 0.680
AP	30 November 2016	465,117	30 August 2019	30 August 2021	\$ 0.00	\$ 0.500
AU	28 November 2017	127,567	28 August 2020	28 August 2022	\$ 0.00	\$2.060
AV	28 November 2017	154,044	28 August 2020	28 August 2022	\$ 0.00	\$1.620
AY	28 August 2018	141,811	28 August 2021	28 August 2023	\$ 0.00	\$2.187
AZ	28 August 2018	118,176	28 August 2021	28 August 2023	\$ 0.00	\$1.431
BB	27 November 2018	176,920	28 August 2021	28 August 2023	\$ 0.00	\$2.187
BC	27 November 2018	147,433	28 August 2021	28 August 2023	\$ 0.00	\$1.463
BE	26 August 2019	111,559	26 August 2022	26 August 2024	\$ 0.00	\$2.340
BF	26 August 2019	147,629	26 August 2022	26 August 2024	\$ 0.00	\$2.340
BG	26 August 2019	133,870	26 August 2022	26 August 2024	\$ 0.00	\$1.660
BE*	26 November 2019*	136,435	26 August 2022	26 August 2024	\$ 0.00	\$2.290
BF*	26 November 2019*	136,435	26 August 2022	26 August 2024	\$ 0.00	\$2.290
BG*	26 November 2019*	163,722	26 August 2022	26 August 2024	\$ 0.00	\$1.630
BH	09 September 2020	91,995	09 September 2021	09 September 2023	\$ 0.00	\$2.400
BI	09 September 2020	207,422	09 September 2023	09 September 2025	\$ 0.00	\$1.790
BJ	09 September 2020	207,422	09 September 2023	09 September 2025	\$ 0.00	\$2.400
BH**	26 November 2020*	55,695	09 September 2021	09 September 2023	\$ 0.00	\$3.560
BI**	26 November 2020*	208,856	09 September 2023	09 September 2025	\$ 0.00	\$2.500
BJ**	26 November 2020*	208,856	09 September 2023	09 September 2025	\$ 0.00	\$3.560
Total		3,673,337				

* Performance rights relates to the CEO in series BD to BG were approved by the Board on 26 August 2019, subject to approval at the AGM. These performance rights were subsequently approved at the AGM on 26 November 2019.

** Performance rights relates to the CEO in series BH to BJ were approved by the Board on 9 September 2020, subject to approval at the AGM. These performance rights were subsequently approved at the AGM on 26 November 2020.

Lynas Corporation Limited and Controlled Entities

Directors' Report

Fair value of Performance Rights

The fair value of each Performance Right is estimated on the date it is granted using volume-weighted average share price, Monte Carlo and Binomial valuation methodologies. The following assumptions were considered in the valuation of Performance Rights granted during the year ended 30 June 2021:

	PR's issued to employees other than CEO			PR's issued to CEO		
	Series BH	Series BI	Series BJ	Series BH	Series BI	Series BJ
Grant date	09 Sept 2020	09 Sept 2020	09 Sept 2020	26 Nov 2020	26 Nov 2020	26 Nov 2020
5 day VWAP	\$2.40	\$2.40	\$2.40	\$3.56	\$3.56	\$3.56
Exercise price	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	63.2%	63.2%	63.2%	64.5%	64.5%	64.5%
Risk-free Rate	0.26%	0.26%	0.26%	0.11%	0.11%	0.11%
Expiry date	09 Sept 2023	09 Sept 2025	09 Sept 2025	09 Sept 2023	09 Sept 2025	09 Sept 2025

No dividends have been paid in the past and so it is not appropriate to estimate future possible dividends in arriving at the fair values. The life of the Performance Right is up to 5 years from date of grant (as specified above) and is therefore not necessarily indicative of exercise patterns that may occur.

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

Grant date	Number of performance rights	Fair value per instrument at valuation date	Exercise price per instrument	First exercise date	Last exercise or expiry date
9 September 2020	91,995	\$2.40	\$ 0.00	9 September 2021	9 September 2021
9 September 2020	207,422	\$1.79	\$ 0.00	9 September 2023	9 September 2025
9 September 2020	207,422	\$2.40	\$ 0.00	9 September 2023	9 September 2025
26 November 2020	55,695	\$3.56	\$ 0.00	9 September 2021	9 September 2021
26 November 2020	208,856	\$2.58	\$ 0.00	9 September 2023	9 September 2025
26 November 2020	208,856	\$3.56	\$ 0.00	9 September 2023	9 September 2025
Total	980,246				

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

Lynas Corporation Limited and Controlled Entities

Directors' Report

The following tables outline the Performance Rights granted for the benefit of Directors and KMP during the 2020 and 2021 financial years and those Performance Rights which have vested at each respective year-end.

30 June 2021	Balance at beginning of year	Granted	Grant date	Exercised	Forfeited	Net change	Balance at end of year
A. Lacaze	2,291,202	473,407	26 Nov 2020	(109,148)	(142,010)	222,249	2,513,451
K. Conlon	-	-	-	-	-	-	-
P. Etienne	-	-	-	-	-	-	-
M. Harding	-	-	-	-	-	-	-
J. Humphrey	-	-	-	-	-	-	-
G. Murdoch	-	-	-	-	-	-	-
V. Guthrie	-	-	-	-	-	-	-
A. Arnold	272,112	-	-	(98,106)	(174,006)	(272,112)	-
S Leonard	-	69,862	9 Sept 2020	-	-	69,862	69,862
G. Sturzenegger	292,682	117,671	9 Sept 2020	(102,988)	(28,071)	(13,388)	279,294
K. Leung	296,839	110,889	9 Sept 2020	(107,146)	(31,117)	(27,374)	269,465
P. Le Roux	355,482	115,517	9 Sept 2020	(121,997)	(31,632)	(38,112)	317,370
M. Ahmad	240,572	92,900	9 Sept 2020	(85,585)	(23,955)	(16,640)	223,932
Total	3,748,889	980,246		(624,970)	(430,791)	(75,515)	3,673,374

30 June 2020	Balance at beginning of year	Granted	Grant date	Exercised	Forfeited	Net change	Balance at end of year
A. Lacaze	4,530,638	545,740	Nov 26, 2019	(2,690,635)	(94,541)	(2,239,436)	2,291,202
K. Conlon	-	-	-	-	-	-	-
P. Etienne	-	-	-	-	-	-	-
M. Harding	-	-	-	-	-	-	-
J. Humphrey	-	-	-	-	-	-	-
G. Murdoch	-	-	-	-	-	-	-
A. Arnold	706,758	125,572	Aug 26, 2019	(528,861)	(31,357)	(434,646)	272,112
G. Sturzenegger	724,786	141,969	Aug 26, 2019	(542,651)	(31,422)	(432,104)	292,682
K. Leung	776,276	136,319	Aug 26, 2019	(581,323)	(34,433)	(479,437)	296,839
P. Le Roux	788,462	190,800	Aug 26, 2019	(588,860)	(34,920)	(432,980)	355,482
M. Ahmad	611,805	114,004	Aug 26, 2019	(458,473)	(26,764)	(371,233)	240,572
M. Afzan Afza	448,642	93,384	Aug 26, 2019	(335,490)	(19,810)	(261,916)	186,726
Total	8,587,367	1,347,788		(5,726,293)	(273,247)	(4,651,752)	3,935,615

At 30 June 2021, 1,279,101 performance rights issued to A. Lacaze had vested and were exercisable (30 June 2019: 997,490), while no performance rights had vested but were not exercisable (30 June 2020: nil)

The Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors,



Kathleen Conlon
Chairman
Sydney, 27 August 2021

Directors' Declaration

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial report is in compliance with International Financial Reporting Standards, as stated in the Basis of preparation note to the Financial Statements;
- (c) in the Directors' opinion, the attached financial report and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
- (d) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

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

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the Corporations Instrument applies, as detailed in Note E.6 to the Financial Statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors,



Kathleen Conlon
Chairman
Sydney, 27 August 2021



Building a better
working world

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Auditor's independence declaration to the directors of Lynas Rare Earths Limited

As lead auditor for the audit of the financial report of Lynas Rare Earths Limited for the financial year ended 30 June 2021, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Gavin Buckingham
Partner
27 August 2021



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Independent auditor's report to the members of Lynas Rare Earths Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Lynas Rare Earths Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

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

- a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2021 and of its consolidated financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Key audit matters

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



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

Rehabilitation Provision

Why significant	How our audit addressed the key audit matter
<p>The Group incurs obligations for asset and site restoration and rehabilitation, which includes requirements under its Full Operating Stage License in Malaysia to manage water leached purification (WLP) and neutralisation underflow (NUF) residues arising from its production process. As at 30 June 2021 the Group's consolidated statement of financial position includes provisions of \$174,266,000 in respect of such obligations as disclosed in Note D.5.</p> <p>Estimating the costs associated with these obligations requires considerable judgement in relation to when the activities will take place, the time required for rehabilitation to be effective, the costs associated with the activities and economic assumptions such as discount rates and inflation rates. Given the significant judgements and assumptions involved, the Group is required to continually reassess and confirm that the assumptions used are appropriate.</p> <p>Due to the value of the provision relative to net assets and the significant degree of estimation and judgment used to determine the rehabilitation provision this was considered to be a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ Assessed the appropriateness of the changes in cost estimates and other assumptions underpinning the cost estimates. ▶ Assessed the qualifications, competence and objectivity of the Group's external experts, the work of whom, formed the basis of the Group's initial rehabilitation cost estimates for Lynas Advanced Materials Plant and Mt Weld sites. ▶ Understood changes in license conditions with respect to the management of WLP and NUF residues and assessed the appropriateness of changes in assumptions and calculations within the rehabilitation cost estimates as a result of these changed conditions. ▶ Tested the mathematical accuracy of the rehabilitation models and assessed the appropriateness of the assumed timing of cashflows, inflation and discount rate assumptions. ▶ Discussed with the Group's expert changes to the disturbed areas since the previous annual reporting period. ▶ Considered the adequacy of the disclosures relating to the Group's provisions for restoration and rehabilitation included in the financial report.



Inventories

Why significant	How our audit addressed the key audit matter
<p>As at 30 June 2021 the Group had total inventories comprising raw materials and consumables, work in progress and finished goods of \$67,322,000 as disclosed in Note D.2.</p> <p>We considered this to be a key audit matter because of the:</p> <ul style="list-style-type: none"> ▶ Significant estimates required to assess the quantity of ore stockpiles and work in progress. ▶ Significant estimates and judgments involved in the valuation of inventories, including the allocation of operating costs and overheads. ▶ Significant estimates involved in the determination of the net realisable value of inventories, including the selling price in the ordinary course of business and where applicable the estimated costs of completion necessary to make the sale. 	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ Obtained an understanding of the Group's processes and controls in place for determining the physical quantities of inventories on hand at balance date ▶ Attendance using web or mobile-based video conferencing technologies at stock takes and testing of a sample of inventory counted at the Group's physical stock counts of consumables, work in progress and finished goods at Mount Weld and Lynas Advanced Materials Plant. ▶ Assessed the qualifications, competence and objectivity of the Group's internal experts involved in determining the quantity of inventories on hand at balance date. ▶ Assessed the accuracy of the inventory valuation models including assessing the nature of costs allocated to inventories in determining the unit cost of inventories. ▶ Assessed the carrying value of inventories at 30 June 2021 to evaluate whether they were valued at the lower of cost and net realisable value. This included evaluating the assumptions and methodologies used by the Group, in particular those relating to the expected selling price and costs to complete. ▶ Assessed the classification of inventories at 30 June 2021 as either current or non-current. ▶ Evaluated the adequacy of the Group's disclosures in the financial report relating to inventories.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2021 annual report, but does not include the financial report and our auditor's report thereon.

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

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



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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



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

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

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

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



Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Lynas Rare Earths Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Gavin Buckingham'.

Gavin Buckingham
Partner
Perth
27 August 2021

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 - E.8 Other accounting policies
 - E.9 Subsequent events

Other

Directors Declaration
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Shareholder Information

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June

In A\$'000	Note	2021	2020
Revenue	A.1	489,024	305,111
Cost of sales	A.1	(302,242)	(257,340)
Gross profit		186,782	47,771
General and administration expenses	A.1	(27,154)	(57,984)
Net foreign exchange gain		8,717	4,093
Other income / (expenses)		1,155	(125)
Profit / (loss) from operating activities		169,500	(6,245)
Financial income	A.2	2,927	2,662
Financial expenses	A.2	(14,940)	(15,573)
Net financial expenses		(12,013)	(12,911)
Profit / (loss) before income tax		157,487	(19,156)
Income tax expense	A.4	(404)	(239)
Profit / (loss) for the year		157,083	(19,395)
Other comprehensive loss for the year net of income tax that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(24,750)	(12,864)
Total other comprehensive loss for the year, net of income tax		(24,750)	(12,864)
Total comprehensive income / (loss) for the year attributable to equity holders of the Company		132,333	(32,259)
Earnings / (loss) per share			
Basic earnings / (loss) per share (cents per share)	A.3	18.08	(2.79)
Diluted earnings / (loss) per share (cents per share)	A.3	17.99	(2.79)

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

Consolidated Statement of Financial Position

As at 30 June

In A\$'000	Note	2021	2020
Assets			
Cash and cash equivalents	C.1	580,827	101,731
Short term deposits		100,000	-
Trade and other receivables	D.1	23,890	5,380
Current tax assets		-	46
Prepayments		6,442	3,773
Inventories	D.2	62,888	68,132
Total current assets		774,047	179,062
Inventories	D.2	4,434	9,468
Property, plant and equipment	B.1	607,297	653,090
Deferred development expenditure	B.1	28,347	28,818
Intangible assets		405	540
Other non-current assets	D.3	63,060	65,147
Total non-current assets		703,543	757,063
Total assets		1,477,590	936,125
Liabilities			
Interest payable		1,773	2,007
Trade and other payables	D.4	40,828	28,778
Borrowings	C.2	20,073	34,148
Current tax liability		84	-
Employee benefits	D.5	3,331	2,797
Provisions	D.5	40,874	26,142
Lease liabilities	E.2	778	1,226
Total current liabilities		107,741	95,098
Borrowings	C.2	151,049	164,851
Employee benefits	D.5	696	599
Provisions	D.5	133,392	155,462
Lease liabilities	E.2	1,292	1,734
Total non-current liabilities		286,429	322,646
Total liabilities		394,170	417,744
Net assets		1,083,420	518,381
Equity			
Share capital	C.4	1,859,598	1,424,847
Accumulated losses		(715,594)	(872,677)
Reserves	C.5	(60,584)	(33,789)
Total equity attributable to the equity holders of the Company		1,083,420	518,381

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

Consolidated Statement of Changes in Equity

	Ref	Share capital	Accumulated losses	Foreign currency translation reserve	Equity settled employee benefits reserve	Warrant reserve	Other reserve	Total
In A\$'000								
Balance at 1 July 2020		1,424,847	(872,677)	(111,771)	51,708	21,765	4,509	518,381
Other comprehensive loss for the year		-	-	(24,750)	-	-	-	(24,750)
Total profit for the year		-	157,083	-	-	-	-	157,083
Total comprehensive profit for the year		-	157,083	(24,750)	-	-	-	132,333
Issue of shares, net of issues costs		413,867	-	-	-	-	-	413,867
Conversion of convertible bonds	C.4	20,884	-	-	-	-	(4,509)	16,375
Employee remuneration settled through share-based payments	E.7	-	-	-	2,464	-	-	2,464
Balance at 30 June 2021		1,859,598	(715,594)	(136,521)	54,172	21,765	-	1,083,420
Balance at 1 July 2019		1,398,264	(853,282)	(98,907)	50,163	34,094	5,065	535,397
Other comprehensive loss for the year		-	-	(12,864)	-	-	-	(12,864)
Total loss for the year		-	(19,395)	-	-	-	-	(19,395)
Total comprehensive loss for the year		-	(19,395)	(12,864)	-	-	-	(32,259)
Conversion of convertible bonds	C.4	2,668	-	-	-	-	(556)	2,112
Exercise of warrants	C.4	23,915	-	-	-	(12,329)	-	11,586
Employee remuneration settled through share-based payments	E.7	-	-	-	1,545	-	-	1,545
Balance at 30 June 2020		1,424,847	(872,677)	(111,771)	51,708	21,765	4,509	518,381

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

Consolidated Statement of Cash Flows

For the year ended 30 June

In A\$'000	Note	2021	2020
Cash flows from operating activities			
Receipts from customers		465,422	321,815
Payments to suppliers and employees		(242,348)	(266,814)
Payments for discharge of rehabilitation obligation	D.5	-	(14,916)
Royalties paid		(7,735)	(7,748)
Income taxes paid		(274)	(266)
Net cash from operating activities	C.1	215,065	32,071
Cash flows from investing activities			
Payments for property, plant and equipment and development expenditure		(40,444)	(12,089)
Security bonds paid		(83)	(39)
Security bonds refunded		19	6
Interest received		2,505	2,886
Deposit as collateral for AELB		(255)	(12,530)
Investment in term deposit		(100,000)	-
Net cash used in investing activities		(138,258)	(21,766)
Cash flows from financing activities			
Interest and other financing costs paid		(6,431)	(7,030)
Proceeds from the issue of share capital		425,324	11,628
Payments related to the issue of share capital		(11,458)	-
Repayment of lease liabilities		(1,844)	(2,602)
Net cash provided from financing activities		405,591	1,996
Net increase in cash and cash equivalents		482,398	12,301
Cash and cash equivalents at the beginning of the year		101,731	89,710
Effect of exchange rate fluctuations (net) on cash held		(3,302)	(280)
Closing cash and cash equivalents	C.1	580,827	101,731

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

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

About this Report

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

The financial report of Lynas Rare Earths Limited as at and for the year ended 30 June 2021 comprises the Company and its subsidiaries (together referred to as the "Group"). The financial report was approved by the Board of Directors (the "Directors") on 27 August 2021.

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

The address of the registered office of the Company is Suite 1, 1st Floor 45 Royal Street, East Perth 6004, Australia.

Basis of preparation

Statement of compliance

The financial report is a general purpose financial report and has been prepared in accordance with Australian Accounting Standards ("AASs") issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

The financial report also complies with International Financial Reporting Standards and Interpretations ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Going concern

The financial report has been prepared using the going concern assumption.

Basis of measurement

The financial report has been prepared under the historical cost convention, except for the borrowings which are at amortised cost.

Information as disclosed in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the current year is for the 12 month period ended 30 June 2021. Information for the comparative year is for the 12 month period ended 30 June 2020.

Consolidation of subsidiaries

Subsidiaries are entities controlled by the Company or the Group. Control is achieved when the Company or Group has power over the investee, is exposed, or has the rights to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the financial report from the date control (or effective control) commences until the date that control ceases. As per Note E.4 all entities within the Group are 100% owned and controlled.

Intra-group balances and unrealised items of income and expense arising from intra-group transactions are eliminated in preparing the financial report. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same manner as gains, but only to the extent that there is no evidence of impairment.

Rounding of amounts

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

Change in company name

In accordance with a resolution passed by shareholders during the AGM held on 26 November 2020, during the half year, the name of the company was changed from Lynas Corporation Limited to Lynas Rare Earths Limited.

Currency and foreign exchange

The financial report of the Company and the Group is presented in Australian Dollars ("AUD"), which is both the Company's and the Group's presentation currency.

Items included in the financial report of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of the respective entities at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to the functional currency of the respective entities at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency of the respective entities at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognised in the statement of comprehensive income as a component of the profit or loss.

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

Foreign operations

The results and financial position of those entities that have a functional currency different from the presentation currency of the Group are translated into the Group's presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date of the statement of financial position;
- income and expense items for each profit or loss item are translated at average exchange rates;
- items of other comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

As at 30 June 2021, the entities that have a different functional currency to the Group's presentation currency (AUD) are Lynas Africa Limited, Lynas USA LLC (USD functional currency) and Lynas Malaysia Sdn Bhd (MYR functional currency).

Change in functional currency

The functional currency of Lynas Rare Earths Ltd (Parent entity) has been USD. Following the equity raise and extinguishment of the convertible bonds, management exercised its judgement that the functional currency changed. This judgement was influenced by the Parent entity primarily holding investments in its operating subsidiaries and raising its funding (debt and equity) in Australian dollars ("AUD").

The change in functional currency to AUD is accounted for prospectively from 31 August 2020. All items are translated into the new functional currency using the exchange rate at the date of the change. The resultant translated amounts for non-monetary items are thereafter treated as their historical cost.

Foreign exchange risk management

As a result of the Group's international operations, foreign exchange risk exposures exist on purchases, assets and borrowings that are denominated in foreign currencies (i.e. currencies other than the functional currency of each of the Group's operating entities). The currencies in which these transactions are primarily denominated are the AUD, USD and MYR.

The Group takes advantage of natural offsets to the extent possible. Therefore, when commercially feasible, the Group borrows in the same currencies in which cash flows from operations are generated. Generally the Group does not use forward exchange contracts to hedge residual foreign exchange risk arising from receipts and payments denominated in foreign currencies. However, when considered appropriate the Group may enter into forward exchange contracts to hedge foreign exchange risk arising from specific transactions.

The Group's primary exposure to foreign exchange risk is on the translation of net assets of Group entities which are denominated in currencies other than AUD, which is the Group's presentation currency. The impact of movements in exchange rates is recognised primarily in the other comprehensive income component of the Group's statement of comprehensive income.

Certain subsidiaries within the Group are exposed to foreign exchange risk on purchases denominated in currencies that are not the functional currency of that subsidiary. In these circumstances, a change in exchange rates would impact the net operating profit recognised in the profit or loss component of the Group's statement of comprehensive income. Details of this exposure is detailed in the capital risks in Section C of this report.

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

A. Earnings for the Year

This section includes the results and performance of the Group. It includes segmental information and details about the Group's tax position.

A.1 Segment revenue and expenses

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

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

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

All of the Group's revenue is derived through the sale of Rare Earth products and is sold to non-Australian customers.

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

66% (FY20:76%) of the Group's non-current assets are located in Malaysia and the remaining 34% (FY20: 24%) are in Australia.

Recognition and measurement

Revenue

Rare Earth Product sales:

The Group derives revenue from the sale of rare earth products, which are governed by a sales contract with their customers. Revenue is recognised in relation to rare earth sales at the time control transfers to customers at the date of loading/shipment. Sales made under CIF incoterms, where the Group is responsible for freight and shipping, are generally recognised at the point in time when the rare earth products are loaded onto the vessel for shipment. In these sales, the freight and shipping service represents a separate performance obligation to the sale of the rare earth products. For those sales not made under CIF incoterms, this timing is upon the delivery of the rare earth products.

Provisionally priced sales:

Certain of the Group's sales are provisionally priced, where the final price depends on the sale price of products sold to a third party outside of the Lynas transaction. Adjustments to the sales price occur based on movements in market prices up to the secondary point of sale. Under AASB 15 any fair value adjustments on receivables subject to Quotational Pricing (QP) are recognised in other revenue and not included in revenue from contracts with customers.

Shipping services:

As noted above, a portion of the Group's rare earth product sales are sold on CIF incoterms, whereby the Group is responsible for providing freight and shipping services after the date that it transfers control of the rare earth products to the customer. Under AASB 15, it has been concluded that freight and shipping represent a separate performance obligation and that the Group acts as principal. As a result, a portion of the transaction price is now required to be allocated to this performance obligation and will be recognised over time on a gross basis as the services are provided. The Group has concluded that for the FY21 period the amount is insignificant and therefore not disclosed separately in Note A.1.

Royalties

Obligations arising from royalty arrangements are recognised as current liabilities and included as part of the cost of goods sold in the statement of comprehensive income as a component of profit or loss. Lynas currently pays royalties to the Western Australian Department of Minerals and Petroleum for the export of Rare Earth concentrate to Malaysia.

Financial Income and Expenses

Financial income comprises interest income and gains on derivative financial instruments in respect of investing activities that are recognised in the statement of comprehensive income as a component of the profit or loss. Interest income is recognised as it accrues using the effective interest method.

Financial expenses comprise interest expense, impairment losses recognised on financial assets (except for trade receivables) and losses in respect of financing activities on derivative instruments that are recognised in the statement of comprehensive income as a component of the profit or loss. All borrowing costs not qualifying for capitalisation are recognised in the statement of comprehensive income as a component of the profit or loss using the effective interest method.

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

In A\$'000	For the year ended 30 June 2021			For the year ended 30 June 2020		
	Rare Earth Operations	Corporate/ Unallocated	Total Continuing Operations	Rare Earth Operations	Corporate/ Unallocated	Total Continuing Operations
Business segment reporting						
Revenue from contracts with customers	506,005	-	506,005	314,088	-	314,088
Other revenue:						
Revenue adjustments	(16,981)	-	(16,981)	(8,977)	-	(8,977)
Total revenue	489,024	-	489,024	305,111	-	305,111
Cost of sales (excl depreciation)	(239,419)	-	(239,419)	(205,802)	-	(205,802)
Cost of sales (depreciation)	(62,823)	-	(62,823)	(51,538)	-	(51,538)
Gross profit	186,782	-	186,782	47,771	-	47,771
Employee and production costs net of costs recovered through production	(2,383)	(3,297)	(5,680)	(17,048)	(4,665)	(21,713)
Depreciation expenses net of cost recovered through production	(502)	(2,459)	(2,961)	(13,250)	(1,230)	(14,480)
Other general and administration expenses ⁽¹⁾	(9,412)	(9,101)	(18,513)	(13,524)	(8,267)	(21,791)
Total general and admin expenses	(12,297)	(14,847)	(27,154)	(43,822)	(14,162)	(57,984)
Other income ⁽²⁾	-	1,155	1,155	-	961	961
Other expenses	-	-	-	-	(66)	(66)
Net foreign exchange gain	-	8,717	8,717	-	4,093	4,093
Asset write-offs	-	-	-	(1,020)	-	(1,020)
Profit / (loss) before interest and tax ("EBIT")	174,485	(4,985)	169,500	2,929	(9,174)	(6,245)
Other financial income			2,927			2,662
Financial expenses			(14,940)			(15,573)
Profit / (loss) before income tax			157,487			(19,156)
Income tax expense			(404)			(239)
Profit / (loss) for the year			157,083			(19,395)
Reconciliation of EBIT to Earnings before interest, tax, depreciation and amortisation ("EBITDA")						
EBIT	174,485	(4,985)	169,500	2,929	(9,174)	(6,245)
Depreciation and amortisation	63,325	2,459	65,784	64,787	1,230	66,017
EBITDA	237,810	(2,526)	235,284	67,716	(7,944)	59,722
Included in EBITDA:						
Non-cash employee remuneration settled through share based payments comprising:						
Share based payments expense for the year	-	2,464	2,464	-	1,545	1,545
Other income	-	(1,155)	(1,155)	-	(961)	(961)
Other non-cash transactions	-	-	-	1,020	-	1,020
Adjusted EBITDA	237,810	(1,217)	236,593	68,736	(7,360)	61,376
Total assets	868,004	609,586	1,477,590	870,680	65,445	936,125
Total liabilities	(215,350)	(178,820)	(394,170)	(257,957)	(159,787)	(417,744)

⁽¹⁾ Other general and administration expenses include statutory, consulting, insurance, IT, marketing and general office costs.

⁽²⁾ Other income in FY20 relates to Jobkeeper support to Mt Weld for the period April 2020 – June 2020, as well as other support measures in Malaysia. Other income in FY21 relates to grants received for submissions for engineering work performed in relation to a Heavy Rare Earths facility in the U.S. A small additional amount related to the extinguishment of lease liabilities.

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

A.2 Financial income and expenses

In A\$'000	For the year ended 30 June	
	2021	2020
Interest income on cash and cash equivalents	2,927	2,662
Total financial income	2,927	2,662
<i>Interest expense on financial liabilities:</i>		
Interest expense on JARE loan facility	(5,400)	(6,031)
Interest expense on convertible bond facility	(34)	(405)
Unwinding of effective interest on convertible bond facility	(134)	(1,501)
Unwinding of effective interest on JARE loan facility	(6,146)	(6,449)
Non-cash adjustment to financial liabilities	995	413
Interest capitalised to qualifying assets	751	-
Unwinding of discount on restoration and rehabilitation provision	(4,340)	(3,189)
Interest expense on lease liabilities	(96)	(232)
Discount unwinding on AELB deposit	386	270
Financing transaction costs and fees	(610)	(604)
Unrealised foreign exchange (loss) / gain on intercompany balance	(312)	2,155
Total financial expenses	(14,940)	(15,573)
Net financial expenses	(12,013)	(12,911)

A.3 Earnings / (loss) per share

Recognition and measurement

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

Diluted earnings / (loss) per share adjusts the amount used in the determination of the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share from continuing operations.

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

In A\$'000	As at 30 June	
	2021	2020
Net earnings / (loss) attributed to ordinary shareholders	158,096	(19,395)
Earnings / (loss) used in calculating basic earnings per share	158,096	(19,395)
Net earnings impact of assumed conversions of diluted EPS	-	-
Earnings / (loss) used in calculating diluted earnings per share	158,096	(19,395)
Number of ordinary shares on issue ('000)	901,079	699,209
Weighted average number of ordinary shares used in calculating basic earnings per share ('000)	868,750	694,085
Weighted average number of ordinary shares used in calculating diluted earnings per share ('000)	873,197	714,749
Basic earnings per share (cents per share)	18.08	(2.79)
Diluted earnings per share (cents per share)	17.99	(2.79)

The following dilutive shares are included in the share base for the calculation of dilutive earnings per share:

Number (000's)	As at 30 June	
	2021	2020
Performance rights	4,335	4,462
Unlisted convertible bonds (Conversion price: \$1.00 at a set exchange rate of A\$1.00 = US\$0.75)	-	16,203
Total	4,335	20,665

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

A.4 Income taxes

A.4.1 Income tax expense

In A\$'000	For the year ended 30 June	
	2021	2020
Current tax		
Current tax expense in respect of the current year	404	239
Adjustments recognised in the current year in relation to the current tax in prior years	-	-
	404	239
Deferred tax		
Deferred tax expense recognised in the year	-	-
Total income tax expense relating to the continuing operations	404	239

A.4.2 Reconciliation of income tax to tax expense

In A\$'000	For the year ended 30 June	
	2021	2020
Profit / (loss) before tax for continuing operations	157,487	(19,156)
Income tax expense / (benefit) calculated at 30% (2020: 30%)	47,246	(5,747)
Add / (deduct):		
Effect of expenses that are not deductible and income that is not assessable in determining taxable profit	(1,409)	904
Effect of foreign exchange gains and losses	-	(1,200)
Deferred tax relating to the origination of and reversal of temporary differences	-	999
Effect of difference in tax rate in subsidiaries and branches	(111)	(66)
Effect of current year losses not recognised	647	2,140
Tax effect of prior period losses previously unrecognised, recognised in the current year	(45,930)	-
Other adjustments	(39)	3,209
Total current year income tax expense	404	239

A.4.3 Movements in deferred tax balances

In A\$'000	Balance at 30 June 2020	Recognised in profit or loss	Relating to equity	Recognised in OCI	Balance at 30 June 2021
Temporary differences					
Inventory	(839)	(55)	-	-	(894)
Development expenditure	(18,846)	495	-	-	(18,351)
Property plant and equipment	2,244	1,020	-	-	3,264
Borrowings	13,483	(3,030)	-	-	10,453
Trade payables	109	17	-	-	126
Business related costs	224	(77)	3,437	-	3,584
Lease liabilities	727	(311)	-	-	416
Provisions	14,415	431	-	-	14,846
	11,517	(1,510)	3,437	-	13,444
(Unrecognised) / recognised deferred tax assets	(11,517)	1,510	(3,437)	-	(13,444)
Net deferred tax asset / (liability) recognised	-	-	-	-	-

In A\$'000	Balance at 30 June 2019	Recognised in profit or loss	Recognised in equity	Recognised in OCI	Balance at 30 June 2020
Temporary differences					
Inventory	(872)	33	-	-	(839)
Development expenditure	(14,176)	(4,670)	-	-	(18,846)
Property plant and equipment	2,313	(69)	-	-	2,244
Borrowings	11,476	2,007	-	-	13,483
Trade payables	118	(9)	-	-	109
Business related costs	-	224	-	-	224
Lease liabilities	-	727	-	-	727
Provisions	12,488	1,927	-	-	14,415
	11,347	170	-	-	11,517
(Unrecognised) / recognised deferred tax assets	(11,347)	(170)	-	-	(11,517)
Net deferred tax asset / (liability) recognised	-	-	-	-	-

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

A.4.4 Unrecognised deferred tax assets

In A\$'000	As at 30 June	
	2021	2020
Deductible temporary differences and unused tax losses for which no deferred tax assets have been recognised are attributable to the following:		
<u>Gross revenue losses</u>		
Australia	99,083	136,049
Malaysia	160,370	172,422
United States	1,919	-
Malawi	458	221
<u>Gross capital losses</u>		
Australia	2,145	2,145
<u>Capital allowances</u>		
Malaysia	64,881	269,250
Deductible temporary differences (tax effected)	13,444	11,517

Recognition and measurement

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income as a component of the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised with the associated items on a net basis. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method of providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future and the Group is in a position to control the timing of the reversal of the temporary differences. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time the liability to pay the related dividend is recognised. Deferred income tax assets and liabilities in the same jurisdiction are offset in the statement of financial position only to the extent that there is a legally enforceable right to offset current tax assets and current tax liabilities and the deferred balances relate to taxes levied by the same taxing authority and are expected either to be settled on a net basis or realised simultaneously.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Lynas Rare Earths Limited. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Entities within the tax-consolidated group have entered into a tax sharing agreement with the Company. The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the Company default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

Key estimates and judgements

Recognition of deferred tax assets

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. In making the assessment, the Group has given specific due consideration to:

- The pioneer period status (tax holiday) in relation to the Malaysian operations through to 2026, subject to renewal in 2019. This renewal continues to be pending approval at the date of this report, however Lynas believes it is highly probable it will be renewed. Whilst the formal renewal is pending, Lynas has offset taxable profits in Malaysia against its carry forward losses as follows:
 - Tax losses generated during this period will be utilised prior to the tax exemption being applied, with any unused losses available for utilisation by the Group once the pioneer period expires.
 - Tax losses generated prior to the pioneer period will remain available for use offsetting non-pioneer profits during the pioneer period for a period of 7 years after incurring the loss. At 30 June 2021, losses in Malaysia consist of AUD65m (MYR 202m) in capital allowances and AUD160m (MYR 498m) in business losses. There is uncertainty if these losses will be utilised as they will have expired at the conclusion of the pioneer period under the 7 year carry forward period.
- Despite utilisation of \$37m of tax losses in Australia in FY21, there remains ongoing uncertainty in relation to the probability and quantum of Australian taxable profits for the Group. Key uncertainty relates to:
 - The ongoing impact of COVID-19 in the market and locations that Lynas operates and sells to.
 - The investment and construction of the Lynas Kalgoorlie project, and its impact on sales out of Australia during commissioning in FY23 and full operations from FY24 onward.
 - The volatility of the Rare Earth prices

Based on these factors, the Group has not recognised a deferred tax asset in excess of the deferred tax liability at 30 June 2021. The potential deferred tax asset related to revenue losses and deductible temporary difference not brought to account is \$97.9m.

Notes to Consolidated Financial Statements
For the year ended 30 June 2021

B. Production and Exploration Assets

This section includes information about the recognition, measurement, depreciation, amortisation and impairment considerations of the core producing and exploration assets of the Group.

B.1 Property, plant and equipment and mine development

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (if any).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of property, plant and equipment acquired in a business combination is determined by reference to its fair value at the date of acquisition. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the cost of that equipment.

Assets under construction

Assets under construction are transferred to the appropriate asset category when they are ready for their intended use.

Borrowing cost

Borrowing costs directly attributable to the acquisition or construction of an item of property, plant and equipment are capitalised until such time as the assets are substantially ready for their intended use. The interest rate used equates to the weighted effective interest on debt where general borrowings are used or the relevant interest rate where specific borrowings are used to finance the construction. During FY21, a capitalisation rate of 6.7% was applied.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as a component of the profit or loss as incurred.

Depreciation

Depreciation is recognised in the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) using a method that reflects the pattern in which the economic benefits embodied within the asset are consumed. Generally, this is on a straight-line basis over the estimated useful life of each part or component of an item of property, plant and equipment.

The estimated useful lives for the material classes of property, plant and equipment are as follows:

Leasehold land	30 to 99 years	Buildings	5 to 30 years
Plant and equipment	2 to 30 years	Fixtures and fittings	2 to 15 years
Leasehold improvements	3 to 30 years	Motor vehicles	8 years
Rehabilitation assets	20 to 30 years		

Depreciation methods, useful lives and residual values are reassessed on an annual basis.

Gains and losses on the disposal of items of property, plant and equipment are determined by comparing the proceeds (if any) at the time of disposal with the net carrying amount of the asset.

Development expenditure

Once an area of interest has been established as commercially viable and technically feasible, expenditure other than that relating to land, buildings and plant and equipment is capitalised as development expenditure. Development expenditure includes previously capitalised exploration and evaluation expenditure, pre-production development expenditure and other subsurface expenditure pertaining to that area of interest. Costs related to surface plant and equipment and any associated land and buildings are accounted for as property, plant and equipment.

Development costs are accumulated in respect of each separate area of interest. Costs associated with commissioning new assets in the period before they are capable of operating in the manner intended by management, are capitalised. Development costs incurred after the commencement of production are capitalised to the extent they are expected to give rise to a future economic benefit.

When an area of interest is abandoned or the Directors decide that it is not commercially viable or technically feasible, any accumulated costs in respect of that area are written off in full in the statement of comprehensive income as a component of the profit or loss in the period in which the decision to abandon the area is made to the extent that they will not be recoverable in the future.

Development assets are assessed for impairment if the facts and circumstance suggest that the carrying amount exceed the recoverable amount. For the purpose of impairment testing, development assets are allocated to the cash-generating units ("CGUs") to which the development activity relates.

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

B.1 Property, plant and equipment and mine development (cont'd)

Deferred stripping

Overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. This activity is referred to as development or pre-production stripping. The directly attributable costs associated with these activities are capitalised as a component of development costs. Capitalisation of development stripping ceases and amortisation of those capitalised costs commences upon extraction of ore. Amortisation of capitalised development stripping costs occurs on a unit of production basis with reference to the life of mine of the relevant area of interest.

Removal of waste material normally continues through the life of a mine. This activity is referred to as production stripping and commences upon the extraction of ore.

Amortisation of development

Amortisation of development is recognised either in the statement of comprehensive income as a component of the profit or loss or capitalised as a component of inventory in the statement of financial position (which is subsequently released to the profit or loss through the cost of goods sold on the sale of the underlying product) on a units of production basis which aims to recognise cost proportionally to the depletion of the economically recoverable mineral resources. Costs are amortised from the commencement of commercial production.

Key estimates and judgements

Development Expenditure

Development activities commence after project sanctioning by the appropriate level of management and the Board. Judgement is applied by management in determining when a project is economically viable. In exercising this judgement, management is required to make certain estimates and assumptions as described above for capitalised development expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the statement of comprehensive income.

Stripping Asset

As with many mining operations similar to Mt Weld, overburden and other mine waste materials are often removed during the initial development of a mine in order to access the mineral deposit. The extraction of the ore body itself will also include a waste component extracted during the mining campaign. The costs of extraction of both these elements form the stripping costs. Judgement is required to identify a suitable allocation basis to apportion the stripping costs between inventory and any stripping assets for each component.

The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the ore body, to be the most suitable production measure. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity.

Pre-Production Stripping

The Group has determined that the overburden removal where no ore is recovered forms part of a pre-production stripping asset and has been determined to provide more accessibility to the total ore body and is amortised on this basis.

Production Stripping ratio

The Group has adopted a policy of deferring production stage stripping costs and amortising them on a units-of-production basis. Judgement is required in determining the contained ore units for each mining campaign.

Estimation of mineral reserves and resources – refer to Note B.2

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

B.1 Property, plant and equipment and mine development (cont'd)

In A\$'000	Property, Plant and Equipment								Development Expenditure		
	Leasehold land	Buildings plant and equipment	Fixtures and fittings	Right of Use Assets	Assets under construction	Rehabilitation asset	Leasehold improvements	Total	Development expenditure	Pre-production /Stripping asset	Total
As at 30 June 2021											
Cost	28,069	881,322	7,140	3,291	50,886	174,194	19,825	1,164,727	24,889	18,358	43,247
Accumulated impairment losses	-	(182,776)	(377)	-	(236)	-	(7,189)	(190,578)	(3,436)	-	(3,436)
Accumulated depreciation	(3,702)	(332,107)	(6,038)	(1,657)	-	(18,235)	(5,113)	(366,852)	(6,413)	(5,051)	(11,464)
Carrying amount	24,367	366,439	725	1,634	50,650	155,959	7,523	607,297	15,040	13,307	28,347
Opening cost	29,705	920,798	7,267	4,873	8,123	186,125	20,977	1,177,868	25,050	18,358	43,408
Opening accumulated impairment and depreciation	(3,617)	(487,034)	(6,059)	(2,603)	(258)	(12,825)	(12,382)	(524,778)	(9,716)	(4,874)	(14,590)
Opening carrying amount	26,088	433,764	1,208	2,270	7,865	173,300	8,595	653,090	15,334	13,484	28,818
Additions	-	2,422	87	1,235	42,279	-	-	46,023	172	-	172
Disposals	-	-	-	-	-	-	-	-	-	-	-
Depreciation expense	(289)	(51,846)	(538)	(1,825)	-	(5,962)	(609)	(61,069)	-	-	-
Amortisation expense	-	-	-	-	-	-	-	-	(466)	(177)	(643)
Change in rehabilitation obligations	-	-	-	-	-	(3,689)	-	(3,689)	-	-	-
Capitalised interest	-	-	-	-	751	-	-	751	-	-	-
Foreign currency translation	(1,432)	(17,901)	(32)	(46)	(245)	(7,690)	(463)	(27,809)	-	-	-
Carrying amount at 30 June 2021	24,367	366,439	725	1,634	50,650	155,959	7,523	607,297	15,040	13,307	28,347

Restrictions on the title of property plant and equipment and development assets are outlined in Note C.3.

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements
For the year ended 30 June 2021

B.1 Property, plant and equipment and mine development (cont'd)

In A\$'000	Property, Plant and Equipment								Development Expenditure		
	Leasehold land	Buildings plant and equipment	Fixtures and fittings	Right of Use Assets	Assets under construction	Rehabilitation asset	Leasehold improvements	Total	Development expenditure	Pre-production /Stripping asset	Total
As at 30 June 2020											
Cost	29,705	920,798	7,267	4,873	8,123	186,125	20,977	1,177,868	25,050	18,358	43,408
Accumulated impairment losses	-	(193,463)	(401)	-	(258)	-	(7,608)	(201,730)	(3,725)	-	(3,725)
Accumulated depreciation	(3,617)	(293,571)	(5,658)	(2,603)	-	(12,825)	(4,774)	(323,048)	(5,991)	(4,874)	(10,865)
Carrying amount	26,088	433,764	1,208	2,270	7,865	173,300	8,595	653,090	15,334	13,484	28,818
Opening cost	30,245	903,749	7,460	-	6,105	105,120	21,301	1,073,980	39,759	18,078	57,837
Opening accumulated impairment and depreciation	(4,190)	(416,811)	(5,894)	-	(253)	(8,432)	(11,938)	(447,518)	(24,139)	(767)	(24,906)
Opening carrying amount	26,055	486,938	1,566	-	5,852	96,688	9,363	626,462	15,620	17,311	32,931
Additions	-	5,678	134	119	7,252	-	79	13,262	202	280	482
Additions arising from implementation of AASB 16	-	-	-	4,766	-	-	-	4,766	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-	-
Depreciation expense	(395)	(58,580)	(542)	(2,621)	-	(3,875)	(744)	(66,757)	(310)	(4,107)	(4,417)
Amortisation expense	-	-	-	-	-	-	-	-	-	-	-
Transfers of assets under construction	-	4,819	48	-	(4,884)	-	17	-	-	-	-
Change in rehabilitation obligations	-	-	-	-	-	83,295	-	83,295	-	-	-
Asset write offs	-	(778)	-	-	-	-	-	(778)	(178)	-	(178)
Foreign currency translation	428	(4,313)	2	6	(355)	(2,808)	(120)	(7,160)	-	-	-
Carrying amount at 30 June 2020	26,088	433,764	1,208	2,270	7,865	173,300	8,595	653,090	15,334	13,484	28,818

Restrictions on the title of property plant and equipment and development assets are outlined in Note C.3.

Notes to Consolidated Financial Statements
For the year ended 30 June 2021

B.2 Impairment of non-current assets

The carrying amounts of the Group's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. If any such indicators exist then the asset or CGU's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amounts are estimated at least annually and whenever there is an indication that they may be impaired.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income as a component of the profit or loss. Impairment losses recognised in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other non-financial assets in the CGU on a pro-rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In assessing the fair value less cost to sell, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. The methods used to determine fair value include a discounted future cash flows analysis and adjusted EBITDA (forecasted) multiplied by a relevant market indexed multiple.

In respect of assets other than goodwill, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's revised carrying amount will not exceed the carrying amount that would have been determined net of depreciation or amortisation if no impairment loss had been recognised.

Recognised impairment

There was no impairment expense recognised during FY21 (FY20: nil). There was no reversal of prior period impairment loss recognised in FY21 (FY20: Nil).

Key estimates and judgements

Reserve estimates and mine life

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining tenements. In order to calculate reserves, estimates and assumptions are required to be formulated about a range of geological, technical and economic factors including quantities, grades, production techniques, recovery rates, production costs, transportation costs, refining costs, commodity demand, commodity prices and exchange rates. Estimating the quantity and/or grade of reserves requires the size, shape and depth of the ore bodies or field to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgement and calculation to interpret the data.

As the economic assumptions used to estimate reserves change from period to period, and because additional geological data is generated during the course of operations, estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including:

- asset carrying values may be affected due to changes in the estimated future cash flows; and
- depreciation and amortisation charges in the statement of comprehensive income may change as result of the change in the useful economic lives of assets.

Mineral resources and ore reserves are reported in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code").

Impairment of non-financial assets

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

In assessing recoverable value, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where applicable, the fair value less costs to sell calculation is based on a 25-year discounted cash flow (DCF) model. The cash flows are derived from the two-year budget and forecast model that is extrapolated over 25 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to product price movement, the discount rate used for the discounted cash flows model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Notes to Consolidated Financial Statements
For the year ended 30 June 2021

C. Cash, Borrowings and Capital

This section includes information about cash and cash equivalents, borrowings and capital position of the Company at the end of the reporting period.

C.1 Cash and cash equivalents

In A\$'000	As at 30 June	
	2021	2020
Cash at bank and on hand	580,827	101,731
Total cash and cash equivalents	580,827	101,731

Recognition and measurement

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with maturities of less than three months.

Fair value and foreign exchange risk

The carrying amount of cash and cash equivalents approximates their fair value.

The Group's cash and cash equivalents include A\$327.7m in currencies other than Australian dollars, primarily US\$163.8m (30 June 2020: US\$30.7m) and MYR 340.6m (30 June 2020: MYR 111.3m).

Reconciliation of the (loss) / profit for the year with the net cash from operating activities

In A\$'000	For the year ended 30 June	
	2021	2020
Profit / (loss) for the year	157,083	(19,395)
Adjustments for:		
Depreciation and amortisation	65,784	66,018
Employee remuneration settled through share-based payments	2,464	1,545
Net financial expenses	12,013	12,911
(Gain) / loss on disposal of property, plant and equipment and other non-cash transactions	(1,155)	1,151
Income tax expense	404	239
Foreign exchange gain included in profit / (loss) for the year	(8,717)	(4,093)
Change in trade and other receivables	(22,522)	5,678
Change in inventories	1,525	(10,456)
Change in operating trade and other payables	7,810	(7,112)
Change in provisions (excluding additional rehabilitation obligation)	376	501
Change in provisions (rehabilitation obligation)	-	(14,916)
Net cash from operating activities	215,065	32,071

C.2 Short term deposits

In A\$'000	As at 30 June	
	2021	2020
Short term deposits	100,000	-
Total short term deposits	100,000	-

Recognition and measurement

Short term deposits include deposits with a maturity between three and twelve months. These are held in fixed rate deposit facilities.

Notes to Consolidated Financial Statements
For the year ended 30 June 2021

C.3 Interest Bearing Liabilities

In A\$'000	As at 30 June	
	2021	2020
Current borrowings		
JARE loan facility ⁽¹⁾	20,073	16,371
Convertible bonds	-	17,777
Total current borrowings	20,073	34,148
Non-current borrowings		
JARE loan facility	151,049	164,851
Total non-current borrowings	151,049	164,851
Principal value of convertible bond facility	-	18,228
Unamortised equity component	-	(451)
Total convertible bond facility carrying amount	-	17,777

- (1) A payment of interest in respect of the period commencing on 1 January 2016 and ending on 31 December 2016 was deferred until October 2021 and is now classified as a current liability. Furthermore, in line with the repayment schedule below, payments of US\$2m is due on 31 Dec 2021 and 30 June 2022. These have also been classified as current liabilities at 30 June 2021.

Recognition and measurement

Interest bearing loans and borrowings

Subsequent to initial recognition interest bearing loans and borrowings are measured at amortised cost using the effective interest method.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, with the number of shares to be issued being fixed.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar financial liability that does not have the equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the financial liability component. Any directly attributable transaction costs are then allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to the initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognised in the statement of comprehensive income as a component of the profit or loss. On conversion the financial liability is reclassified to equity and no gain or loss is recognised in the statement of comprehensive income.

Key estimates and judgements

Interest bearing loans and borrowings are measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the amortised cost of the liability. The Group has applied judgement and determined the appropriate rate for a similar instrument to be 6.5% (FY20: 6.5%). When the Group revises the estimates of future cash flows, the carrying amount of the financial liability is adjusted to reflect the new estimate discounted using the original effective rate. Any changes are recognised in the profit or loss.

Fair value and foreign exchange risk

The fair value of borrowings, which have been determined for disclosure purposes, is calculated by discounting the future contractual cash flows at the current market interest rates that are available for similar financial instruments. The fair value methodology adopted was categorised as Level 3 in the fair value hierarchy. There has been no change to the valuation technique during the year. These have been determined as follows:

	As at 30 June 2021		As at 30 June 2020	
	Carrying amount (AUD '000)	Fair value* (AUD '000)	Carrying amount (AUD '000)	Fair value* (AUD '000)
JARE loan facility	171,122	171,122	181,222	181,222
Convertible bond facility	-	-	17,777	17,777
	171,122	171,122	198,999	198,999

* It is estimated that the carrying value of the JARE loan facility and convertible bond facility approximate fair value.

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

Terms and debt maturity schedule

	Currency	Nominal interest rate	Date of maturity	As at 30 June 2021		As at 30 June 2020	
				Face value (USD '000)	Carrying amount (AUD '000)	Face value (USD '000)	Carrying amount (AUD '000)
JARE loan facility	USD	2.5%	June 2030	156,505 ⁽¹⁾	171,122	156,505 ⁽¹⁾	181,222
Convertible bond facility	USD	1.875%	Sept 2020	-	-	12,476	17,777
				156,505	171,122	168,981	198,999

⁽¹⁾ The face value of the JARE loan facility includes US\$145.0m in principal and US\$11.5m in interest deferred until October 2021.

Reconciliation of liabilities arising from financing activities

	30 June 2020	Cash flows	Non-Cash Movements					30 June 2021
	Opening Balance	Proceeds / (Repayments)	Effective Interest	Foreign Exchange	Adjustment ⁽¹⁾	Other ⁽²⁾	Reclass	Closing Balance
JARE loan facility (Current)	16,371	-	-	(103)	-	-	3,805	20,073
JARE loan facility (Non-Current)	164,851	-	6,145	(15,147)	(995)	-	(3,805)	151,049
Convertible bond facility (Current)	17,777	-	134	(1,193)	-	(16,718)	-	-
Lease liability	2,960	(1,844)	96	(377)	-	1,235	-	2,070
Total	201,959	(1,844)	6,375	(16,820)	(995)	(15,483)	-	173,192

	30 June 2019	Cash flows	Non-Cash Movements					30 June 2020
	Opening Balance	Proceeds / (Repayments)	Effective Interest	Foreign Exchange	Adjustment ⁽¹⁾	Other ⁽²⁾	Reclass	Closing Balance
JARE loan facility (Current)	29,308	-	-	-	-	-	(12,937)	16,371
JARE loan facility (Non-Current)	142,562	-	6,449	3,316	(413)	-	12,937	164,851
Convertible bond facility (Current)	-	-	-	-	-	-	17,777	17,777
Convertible bond facility (Non-Current)	18,062	-	1,501	329	-	(2,115)	(17,777)	-
Lease liability	597	(2,602)	80	-	-	4,885	-	2,960
Total	190,529	(2,602)	8,030	3,645	(413)	2,770	-	201,959

⁽¹⁾ Adjustments to the carrying values of the JARE loan during the year ended 30 June 2020 and 2021 relate to changes in the cash flow profile used to measure the carrying value of the loan.

⁽²⁾ Other non-cash movements in the convertible bond facility relates to conversions of the convertible bonds

Other non-cash movements in the lease liability during the year ended 30 June 2020 and 2021 related to finance leases recognised in line with AASB 16.

C.4 Financing Facilities

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

An extension of the JARE loan facility was announced on 27 June 2019. As part of this extension, new terms were agreed to as detailed below.

The maturity date of the JARE loan facility is 30 June 2030. The interest rate on this facility is 2.5% p.a. at 30 June 2021 (30 June 2020: 2.5% p.a.). Conditions linking the interest rate to the NdPr sales price in the previous facility have been removed.

Interest liabilities will be paid directly to the lenders at 31 December and 30 June each year. The payment of interest in respect of the period commencing on 1 January 2016 and ending on 31 December 2016 is deferred to October 31, 2021 (with no penalty, and no additional interest).

There are a series of fixed repayments in the facility which have replaced the "Cash Sweep" mechanism in the former facility. The details of the fixed repayments are as follows:

Repayment date	Amount
Each half-year from 31 Dec 2021 to 31 Dec 2023	US\$2m on each date
30 June 2024	US\$5m
Each half-year from 31 Dec 2024 to 31 Dec 2027	US\$10m on each date
Each half-year from 30 June 2028 to 30 June 2030	US\$12m on each date

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Japan will have the following priority supply rights until 2038:

1. Any fundraising will not hinder Lynas' ability to support Japanese industries diversifying their rare earths supply sources, in accordance with the Availability Agreement announced on 30 March 2011.
2. Lynas shall ensure that in the event of competing demands from the Japanese market and a non-Japanese market for the supply by the Borrower or Lynas Malaysia for NdPr produced from the Lynas Malaysia plant, the Japanese market shall have priority of supply up to 7,200 tonnes per year subject to the terms of the Availability Agreement and to the extent that Lynas will not have any opportunity loss.
3. JARE has rights of negotiation with Lynas in priority to non-Japanese market customers for the priority supply to the Japanese market of additional NdPr and Nd products produced by the Lynas 2025 Project.
4. Lynas will continue to prioritize the needs of Japanese customers for the supply of Heavy Rare Earths products produced, to the extent possible under any agreement with the U.S.

To date, the JARE loan facility has been secured over all of the assets of the Group, other than the Malawi and Malaysia assets.

Convertible bonds

As at 30 June 2021, the Company had no outstanding convertible bonds on issue. During the year, US\$12.2m convertible bonds were converted into shares. The average conversion price paid upon conversion of convertible bonds during the year was \$1 per share, with a conversion exchange rate of AUD 1.00 = US\$0.750. The number of ordinary shares into which the US\$12.2m of bonds were converted during the year was 16.2m shares.

C.5 Contributed Equity

	As at 30 June			
	2021	2020		
	Number of shares '000	A\$'000	Number of shares '000	A\$'000
Balance at the beginning of the year	699,209	1,424,847	667,802	1,398,264
Issue of shares pursuant to conversion of convertible bonds	16,203	20,884	2,000	2,668
Issue of shares pursuant to exercised performance rights	744	-	6,151	-
Issue of shares pursuant to exercised warrants	-	-	23,256	23,915
Issue of shares pursuant to equity raising	184,923	425,324	-	-
Costs related to issue of shares	-	(11,458)	-	-
Closing balance	901,079	1,859,597	699,209	1,424,847

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

Recognition and measurement

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where equity instruments are reacquired by the Group, for example, as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the statement of comprehensive income and the consideration paid including any directly attributable incremental costs (net of income taxes) is directly recognised in equity.

C.6 Reserves

In A\$'000	As at 30 June	
	2021	2020
Equity settled employee benefits	54,172	51,708
Foreign currency translation	(136,521)	(111,771)
Warrant reserve	21,765	21,765
Equity component of convertible bond	-	4,509
Balance at 30 June	(60,584)	(33,789)

Nature and Purpose

The equity settled employee benefits reserve relates to performance rights granted by the Group to its employees under the employee share option plan. Further information about share-based payments to employees is set out in Note E.7.

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve.

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Warrant reserve includes options issued as part of rights issues.

The equity component of convertible bond reserve represents the equity component of the US\$225.0m unsecured convertible bond facility issued in 2012 and amended in 2016, net of the associated deferred tax. This has reduced to nil in line with the final conversion of bonds during the year.

Key Financial and capital risks associated with cash, debt and capital

Exposure to market, credit and liquidity risks arise in the normal course of the Group's business. The Directors and management of the Group have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Directors have established a treasury policy that identifies risks faced by the Group and sets out policies and procedures to mitigate those risks. Monthly consolidated financial reports are prepared for the Directors, who ensure compliance with the Group's risk management policies and procedures.

Capital risk management

The Directors are responsible for monitoring and managing the Group's capital structure.

The Directors' policy is to maintain an acceptable capital base to promote the confidence of the Group's financiers and creditors and to sustain the future development of the business. The Directors monitor the Group's financial position to ensure that it complies at all times with its financial and other covenants as set out in its financing arrangements.

In order to maintain or adjust the capital structure, the Directors may elect to take a number of measures including, for example, to dispose of assets or operating segments of the business, to alter its short to medium term plans in respect of capital projects and working capital levels, or to re-balance the level of equity and external debt in place.

Capital comprises share capital, external debt and reserves.

Liquidity risk management

Liquidity risk is the risk that the Group will not meet its contractual obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities as and when they fall due and comply with covenants under both normal and stressed conditions.

The Group evaluates its liquidity requirements on an on-going basis and ensures that it has sufficient cash on demand to meet expected operating expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Interest rate risk management

The Group's interest rate risk arises from long-term borrowings at both fixed and floating rates and deposits which earn interest at floating rates. Borrowings and deposits at floating rates expose the Group to cash flows interest rate risk. The Group's exposure to interest rate risk is shown below:

In A\$'000	30 June 2021 Exposure	Interest Rate Risk		30 June 2020 Exposure	Interest Rate Risk	
		0.5%	-0.5%		0.5%	-0.5%
		Impact on Profit and Equity			Impact on Profit and Equity	
Floating rate instruments						
Cash and cash equivalents	580,827	2,904	(2,904)	101,731	509	(509)
Other non-current assets	2,932	15	(15)	2,992	15	(15)
Convertible bond facility	-	-	-	(17,777)	-	-
Total	583,759	2,919	(2,919)	86,946	524	(524)

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Maturity analysis of financial liabilities

The table below sets out a maturity analysis for financial liabilities containing principal and interest flows. For loans outstanding, undiscounted cash flows are presented until contractual final maturity. Interest cash flows are projected based on the interest rates prevailing on the closing date.

In A\$'000	Carrying Amount	Contracted cash flows	Up to and including 6 months	Between 6 months and up to 1 year	Between 1 year and up to 5 years	Over 5 years
30 June 2021						
JARE loan facility	171,122	237,178	20,427	5,026	63,662	148,063
Lease liabilities	2,070	2,863	497	467	599	1,300
Total	173,192	240,041	20,924	5,493	64,261	149,363
30 June 2020						
Convertible bond facility	17,777	18,143	18,143	-	-	-
JARE loan facility	181,222	264,181	19,390	2,614	70,733	171,444
Lease liabilities	2,960	3,340	1,203	1,162	974	-
Total	201,959	285,664	38,736	3,776	71,707	171,444

Foreign exchange risk management

The Group's foreign exchange risks are detailed in the basis of preparation of these financial reports.

There are two elements of foreign exchange risk. Firstly, the Group holds cash, trade receivables and trade payables currencies other than the functional currency of the Company in which it is held. Movement in the prevailing exchange rates have an impact on the Group's profit and equity. Secondly, the Group's members are exposed to foreign exchange risk on the translation of its operations that are denominated in currencies other than AUD. The Group's net assets denominated in currencies other than the AUD which have the potential of impacting the other comprehensive income component of the statement of comprehensive income are:

In \$A'000's	Carrying Amount	Foreign Exchange Risk			
		-10%	10%		
		Profit	Equity	Profit	Equity
As at 30 June 2021					
Net exposure of US\$ financial assets	US\$ 188,280	18,828	-	(18,828)	-
Net exposure of A\$ financial assets	A\$ 1,674	167	-	(167)	-
Net asset exposure – MYR currency	MYR 494,723		(14,407)		17,608
Net asset exposure – US\$ currency	US\$ (1,971)		262		(262)
As at 30 June 2020					
Net exposure of US\$ financial assets	US\$ 46,181	4,618	-	(4,618)	-
Net exposure of A\$ financial assets	A\$ 815	82	-	(82)	-
Net asset exposure – MYR currency	MYR 241,314		(7,486)		9,128
Net asset exposure – US\$ currency	US\$ (57,869)		8,432		(8,432)

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D. Other Assets and Liabilities

This section includes information about the other assets and liabilities position at the end of the period.

D.1 Trade and Other Receivables

In A\$'000	As at 30 June	
	2021	2020
Trade receivables	21,729	1,876
GST / VAT receivables	853	1,606
Other receivables	1,308	1,898
Total current trade and other receivables	23,890	5,380

The Group's exposure to credit risk is primarily in its trade receivables. As at 30 June 2021 \$1.8m (2020: \$0.1m) of trade receivables were past due but not impaired. Of this amount, \$1.8m has been received subsequent to 30 June 2021. The Group is in regular contact with the remaining debtors and expects the remaining amounts will be collected in full.

At 30 June 2021, the Group had sales under contract amounting to A\$66.6m (US\$50.0m) subject to price adjustments. At the date of this report A\$21.8m (US\$16.3m) of this amount has been finalised with minimal price adjustments.

Recognition and measurement

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for instruments with maturities greater than 12 months from the reporting date, which are classified as non-current assets. The Group's receivables comprise trade and other receivables (including related party receivables) which are stated at their cost less impairment losses.

Fair Value and foreign exchange risk

Given the short-term nature of trade receivables, the carrying amount is a reasonable approximation of fair value.

All trade receivables are held in currencies other than the functional currency of the entity receiving them and therefore exposed to foreign exchange risk.

D.2 Inventories

In A\$'000	As at 30 June	
	2021	2020
Raw materials and consumables	25,123	25,796
Work in progress	37,662	37,181
Finished goods	4,537	14,623
Total inventories	67,322	77,600
Current inventories	62,888	68,132
Non-current inventories	4,434	9,468
Total inventories	67,322	77,600

During the year ended 30 June 2021 inventories of \$302.2m (2020: \$257.3m) were recognised as an expense. All of which were included in 'cost of sales'.

Depreciation recognised in inventories

The Group recognised depreciation on its property, plant and equipment and amortisation on its deferred development expenditure and intangible assets for the years ended 30 June 2021 and 2020 respectively in the following categories:

In A\$'000	Recognised in General and Administration Expense		Recognised in Inventory		Total	
	2021	2020	2021	2020	2021	2020
Property, plant and equipment	2,210	13,924	58,892	52,833	61,102	66,757
Deferred development expenditure	643	556	-	3,861	643	4,417
Intangibles	108	-	-	-	108	-
Total	2,961	14,480	58,892	56,694	61,853	71,174

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 \$62.8m in the year ended 30 June 2021 (2020: \$51.5m).

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Write downs of inventory

During the year ended 30 June 2021, there were no write-downs to net realisable value for some products. (2020: \$0.9m)

Recognition and measurement

Raw materials, work in progress and finished goods

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based either on the first in first out ("FIFO") or weighted average principles and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured or refined inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory expected to be sold or consumed within the next 12 months is classified as current, with amounts expected to be consumed or sold after this time being classified as non-current.

Engineering and maintenance materials

Engineering and maintenance materials (representing either critical or long order components but excluding rotatable spares) are measured at the lower of cost and net realisable value. The cost of these inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is determined with reference to the cost of replacement of such items in the ordinary course of business compared to the current market prices.

D.3 Other non-current assets

In A\$'000	As at 30 June	
	2021	2020
Security deposits – banking facilities and other, Malaysia	2,874	2,977
Security deposits – banking facilities and other, Australia	58	15
Security deposits – banking facilities and other, USA	1	-
Security deposits – AELB, Malaysia	8,208	5,480
Security deposits – AELB, Australia	51,919	56,675
	63,060	65,147

Deposits to the Malaysian Government's Atomic Energy Licensing Board ("AELB") form a component of a total US\$50.0m of instalments due in accordance with the conditions underlying the granting of the Full Operating Stage Licence to the Group for the Lynas Malaysia plant. The total amount deposited as security via a bond for the instalments is US\$39.0m (all of which is interest earning). A further US\$11.0m paid via cash directly to AELB is interest earning and has been discounted to a present value of \$4.8m (FY20: \$4.7m)

Recognition and measurement

Financial assets are classified, at initial recognition and subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables, the Group initially measures a financial asset at its fair value.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Financial assets at amortised cost

This category is the most relevant to the Group as all deposits in Note D.3 are classified this way. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade receivables, and security deposits included under other non-current financial assets

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D.4 Trade and Other Payables

In A\$'000	As at 30 June	
	2021	2020
Trade payables	11,077	13,180
Accrued expenses	16,485	9,761
Other payables	13,266	5,837
Total trade and other payables	40,828	28,778
Current	40,828	28,778
Non-current	-	-
Total trade and other payables	40,828	28,778

Recognition and measurement

Current trade and other payables are non-interest bearing and are normally settled on 30 to 60 day terms. Subsequent to initial recognition trade and other payables are stated at amortised cost using the effective interest method.

Given the short-term nature of trade payables, the carrying amount is a reasonable approximation of fair value.

D.5 Provisions and Employee benefits

In A\$'000	As at 30 June	
	2021	2020
Current		
Short term employee benefits	3,331	2,797
Restoration and rehabilitation ⁽¹⁾	40,874	26,142
Total current	44,205	28,939
Non-Current		
Long term employee benefits	696	599
Restoration and rehabilitation	133,392	155,462
Total non-current	134,088	156,061

⁽¹⁾ The current portion of the restoration and rehabilitation provision represents Lynas' best estimate of the present value of the outflows relating to the discharge of the rehabilitation obligation relating to residue disposal in Malaysia over the next 12 month period.

Recognition and measurement

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision for the passage of time is recognised as a financial expense in the statement of comprehensive income as a component of the profit or loss.

Short-term employee benefits

Short-term employee benefits are expected to be settled within one year and measured on an undiscounted basis and are expensed in the statement of comprehensive income as a component of the profit or loss as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus plans and outstanding annual leave balances if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

Long-term employee benefits

The liability for annual leave and long service leave for which settlement can be deferred beyond 12 months from the balance date is measured as the present value of expected future payments to be made in respect of services provided by employees. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Incentive compensation plans

The Group recognises a liability and associated expense for incentive compensation plans based on a formula that takes into consideration certain threshold targets and the associated measures of profitability. The Group recognises a provision when it is contractually obligated or when there is a past practice that has created a constructive obligation to its employees.

Restoration and Rehabilitation

The activities of the Group give rise to obligations for asset and site restoration and rehabilitation at the Lynas Malaysia plant and the Mount Weld concentration plant. The key areas of uncertainty in estimating the provisions for these obligations are set out below. Upon cessation

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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 most recently engaged a third party specialist to assist in estimating the restoration and rehabilitation provisions at Lynas Malaysia as at 30 June 2018 and Mt Weld as at 30 June 2020. The Group will continue to review the need to engage third party specialists periodically over time as the operations continue to develop.

The unwinding effect of discounting of the provision is recognised as a financial expense.

The mining/extraction and refining/processing activities of the Group give rise to obligations for asset and site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies using current restoration standards and techniques. Provisions for the cost of each rehabilitation programme are recognised at the time that the environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The value of the provision is progressively increased over time as the effect of discounting unwinds. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of rehabilitation activities for the Group's mining operations and refining operations are recognised as a component of property, plant and equipment. Amounts capitalised are depreciated or amortised accordingly.

At each reporting date the rehabilitation liability is re-measured to account for any new disturbance, updated cost estimates, changes to the estimated lives of the associated operations, new regulatory requirements and revisions to discount rates. Changes to the rehabilitation liability are added or deducted from the related rehabilitation asset and amortised accordingly.

In A\$'000	As at 30 June	
	2021	2020
Restoration and Rehabilitation		
Balance at the beginning of the year	181,604	111,145
Provisions made during the year	9,159	73,970
Provisions paid during the year	-	(14,916)
Changes to inflation and discounts rates	(12,848)	9,635
Effects of foreign exchange movement	(7,989)	(1,419)
Unwinding of discount on provision	4,340	3,189
Balance at 30 June	174,266	181,604

Key estimates and judgements

Restoration and rehabilitation expenditure

The Group's accounting policy for its restoration and rehabilitation closure provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination; and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting both the closure and rehabilitation asset and the provision.

Lynas Malaysia production residues

On January 30, 2020, the Group announced that The State Government of Pahang has issued its consent to a site for the Permanent Disposal Facility (PDF) for Water Leach Purification (WLP) residue. In addition Lynas Malaysia has appointed Gading Senggara Sdn Bhd ("GSSB") as the contractor to manage the entire PDF project. The total cost of this project will be MYR 400m (AUD 128.4m). The provision for restoration and rehabilitation has increased to reflect the present value of the obligation that exists at 30 June 2021. Those costs expected to be due within 12 months have been reflected as current. The unwinding effect of discounting of the provision is recognised as a finance cost.

Payments in relation to the discharge of rehabilitation liabilities are recognised in the Statement of Cash Flows as an operating cash outflow.

The Group has included its best estimate of the timing of these costs within the provision for restoration and rehabilitation at 30 June 2021.

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Key Financial risks associated with other assets and liabilities

Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and related entities. The Group's exposure to credit risk is primarily in its trade and other receivables and is influenced mainly by the individual characteristics of each customer. Demographically there are no material concentrations of credit risk. Cash and cash deposits are held in banks and financial institutions with A+ credit ratings.

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

E. Other Items

This section includes information on items which require disclosure to comply with Australian Accounting Standards and the Australian Corporations Act 2001. This section includes group structure information and other disclosures.

E.1 Contingent Liabilities

An amount of US\$39.0m (FY20: US\$39.0m) has been deposited via a bond for instalments required in accordance with the conditions underlying the granting of the Full Operating Stage Licence to the Group for the LAMP in Malaysia. Should criteria as part of this grant not continue to be met, this amount may be utilised to settle obligations. The Group has determined that the possibility of a material outflow related to these contingent liabilities is remote. Refer to Note D.3 for details of bonds.

Litigation and legal proceedings

As a result of its operations the Group has certain contingent liabilities related to certain litigation and legal proceedings. The Group has determined that the possibility of a material outflow related to these contingent liabilities is remote.

Security and guarantee arrangements

Certain members of the Group have entered into guarantee and security arrangements in respect of the Group's indebtedness as described in Note E.6.

E.2 Leases and other commitments

AASB 16 Leases

The accounting policies of the Group upon adoption of AASB 16 are as follows:

Right of Use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term (where the entity does not have a purchase option at the end of the lease term). Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Short term leases and low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption (i.e. below US\$5,000/A\$7,150). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term. No leases meeting the low-value criteria were recognised at 30 June 2020 or 30 June 2021.

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Exploration commitments

In A\$'000	As at 30 June	
	2021	2020
Less than one year	394	373
Between one and five years	1,638	1,533
More than five years	1,291	2,345
Total	3,323	4,251

These include commitments relating to tenement lease rentals and the minimum expenditure requirements of the Western Australia Department of Mines and Petroleum attaching to the tenements and are subject to re-negotiation upon expiry of the exploration leases or when application for a mining licence is made. These are necessary in order to maintain the tenements in which the Group and other parties are involved. All parties are committed to meet the conditions under which the tenements were granted in accordance with the relevant mining legislation.

Capital commitments

In A\$'000	As at 30 June	
	2021	2020
Less than one year	82,479	4,109
Total	82,479	4,109

At 30 June 2020, the capital commitments related to on-going capital project costs in Malaysia. At 30 June 2021 the capital commitments primarily related to the Lynas Kalgoorlie project

E.3 Auditor Remuneration

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

In \$A	For the year ended 30 June	
	2021	2020
Auditor's remuneration to Ernst & Young (Australia), comprising:		
Fees for auditing the statutory financial report of the parent covering the group	228,792	229,963
Fees for other services		
- Tax Services	5,725	4,100
- Other assurance and agreed upon procedures	58,650	-
- Advisory Services	67,088	-
Total auditor's remuneration Ernst & Young (Australia)	360,255	234,063
Auditor's remuneration to Ernst & Young (other locations), comprising:		
Fees for auditing the financial report of any controlled entities	136,548	133,722
Fees for other services		
- Tax Services	20,480	16,300
Total auditor's remuneration Ernst & Young (other locations)	157,028	150,022
Total auditor's remuneration	517,283	384,085

Other tax service fees paid to EY Australia and other locations in FY21 and FY20 relate to completion of tax returns for expatriate employees. Other assurance, agreed upon procedures and advisory services paid to EY Australia relate to due diligence and review work in relation to the capital raising that took place in August 2020.

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

E.4 Subsidiaries

Name of Group entity	Principal activity	Country of incorporation	Ownership interest as at 30 June	
			2021	2020
Lynas Malaysia Sdn Bhd	Operation and development of advanced material processing plant	Malaysia	100%	100%
Lynas Services Pty Ltd*	Provision of corporate services	Australia	100%	100%
Mount Weld Holdings Pty Ltd*	Holding company	Australia	100%	100%
Mount Weld Mining Pty Ltd*	Development of mining areas of interest and operation of concentration plant	Australia	100%	100%
Lynas Kalgoorlie Pty Ltd*	Development of operations in Kalgoorlie	Australia	100%	100%
Lynas Africa Holdings Pty Ltd*	Holding company	Australia	100%	100%
Lynas Africa Ltd	Mineral exploration	Malawi	100%	100%
Lynas USA LLC	Development of processing opportunities in USA	USA	100%	100%

* Entity has entered into a deed of cross guarantee with Lynas Rare Earths Limited pursuant to ASIC Instrument 2016/785 and is relieved from the requirement to prepare and lodge an audited financial report, as discussed in Note E.6. Entity is also a member of the tax-consolidated group.

E.5 Parent Entity Information

In A\$'000	As at 30 June	
	2021	2020
Current assets	139,729	31,055
Total assets	1,223,788	933,333
Current liabilities	(21,486)	(18,378)
Total liabilities	(172,895)	(201,006)
Net assets	1,050,893	732,327
Share capital	1,859,598	1,424,847
Accumulated deficit	(1,119,822)	(1,115,948)
Reserves	311,117	423,428
Total shareholders' equity	1,050,893	732,327
Loss of the Company	(3,874)	(11,014)
Total comprehensive loss of the parent Company	(3,874)	(11,014)

E.6 Entities under a Deed of Cross Guarantee

Pursuant to ASIC Instrument 2016/785 (as amended) dated August 13, 1998, the wholly-owned Australian subsidiaries of Lynas Rare Earths Limited are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Director's reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up event occurs under any other provision of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound-up. The subsidiaries in addition to the Company subject to the deed are specified in Note E.4.

A statement of comprehensive income and statement of financial position, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee is presented as follows:

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Notes to Consolidated Financial Statements For the year ended 30 June 2021

Statement of Financial Position

In A\$'000	As at 30 June	
	2021	2020
Cash and cash equivalents	290,114	103,390
Short term deposits	100,000	-
Trade and other receivables	507,789	397,305
Inventories	21,448	16,100
Total current assets	919,351	516,795
Inventories	4,434	8,932
Property, plant and equipment	151,173	123,824
Deferred exploration, evaluation and development expenditure	28,347	28,818
Investments in subsidiaries	375,080	375,080
Other assets	51,977	16
Total non-current assets	611,011	536,670
Total assets	1,530,362	1,053,465
Trade and other payables	12,435	6,923
Interest payable	1,773	-
Borrowings	20,073	34,148
Employee benefits	2,846	3,075
Intercompany payables	275,761	217,284
Total current liabilities	312,888	261,430
Provisions	45,775	46,154
Employee benefits	1,114	1,408
Borrowings	151,049	164,851
Total non-current liabilities	197,937	212,413
Total liabilities	510,825	473,843
Net assets	1,019,537	579,622
Share capital	1,859,597	1,424,847
Accumulated deficit	(1,006,439)	(1,034,473)
Reserves	166,379	189,248
Total equity	1,019,537	579,622

Statement of comprehensive income

Revenue	132,537	90,256
Cost of sales	(81,657)	(71,290)
Gross profit	50,880	18,966
Other income	68	589
General and administration expenses net of recoveries	(12,628)	(18,725)
Profit from operating activities	38,320	830
Financial income	1,249	1,691
Financial expenses	(11,534)	(14,712)
Net financial expenses	(10,285)	(13,021)
Profit / (loss) before income tax	28,035	(12,191)
Income tax expense	(1)	(6)
Profit / (loss) for the year from continuing operations	28,034	(12,197)
Other comprehensive loss, net of income tax		
Exchange differences on foreign currency transactions	9,196	(325)
Total other comprehensive income / (loss) for the year, net of income tax	9,196	(325)
Total comprehensive income / (loss) for the year	37,230	(12,522)

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

E.7 Employee costs and share based payments

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

In A\$'000	For the year ended 30 June	
	2021	2020
Wages and salaries	45,790	42,389
Superannuation and pension contributions	3,715	3,808
Employee remuneration settled through share-based payments	2,464	1,545
Other	1,051	884
Total employee costs	53,020	48,626

Share-based remuneration benefits are provided to employees via a variety of schemes which are further set out below.

The fair values of the performance rights granted under these various schemes are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the performance rights. The fair value at grant date is independently determined using a performance right pricing model that takes into account the exercise price, the term of the performance right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the performance right.

The fair value of the performance right granted is measured to reflect the expected market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and production targets). Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to become exercisable. At the end of each reporting period, the Group revises its estimates of the number of performance rights that are expected to become exercisable. The employee benefits expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income as a component of profit or loss, with a corresponding adjustment to equity.

Key management personnel compensation

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

In A\$	For the year ended 30 June	
	2021	2020
Short-term employee benefits	5,312,122	5,859,449
Long-term employee benefits	96,834	41,538
Post-employment benefits	240,278	313,091
Share based payments	1,692,416	1,032,611
Total compensation paid to key management personnel	7,341,650	7,246,689

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

The share-based payments amount represents the impact of amortising the accounting value of options and performance rights over their vesting periods including the impact of forfeitures recognised during the period. At times, a negative value may be presented which results from the forfeitures recognised in the period (which may relate also to earlier periods) are greater than the accounting expense for the current portion of the vesting period.

Employee share options and performance rights

The Group has established an employee share plan whereby, at the discretion of Directors, 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 performance rights are granted in accordance with performance guidelines established by the Nomination, Remuneration and Community Committee. Other than short term incentives and Strategic Performance Rights, each 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 performance rights hold no voting or dividend rights and are not transferrable.

Performance rights are granted for the benefit of Key Management Personnel ("KMP") and other selected employees to provide greater alignment to our strategic business objectives. KMP are those people who have authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Executive Director of the Group and the Executives. At year end, the Executives include the Chief Executive Officer, the Chief Financial Officer, the Group's General Counsel & Company Secretary, Vice President - Upstream, Vice President - Downstream, Vice President - Malaysia

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Notes to Consolidated Financial Statements For the year ended 30 June 2021

Movements in employee performance rights during the year

	For the year ended 30 June 2021		For the year ended 30 June 2020	
	No. of performance rights ('000)	Weighted average exercise price (\$)	No. of performance rights ('000)	Weighted average exercise price (\$)
Balance at beginning of year	4,461,537	0.00	9,044,069	0.00
Granted during the year	1,408,092	0.00	1,873,707	0.00
Expired during the year	-	0.00	-	0.00
Exercised during the year	(743,643)	0.00	(6,151,083)	0.00
Forfeited during the year	(447,460)	0.00	(305,156)	0.00
Balance at end of year	4,678,526	0.00	4,461,537	0.00
Exercisable at end of year	1,279,101	0.00	997,490	0.00

During the year ended 30 June 2021 the Group recognised net share based payment expense of \$2.5m (2020: \$1.5m) within the profit and loss component of the statement of comprehensive income. The net expense during the year included the reversal of expenses totalling \$0.3m (2020: \$1.3m) associated with the forfeiture of 301,819 (2020: 305,156) performance rights and reassessment of the probability of achieving non-market based vesting criteria.

The employee performance rights outstanding at the end of the year had nil weighted average exercise price and a weighted average remaining contractual life of 339 days (2020: 437 days). The performance rights exercised during the year had a weighted average share price on exercise date of \$1.91 (FY20: \$2.04).

Performance rights granted in the period

For the CEO, other Executive KMP and Lynas Leadership Team, two vesting conditions apply to the LTI grants made during FY2021:

- Relative Total Shareholder Return (TSR)
- Lynas 2025 Project Target

In addition, eight senior employees who are critical to the delivery of Lynas 2025 strategic outcomes were invited to participate in the LTI Plan. For these employees, the sole vesting condition is the Lynas 2025 Project Target.

Relative TSR is assessed over a three year period from 1 July 2020 to 30 June 2023, relative to other companies in the ASX200 index (Peer Group Companies). For any performance rights to vest under the TSR vesting condition, Lynas' performance must be equal to or greater than the 51% percentile of Peer Group Companies.

The percentage of the performance rights that may vest is determined as follows:

Lynas TSR Ranking across the TSR Period	Proportion of Performance Rights that vest
Below 51 st percentile	0%
At the 51 st percentile	50%
Between the 51 st percentile and the 76 th percentile	Between 50% and 100% as determined on a straight line basis (rounded to the nearest 5%)
At or above 76 th percentile	100%

The Lynas 2025 Project Target vesting condition is that the Lynas Kalgoorlie plant is commissioned and operational by July 2023.

In accordance with the Group's policy that governs trading of the Company's shares by Directors and employees, Directors and employees are not permitted to hedge their options or performance rights before the options vest.

The performance rights granted during the financial year had a weighted average fair value of \$2.5136 (2020: \$2.198) and were priced using volume-weighted average share prices, Monte Carlo and Binomial valuation methodologies. Where relevant the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past three years and peer volatility.

	PR's issued to employees other than CEO			PR's issued to CEO		
	Series BH	Series BI	Series BJ	Series BH	Series BI	Series BJ
Grant date	09 Sept 2020	09 Sept 2020	09 Sept 2020	26 Nov 2020	26 Nov 2020	26 Nov 2020
5 day VWAP	\$2.40	\$2.40	\$2.40	\$3.56	\$3.56	\$3.56
Exercise price	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	63.2%	63.2%	63.2%	64.5%	64.5%	64.5%
Risk-free Rate	0.26%	0.26%	0.26%	0.11%	0.11%	0.11%
Expiry date	09 Sept 2023	09 Sept 2025	09 Sept 2025	09 Sept 2023	09 Sept 2025	09 Sept 2025

Lynas Rare Earths Limited and Controlled Entities

Notes to Consolidated Financial Statements For the year ended 30 June 2021

Performance rights still to vest or yet to expire

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

Series	Grant date	Number	Date vested and exercisable	Expiry date	Exercise price	Value per performance right at grant date
AO	30 November 2016	532,373	30 August 2019	30 August 2021	\$ 0.00	\$ 0.680
AP	30 November 2016	465,117	30 August 2019	30 August 2021	\$ 0.00	\$ 0.500
AU	28 November 2017	127,567	28 August 2020	28 August 2022	\$ 0.00	\$2.060
AV	28 November 2017	154,044	28 August 2020	28 August 2022	\$ 0.00	\$1.620
AY	28 August 2018	165,668	28 August 2021	28 August 2023	\$ 0.00	\$2.187
AZ	28 August 2018	138,057	28 August 2021	28 August 2023	\$ 0.00	\$1.431
BB	27 November 2018	176,920	28 August 2021	28 August 2023	\$ 0.00	\$2.187
BC	27 November 2018	147,433	28 August 2021	28 August 2023	\$ 0.00	\$1.463
BE	26 August 2019	131,014	26 August 2022	26 August 2024	\$ 0.00	\$2.340
BF	26 August 2019	638,433	26 August 2022	26 August 2024	\$ 0.00	\$2.340
BG	26 August 2019	157,216	26 August 2022	26 August 2024	\$ 0.00	\$1.660
BE*	26 November 2019*	136,435	26 August 2022	26 August 2024	\$ 0.00	\$2.290
BF*	26 November 2019*	136,435	26 August 2022	26 August 2024	\$ 0.00	\$2.290
BG*	26 November 2019*	163,722	26 August 2022	26 August 2024	\$ 0.00	\$1.630
BH	09 September 2020	141,733	09 September 2021	09 September 2023	\$ 0.00	\$2.400
BI	09 September 2020	275,091	09 September 2023	09 September 2025	\$ 0.00	\$1.790
BJ	09 September 2020	517,861	09 September 2023	09 September 2025	\$ 0.00	\$2.400
BH**	26 November 2020*	55,695	09 September 2021	09 September 2023	\$ 0.00	\$3.560
BI**	26 November 2020*	208,856	09 September 2023	09 September 2025	\$ 0.00	\$2.500
BJ**	26 November 2020*	208,856	09 September 2023	09 September 2025	\$ 0.00	\$3.560
Total		4,678,526				

* Performance rights relates to the CEO in series BE to BG were approved by the Board on 26 August 2019, subject to approval at the AGM. These performance rights were subsequently approved at the AGM on 26 November 2019.

** Performance rights relates to the CEO in series BH to BJ were approved by the Board on 09 September 2020, subject to approval at the AGM. These performance rights were subsequently approved at the AGM on 26 November 2020.

E.8 Other Items

New and revised standards and interpretations

Standards and Interpretations affecting amounts reported

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of new standards and interpretations effective as of 1 July 2020.

Several amendments apply for the first time in the current year. As required, the nature and effect of the changes of these new standards has been disclosed throughout the report.

Standards and Interpretations in issue not yet adopted

No Australian Accounting Standards issued but not yet mandatory for the financial year ending 30 June 2021 have had a material impact on the Group for the year ended 30 June 2021.

E.9 Subsequent events

On 23 August 2021, the Malaysian regulator, the Atomic Energy Licensing Board (AELB), extended the deadline for satisfaction of the licence condition related to the commencement of construction of the Permanent Disposal Facility (PDF) for WLP residue to 2 March 2022. This recognises the constraints presented by current COVID-19 conditions. Lynas continues to engage productively with the relevant government and regulatory authorities to progress the approvals for the PDF.

As announced on 29 July 2021, on 28 July 2021 the High Court of Malaya at Kuala Lumpur dismissed the judicial review proceedings commenced by the anti-Lynas activists seeking review of the processes followed by the Government of Malaysia in reaching the August 2019 decision to renew Lynas Malaysia's fourth operating licence. Lynas has received a notice of appeal by the anti-Lynas activists. Lynas intends to defend the appeal. The Lynas Malaysia plant currently operates under the fifth operating licence granted in February 2020.

As announced on 22 July 2021, Lynas was awarded a \$14.8m grant as part of the Australian governments' Modern Manufacturing Initiative. The grant will enable Lynas to commercialise an industry-first Rare Earth carbonate refining process that has been developed by our inhouse research and development team.

With the exception of the above, there have been no other events subsequent to 30 June 2021 that would require accrual or disclosure in this financial report.