Lynas Corporation Limited

ACN 009 066 648

Financial Report

for the year ended 30 June 2010

Corporate Information

ABN 27 009 066 648

Directors
Nicholas Curtis (Executive Chairman)
William (Liam) Forde
Jacob Klein
David Davidson

Company Secretaries
Andrew Arnold
Ivo Polovineo

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Solicitors
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SYDNEY NSW 2000

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Registries Limited
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SYDNEY NSW 2000

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Directors' Report

The Directors submit their report for the year ended 30 June 2010.

DIRECTORS

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

Names, Experience, and Special Responsibilities

Nicholas Curtis

Mr Curtis is the Executive Chairman of the Company. He is also Chairman of Forge Resources Limited, a Non-Executive Director of Conquest Mining Limited, Chairman of the private corporate advisory firm, Sino Resources Capital Pty Ltd, Chairman of Faces in the Street Urban Mental Health Research Institute at St Vincent's Hospital Sydney, a Director of St Vincent's Health Australia Ltd and a Director of the Garvan Institute of Medical Research. From August 2004 to October 2009 Mr Curtis served as Chairman of the Board of St Vincents & Mater Health Sydney Limited. His background is in resources, banking and financing based on more than 25 years as a professional in the futures, commodities and stockbroking industries. During the past three years Mr Curtis has not held any other listed company directorships.

William (Liam) Forde

Mr Forde joined the Company as a Non-Executive Director in December 2007 and is the Lead Independent Director of the Company. Mr Forde has many years experience in senior finance and managerial positions in both Ireland and Australia. He is currently a director of Westpac Banking Corporation's Westpac Funds Management Limited and Chairman of Hastings Funds Management Limited. In addition Mr Forde is a member of several advisory boards and is a member of the Australian Institute of Company Directors. Mr Forde was Chief Executive Officer of the Baulderstone Hornibrook Group from 2002 to 2005, following 15 years as its Chief Financial Officer for the Group. During the past three years Mr Forde has not held any other listed company directorships.

Jacob Klein

Mr Klein is a Non-Executive Director of the Company and joined the Board on 25 August 2004. He has over 18 years experience in senior finance and managerial positions in both South Africa and Australia. He joined Macquarie Bank in 1991 and in 1995, as an Associate Director at Macquarie, he participated in the formation of Asia Resource Capital Limited, a joint venture between Macquarie Bank and China National Non-Ferrous Metal Industry Corporation (CNNC). From 1996 to June 2000 he worked for Sino Mining International. Mr Klein was CEO and a Director of Sino Gold Mining Limited until December 2009 and is a member of the NSW Asia Council. Mr Klein is also Executive Chairman of Conquest Mining Limited and a Non-Executive Director of Oceana Gold Corporation. During the past three years Mr Klein has not held any other listed company directorships.

David Davidson

Mr Davidson is a Non-Executive Director of the Company and originally joined the Board on 28 March 2002. He resigned from the Board on 18 August 2005 and was re-appointed as a Director on 8 December 2005. Mr Davidson has had a distinguished career with ICI and DuPont. An Australian, he has lived and worked in Europe and North America and held a number of senior executive roles with global responsibilities. He is a former Director of ICI America Inc. Since returning to Australia, Mr Davidson has been providing executive and corporate advice on organisation development and strategy. During the past three years Mr Davidson has not held any other listed company directorships.

COMPANY SECRETARIES

Andrew Arnold

Mr Arnold was appointed as General Counsel and Company Secretary to the Company on 23 July 2008, following 15 years as a lawyer at Deacons, including 6 years as a Partner. During that time Mr Arnold also spent 2 years on secondment at Riddell Williams, Seattle. In his role at Deacons he had been overseeing the legal work of the Company since 2001. Mr Arnold is the responsible person for communication with ASX in relation to listing rule matters.

Ivo Polovineo

Mr Polovineo was appointed as additional Company Secretary on 15 March 2010. He has spent over 25 years in the resource sector including over 20 years as Company Secretary of a number of listed companies. His last full time position was Company Secretary of Sino Gold Mining Limited (formerly an ASX 100 company) until December 2009. Mr Polovineo is also a non-executive director of ASX listed Galaxy Resources Limited.

Interests in the Shares and Options of the Company and Related Bodies Corporate

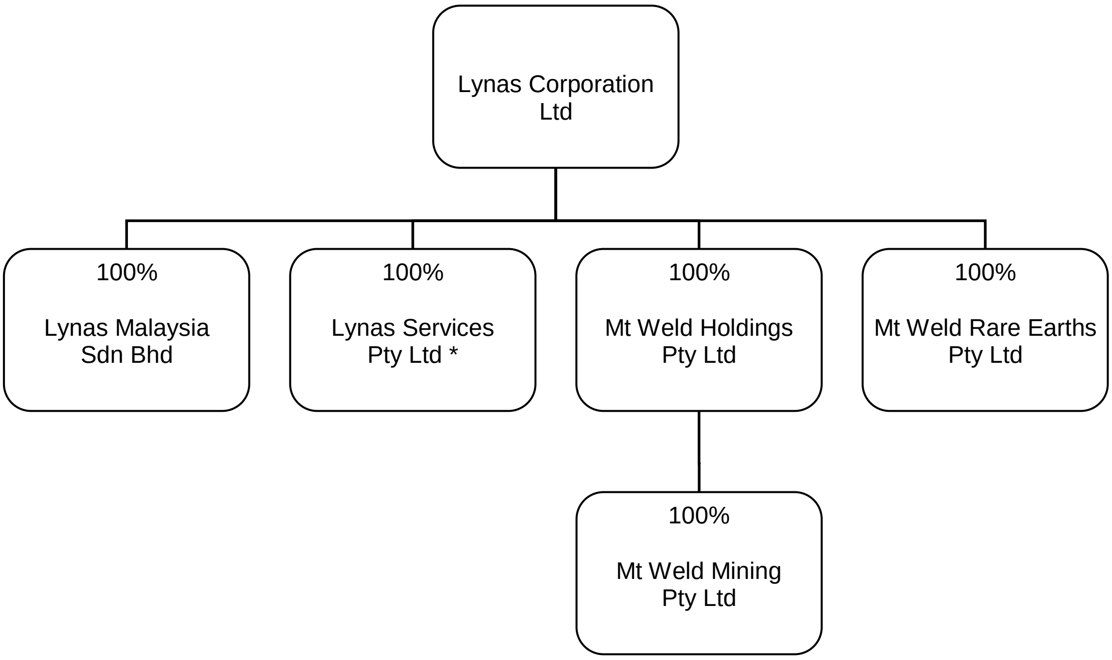
As at the date of this report, the interests of the Directors in the shares and options of the Lynas Corporation Limited ("the Company") were:

	Ordinary Shares	Options Over Ordinary Shares
Nicholas Curtis	23,045,758	27,000,000
William Forde	1,000,000	2,500,000
David Davidson	935,000	1,900,000
Jacob Klein	2,080,580	1,900,000

CORPORATE INFORMATION

Corporate Structure

Lynas Corporation Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the Group's corporate structure:



* Lynas Services Pty Ltd was formerly known as Lynas Transales Pty Ltd.

Nature of Operations and Principal Activities

The principal activities of the entities within the Group continued to be:

- Planning, design and construction of a Concentration Plant in Western Australia, and an Advanced Materials Processing Plant in Malaysia for the production and distribution of Rare Earth Oxides;
- Exploration and development of Rare Earths deposits; and
- Exploration for other mineral resources.

PERFORMANCE REVIEW

The Board together with management monitor the Group's overall performance, from implementation of the mission statement and strategic plan through to the performance of the Company against operating and financial plans.

REVIEW AND RESULTS OF OPERATIONS

Group Overview

Consolidated operating results for the year	2010 A$'000	2009 A$'000
Revenue	9,130	4,088
Operating expenses	(30,650)	(33,064)
Impairment of capitalised cost	-	(1,160)
Depreciation expense	(1,158)	(639)
Borrowing costs expense	-	(6,876)
Net accounting gain on convertible notes	-	12,917
Net accounting gain / (loss) on foreign currency valuation	2,337	(4,548)
De-recognition of assets	(22,700)	-
NET LOSS	(43,041)	(29,282)
Consolidated financial position for the year		
Capitalised development costs	209,678	179,185
Inventory	23,887	21,009
Working capital	(11,566)	(6,830)
Provisions	(8,101)	(12,036)
Cash and cash equivalents	405,245	16,710
NET ASSETS	619,143	198,038
Net increase/(decrease) in cash and cash equivalents	386,696	(127,542)

The key financial events for the Group for the year are summarised below with details of each item disclosed in the financial statements.

On 29 September 2009, the Company announced an underwritten issue of $450 million fully paid ordinary shares. The equity raising was successfully completed with the $450 million less expenses received by mid-November 2009. The proceeds of the equity raising have been and will continue be used to fund the completion of Phase 1 of the Rare Earths Project.

For the year ended June 2010, Lynas incurred a net loss of $43.0 million (2009: $29.3 million) after charging $22.7M for de-recognition of previously capitalised engineering & design costs that with the restart of the project in 2010, the Directors considered would no longer deliver any future economic benefit.

Despite a charge for additional suspension costs of $5M, Operating expenses decreased to $30.7 million (2009: $33.1 million) reflecting reduced operational activity in the first half of the financial year associated with last year's project suspension. In addition movements in foreign exchange rates resulted in a net accounting gain of $2.3 million.

The overall net assets of the group increased by $421.1 million.

LOSS PER SHARE

	2010	2009
Basic loss per share (cents)	(3.23)	(4.50)
Diluted loss per share (cents)	(3.23)	(4.50)

DIVIDENDS

No dividend has been recommended since the end of the financial year.

Lynas CORPORATION LTD

REVIEW OF OPERATING ACTIVITIES

Rare Earths

The proceeds of the equity raising in November 2009 is being used to fund the completion of Phase 1 of the Rare Earths Project. This has enabled the Company to lift the suspension of the Project and to resume construction and commissioning of both the Concentration Plant in Western Australia and the Advanced Materials Plant in Gebeng, Malaysia.

In December 2009, the Company completed a $4.2 million acquisition of rights relating to apatite at Mount Weld. The Company is now the registered holder of all relevant tenements controlling all minerals rights within those tenements at Mount Weld.

The market recovery for Rare Earths gathered speed in the second half of the financial year. This was demonstrated by Japanese import statistics showing a six fold increase for February 2010 compared to the same period in the prior year; the low point of demand due to the Global Financial Crisis.

Discussions globally, and particularly in the United States, have highlighted the imminent shortage of Rare Earths and the potential impact on industries that rely their utilisation. Although China dominates the production of Rare Earths, the Chinese resource base is fragile. This, combined with the continually increasing internal Chinese demand, has subsequently led to the significant decreases in China's export quota. The Ministry of Commerce of the People's Republic of China recently released the second tranche of the 2010 export quota, which resulted in a 40% drop in total export quota for 2010 compared to 2009.

Although the industry was anticipating an export quota decrease, there was general surprise at the magnitude of the reduction. This is likely to put significant pressure on supply chains outside of China, especially for the higher volume, lower value elements, such as lanthanum and cerium.

The Company will provide the first new source of supply of Rare Earths outside of China when it comes into production during the third quarter of 2011, and believes that this timeframe places it well ahead of its competitors. Customer requirements and commitments are driving the Company's business development strategy for products to be produced, growth of production and collaboration with its partners in the value chain.

As a result of the activities mentioned above, Rare Earths prices have risen strongly during the financial year. As at 30 June 2010, the average Mount Weld Rare Earths composite price was US$17.42/ kg (US$9.78/ kg at 30 June 2009). The average Mt Weld Rare Earths composite price at 06 September 2010 was US$50.52/ kg.

De-recognition of Assets

A comprehensive review was completed in the current year to assess whether all of the capitalised project costs in relation to the Advanced Material Plant in Gebeng, Malaysia were still expected to provide a future economic benefit or whether some of the capitalised costs should be de-recognised based on the project restart in the current financial year.

Based on this analysis the Company identified costs of $22.7 million which were no longer expected to render any future economic benefit. These costs primarily represent issues around the change in 2009 in the engineering, design and construction management contractor which, due to the complicated nature of the transition after project suspension, resulted in significant rework and duplicated costs.

REVIEW OF FINANCIAL CONDITION

Capital Structure

At the start of the year the Company had 654,799,093 ordinary shares on issue. During the year an additional 1,000,700,000 shares were issued as follows:

Shares on issue 30 June 2009	654,799,093
Equity raising – November 2009	1,000,000,000
Issue of new shares pursuant to option conversion	700,000
Shares on issue 30 June 2010	1,655,499,093

In addition to the ordinary shares on issue there were 65,000,000 unlisted options for ordinary shares on issue. Overall, the issue of new shares during the period resulted in an increase in issued capital of $431,542,915.

RISK MANAGEMENT

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

The Company believes that it is crucial for Board members to be a part of this process, and as such has established a Risk Management and Safety, Health, Environment & Community Committee.

STATEMENT OF COMPLIANCE

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes occurred during the financial year ending 30 June 2010.

Equity Raising and Recommencement of the Rare Earths Project

- On 29 September 2009, the Company announced the underwritten issue of $450 million fully paid ordinary shares. The equity raising was successfully completed with the $450 million less expenses received by mid-November 2009.
- The proceeds of the equity raising has enabled the Company to lift the suspension Project and to resume construction and commissioning of both the Concentration Plant in Western Australia and the Advanced Materials Plant in Gebeng, Malaysia.

Processing Facilities

- Abesque Engineering Ltd was awarded the Design and Construction contract for the Concentration Plant in Western Australia.
- UGL Ltd was awarded the Engineering, Procurement and Construction Management (EPCM) contract for the Advanced Materials Plant in Gebeng, Malaysia.
- Mobilisation to site for the Concentration Plant in Western Australia occurred in April 2010, and mobilisation to site for the Advanced Materials Plant in Gebeng, Malaysia occurred in April 2010.
- Engineering and construction of the Concentration Plant and the Advanced Materials Plant remains on time and within budget with the first feed to kiln on target for the third quarter of 2011.

Sales Contracts and Pricing

- Supply contract with Rhodia Operations (“Rhodia”) extended from a 5 year contract to a 10 year contract.
- As at 30 June 2010, the Mt Weld composite price had increased to US$17.42/ kg (US$9.78/ kg at 30 June 2009).
- The average Mt Weld Rare Earths composite price at 06 September 2010 was US$50.52/ kg.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Increase in Resource Estimate

On 6 September 2010 the Company announced an increase in the Rare Earths mineral resource estimate at Mount Weld, Western Australia. The new resource estimate is 1.416 million tonnes of Rare Earths Oxide (REO) and represents a 19.4% increase from the previous resource estimate.

The revised estimate resulted from the completion of a grade control drilling program within the area of the current mine plan and a drilling program within areas of the elevated heavy Rare Earths named the Duncan Deposit. The drilling results generated a large amount of new data warranting a new resource model to update the Rare Earths resource estimate.

SHARE OPTIONS

Unissued Shares

As at year end the Company had on issue the following options to acquire ordinary fully paid shares:

Description	Number	Exercise price	Expiry date
Incentive Plan options	7,850,000	$0.11	June 2011
Incentive Plan options	50,000	$0.13	October 2011
Incentive Plan options	700,000	$0.52	March 2012
Incentive Plan options	50,000	$0.64	April 2012
Incentive Plan options	11,150,000	$1.01	June 2012
Incentive Plan options	100,000	$0.91	July 2012
Incentive Plan options	50,000	$0.81	August 2012
Incentive Plan options	200,000	$1.08	October 2012
Incentive Plan options	500,000	$1.06	December 2012
Incentive Plan options	200,000	$1.09	April 2013
Incentive Plan options	1,000,000	$0.98	July 2013
Incentive Plan options	14,850,000	$0.66	September 2013
Incentive Plan options	2,700,000	$0.81	September 2013
Incentive Plan options	1,100,000	$0.16	January 2014
Incentive Plan options	24,500,000	$0.66	October 2014
TOTAL	65,000,000		

Shares Issued as a Result of the Exercise of Options

During the financial year 700,000 options were exercised.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Company has paid premiums in respect of a contract insuring all the Directors and Officers of Lynas Corporation Ltd against costs incurred in defending proceedings for conduct involving:

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

The total amount of insurance contract premiums paid was $58,000. This amount is not included as part of the Directors remuneration in Note 29.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity is bound by the requirements and guidelines of the relevant environmental protection authorities for the management and rehabilitation of tenements owned or previously owned by the Group. Tenements are being maintained and rehabilitated following these guidelines. There have been no known breaches of any of these conditions.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Lynas Corporation Limited seek to ensure appropriate and effective corporate governance. The Company's Corporate Governance Statement is contained in the following section of this annual report.

DIRECTORS' MEETINGS

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

	Directors' Meetings	Meetings of Committees: Audit	Meetings of Committees: Nomination and Remuneration	Meetings of Committees: Safety, Health, Environment and Community
Number of meetings held:	11	2	3	3
Number of meetings attended:				
N. Curtis	11	-	-	3
W. Forde	11	2	3	3
D. Davidson	11	2	3	3
J. Klein	10	2	-	3

Committee Membership

As at the date of this report, the Company has an Audit Committee, a Nomination and Remuneration Committee, and a Safety, Health, Environment and Community (SHEC) Committee of the Board of Directors.

Members Acting on the Committees of the Board During the Year were:

Audit	Nomination and Remuneration	Safety, Health, Environment and Community
W. Forde (c)	D. Davidson (c)	D. Davidson (c)
D. Davidson	W. Forde	N. Curtis
J. Klein		W. Forde
		J. Klein

(c) Designates the chairman of the committee

As summarised in the Corporate Governance Statement, the Audit Committee is comprised of independent Directors.

REMUNERATION REPORT – AUDITED

This Remuneration Report outlines the remuneration arrangements of Directors and Key Management Personnel of the Company and the Group in accordance with the Corporations Act 2001 and its regulations. For the purposes of this report, Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Parent Company, and the executives receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, Chief Operating Officer, Chief Financial Officer, Vice Presidents, General Managers and Company Secretaries of the Group.

Details of Key Management Personnel, including the highest remunerated executives of the Company at the date of this report, are as follows:

Directors:

N. Curtis	Executive Chairman
W. Forde	Non-Executive Director
D. Davidson	Non-Executive Director
J. Klein	Non-Executive Director

Executives:

A. Arnold	General Counsel and Company Secretary
J. Brien	General Manager Human Resources
M. James	Vice President - Corporate & Business Development
E. Noyrez	Chief Operating Officer (appointed 16 February 2010)
J. G. Taylor	Chief Financial Officer
M. Vaisey	Vice President - Technical Development

Remuneration Philosophy

The Company's objective is to provide maximum stakeholder benefit from the retention of a high quality Board and executive management team by remunerating Directors and key executives fairly and appropriately, consistent with relevant employment market conditions. The Company uses external industry benchmarks to set the total remuneration for key management personnel. Generally speaking, total remuneration is set at between the 50th and 75th percentiles.

To assist in achieving this objective, the Nomination and Remuneration Committee links the nature and amount of Executive Directors' and Officers' emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are the retention and motivation of key executives, and attraction of quality management to the Company.

For details of all monetary and non-monetary remuneration for all Key Management Personnel, refer to Table A of this report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and of individual during the year. The Company provides no retirement benefits, other than statutory superannuation.

Nomination and Remuneration Committee

The Board is responsible for determining and reviewing remuneration arrangements for the Directors themselves and Key Management Personnel. The Nomination and Remuneration Committee which is comprised of the Non-Executive Directors, assesses the appropriateness of the nature and amount of remuneration of Key Management Personnel on a regular basis.

REMUNERATION REPORT – AUDITED (continued)

Remuneration Structure

In accordance with best practice corporate governance, the structure and remuneration of Non-Executive Directors and Key Management Personnel is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board sets aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre at a cost which is acceptable to shareholders.

Structure

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The last determination was at the annual general meeting held on 26 November 2003. An amount not exceeding the amount determined is then divided amongst the Directors as agreed. Each Director receives a fee for being a Director of the Company, however no additional fee is paid for Board committees on which a Director sits.

The aggregate remuneration to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed by the Board annually. The Board considers advice where required from external consultants as well as taking into account fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

It is considered good governance for Directors to have a stake in the Company. Non-Executive Directors have long been encouraged by the Board to hold shares in the Company (purchased by the Director on market). Non-Executive Directors of the Company are eligible to participate in the Executive and Employee Option Plan. The remuneration for Non-Executive Directors for the years ended 30 June 2010 and 30 June 2009 is detailed in Tables A and B respectively of this report.

Key Management Personnel Remuneration

Objective

The Company aims to reward Key Management Personnel with remuneration commensurate with their position and responsibilities within the Company so as to:

- reward them for Company, business unit and individual performance against agreed targets set by reference to appropriate benchmarks;
- align their interests with those of shareholders;
- link their reward with the strategic goals and performance of the Company; and
- ensure their total remuneration is competitive by market standards.

Structure

In determining the level and make-up of Key Management Personnel remuneration, the Nomination and Remuneration Committee may engage external consultants as required to provide independent advice detailing market levels of remuneration for comparable roles.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary and superannuation)
- Variable remuneration
    - Short Term Incentive (STI); and
    - Long Term Incentive (LTI)

REMUNERATION REPORT – AUDITED (continued)

The proportion of fixed and variable remuneration is decided by the Nomination and Remuneration Committee after consideration of the overall performance of the Company and the individual. The remuneration for Key Management Personnel for the years ended 30 June 2010 and 30 June 2009 is detailed in Tables A and B respectively of this report.

Service Agreements

It is the Nomination and Remuneration Committee's policy that employment agreements shall only be entered into with the Chief Executive Officer. To this extent the Company entered into an agreement with Mr N. Curtis for the provision of Mr Curtis's services as Chief Executive Officer on reasonable commercial terms and conditions. The key provisions of this agreement are:

- The agreement expires on 31 July 2011.
- Mr Curtis may give three months written notice of his intention to resign. On resignation any unvested options may be forfeited subject to the discretion of the board.
- The Company may terminate the agreement by providing one month's written notice. On termination any unvested options will be forfeited.
- Upon the Company terminating the agreement, the Company will pay a benefit for past services equal to the lesser of:
    1) the amount permitted under Part 2D.2 of the Corporations Act 2001; or
    2) the balance of Mr Curtis's salary over the greater of (a) one year, or (b) the remaining term of the agreement at the time of termination.
- The Company may terminate the agreement at any time without notice if serious misconduct has occurred.

All termination payments may be subject to shareholder approval.

Employment conditions for all other Key Management Personnel are on the following terms:

- Each may give one month's written notice of their intention to resign.
- The Company may terminate the employment by providing one month's written notice.
- On resignation or termination all unvested options may be forfeited subject to the discretion of the Board.
- The Company may terminate employment at any time without notice if serious misconduct has occurred.

In accordance with the Company policy that governs trading of Company shares by Directors and employees, Directors and executives are not permitted to hedge their options prior to the options vesting.

Lynas CORPORATION LTD

REMUNERATION REPORT – AUDITED (continued)

Remuneration and Group Performance

Currently, the remuneration of the Company's Key Management Personnel including any component of the remuneration that consists of securities in the Company is not formally linked to the performance of the Company. The rationale for this approach is that the Company is in development phase, and it is currently not appropriate to link remuneration to factors such as profitability or share price. It is anticipated that this will change once the Company transitions into its operational phase.

A comparison is provided below of the remuneration provided to Key Management Personnel during the past 5 years against the movement in the Company's average share price over the same period. The increase in remuneration from one year to the next reflects additional executives joining the Company to facilitate the group beginning the transition from a development entity to an operating entity.

Financial year ended	30/06/2006	30/06/2007	30/06/2008	30/06/2009	30/06/2010
Number of Key Management Personnel					
Directors	5	3	4	4	4
Other	4	5	6	6	7
Remuneration paid					
Directors	468,105	515,156	670,467	906,267	1,180,000
Other	562,777	805,853	1,425,597	1,633,067	2,390,353
	1,030,882	1,321,009	2,096,064	2,539,334	3,570,353
Share based remuneration					
Directors	16,167	308,333	1,366,667	2,095,339	2,983,382
Other	27,667	146,026	1,177,183	2,049,646	2,146,587
	43,834	454,359	2,543,850	4,144,985	5,129,969
Total remuneration	1,074,716	1,775,368	4,639,914	6,684,319	8,700,322
Annual average share price	$ 0.206	$ 0.662	$ 1.228	$ 0.518	$ 0.551
Closing share price at financial year end	$ 0.280	$ 1.300	$ 1.300	$ 0.465	$ 0.545

REMUNERATION REPORT – AUDITED (continued)

Table A: Details of Remuneration

Financial year 2010

	Short term benefits			Post employment benefits		Share-based payments		
Name	Cash salary and fees	Bonus payments	Non-Monetary benefits	Termination payments	Super	Share-based payments	% of Total	TOTAL
Executive Director								
N. Curtis	590,000	300,000	-	-	-	2,472,449	74%	3,362,449
Non-Executive Directors								
W. Forde	100,917	-	-	-	9,083	204,363	65%	314,363
D. Davidson	38,927	-	-	-	51,073	153,285	64%	243,285
J. Klein	85,665	-	-	-	4,335	153,285	70%	243,285
Key Management Personnel								
A. Arnold	284,404	155,000	-	-	25,596	419,956	47%	884,956
J. Brien	243,119	-	-	-	21,881	42,267	14%	307,267
M. James	298,165	-	-	-	26,835	940,805	74%	1,265,805
E. Noyrez	210,807	-	-	-	18,360	284,630	55%	513,797
J. G. Taylor	214,404	77,500	-	-	95,596	53,334	12%	440,834
M. Vaisey	269,287	-	-	-	20,712	330,417	56%	620,416
M. Wolley*	52,752	-	-	340,774	35,161	75,178	15%	503,865
TOTAL	2,388,447	532,500	-	340,774	308,632	5,129,969		8,700,322

*resigned on 31 August 2009

Financial year 2009

	Short term benefits			Post employment benefits		Share-based payments		
Name	Cash salary and fees	Bonus payments	Termination payments	Non-Monetary benefits	Super	Share-based payments	% of Total	TOTAL
Executive Director								
N. Curtis	626,053	-	-	-	-	1,789,338	74%	2,415,391
Non-Executive Directors								
W. Forde	96,330	-	-	-	8,670	124,667	54%	229,667
D. Davidson	75,688	-	-	-	9,526	90,667	52%	175,881
J. Klein	82,569	-	-	-	7,431	90,667	50%	180,667
Key Management Personnel								
A. Arnold	244,855	-	-	-	22,037	283,333	51%	550,225
J. Brien	202,294	-	-	-	18,206	42,267	16%	262,767
M. James	298,165	-	-	-	26,835	855,417	72%	1,180,417
W. Moss	10,205	-	-	-	855	173,500	94%	184,560
I. Polovineo	-	-	-	-	-	68,333	100%	68,333
J. G. Taylor	140,014	-	-	-	12,601	26,667	15%	179,282
M. Vaisey	308,055	-	-	-	23,945	330,417	50%	662,417
M. Wolley	298,165	-	-	-	26,835	269,712	45%	594,712
TOTAL	2,382,393	-	-	-	156,941	4,144,985		6,684,319

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REMUNERATION REPORT – AUDITED (continued)

Table B: Share-Based Remuneration

The following table details the options issued for the benefit of Directors and Key Management Personnel during the 2010 and 2009 financial years and those options vested at each respective year end.

30 June 2010	Balance at beginning of period	Granted as remuneration	Options exercised/ cancelled	Net change	Balance at end of period	Vested at 30 June 2010
A. Arnold	2,000,000	2,400,000	-	2,400,000	4,400,000	-
J. Brien	700,000	-	-	-	700,000	-
N. Curtis	15,000,000	12,000,000	-	12,000,000	27,000,000	10,000,000
D. Davidson	800,000	1,100,000	-	1,100,000	1,900,000	-
W. Forde	1,100,000	1,400,000		1,400,000	2,500,000	-
M. James	4,750,000	1,500,000	-	1,500,000	6,250,000	3,000,000
J. Klein	800,000	1,100,000	-	1,100,000	1,900,000	-
E. Noyrez	-	5,000,000	-	5,000,000	5,000,000	-
J. G. Taylor	1,000,000	-	-	-	1,000,000	-
M. Vaisey	2,750,000	-	-	-	2,750,000	1,750,000
M. Wolley	3,450,000	-	(1,000,000)*	(1,000,000)	2,450,000	-
TOTAL	32,350,000	24,500,000	(1,000,000)	23,500,000	55,850,000	14,750,000

* options cancelled

30 June 2009	Balance at beginning of period	Granted as remuneration	Options exercised/ cancelled	Net change	Balance at end of period	Vested at 30 June 2009
A. Arnold	-	2,000,000	-	2,000,000	2,000,000	-
J. Brien	200,000	500,000	-	500,000	700,000	-
N. Curtis	10,000,000	5,000,000	-	5,000,000	15,000,000	5,000,000
D. Davidson	-	800,000	-	800,000	800,000	-
W. Forde	-	1,100,000		1,100,000	1,100,000	-
M. James	3,000,000	1,750,000	-	1,750,000	4,750,000	1,000,000
J. Klein	-	800,000	-	800,000	800,000	-
W. Moss	300,000	1,000,000	-	1,000,000	1,300,000	-
I. Polovineo	500,000	-	-	-	500,000	500,000
J. G. Taylor	-	1,000,000	-	1,000,000	1,000,000	-
M. Vaisey	1,750,000	1,000,000	-	1,000,000	2,750,000	750,000
M. Wolley	1,700,000	1,750,000	-	1,750,000	3,450,000	-
TOTAL	17,450,000	16,700,000	-	16,700,000	34,150,000	7,250,000

REMUNERATION REPORT – AUDITED (continued)

Fair value of options

The fair value of each option is estimated on the date the options are granted using a Black and Schools valuation model. The following assumptions were considered in the valuation of options issued throughout the year:

Dividend yield	Nil
Expected volatility	44.37%
Risk-free interest rate	3.25%
Life of option	5 years

No dividends have been paid in the past and hence it is not appropriate to estimate future possible dividends in arriving at the fair values of the options. The life of the options is based on a 5 year expiry from date of issue and therefore not necessarily indicative of exercise patterns that may occur. The resulting weighted average fair values per option for those options issued during the year for the benefit of Directors and Key Management Personnel are:

Name	Number Options	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	First exercise date	Last exercise date
A. Arnold	2,400,000	08/10/2009	$ 0.234	$ 0.66	08/10/2014	08/10/2012	08/10/2014
N. Curtis	12,000,000	08/10/2009	$ 0.234	$ 0.66	08/10/2014	08/10/2012	08/10/2014
D. Davidson	1,100,000	08/10/2009	$ 0.234	$ 0.66	08/10/2014	08/10/2012	08/10/2014
W. Forde	1,400,000	08/10/2009	$ 0.234	$ 0.66	08/10/2014	08/10/2012	08/10/2014
M. James	1,500,000	08/10/2009	$ 0.234	$ 0.66	08/10/2014	08/10/2012	08/10/2014
J. Klein	1,100,000	08/10/2009	$ 0.234	$ 0.66	08/10/2014	08/10/2012	08/10/2014
E. Noyrez	5,000,000	08/10/2009	$ 0.234	$ 0.66	08/10/2014	08/10/2012	08/10/2014

All options granted for the benefit of directors and key management personnel have 3 year vesting periods. The options are exercisable between 3 and 5 years after the options have been granted.

Adjustment to the exercise price of options

A component of the capital raising announced on 29 September 2009 was a 1 for 1 entitlement offer to existing shareholders of the Company.

In accordance with ASX Listing Rule 6.22, the entitlement offer resulted in a $0.19 reduction in the exercise price of all employee options granted before 29 September 2009 as compensation to the option holders for the dilutive effect of the entitlement offer. The amounts stated under the heading "Weighted average exercise price" have been adjusted by $0.19 where applicable.

Bonus payment to Director and Key Management Personnel

The cash salary and fees and superannuation payments to the following Director and Key Management Personnel during the year included the following cash bonus payments:

N. Curtis	A$300,000
A. Arnold	A$155,000
J. G. Taylor	A$ 77,500

The cash bonuses were paid in full on 6 November 2009. The cash bonuses were granted in recognition of the significant contribution of the relevant Director and Key Management Personnel to the successful completion of the capital raising announced on 29 September 2009.

COMPETENT PERSON'S STATEMENT

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

Lynas CORPORATION LTD

AUDITOR'S INDEPENDENCE DECLARATION

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

ERNST & YOUNG

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

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

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

In relation to our audit of the financial report of Lynas Corporation Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner
Sydney

22 September 2010

Signed in accordance with a resolution of the Directors.

Nicholas Curtis
Executive Chairman
Sydney
22 September 2010

Corporate Governance Statement

The Board of Directors of Lynas Corporation Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Lynas Corporation Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the ASX Corporate Governance Council's recommendations, the Corporate Governance Statement must contain certain specific information and also report on the Company's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Company, together with the reasons why they have not been adopted. Lynas Corporation Limited's corporate governance principles and policies are therefore structured with reference to the ASX Corporate Governance Council's best practice recommendations.

Lynas Corporation Limited's corporate governance practices were in place throughout the financial year ended 30 June 2010, and complied with all of the ASX Corporate Governance Council's Principles and Recommendations except as noted below in relation to Recommendations 2.2 and 2.3. In addition, as noted below, the Company did not follow one aspect of the commentary that follows Recommendation 8.2. Details of the Company's corporate governance practices are as follows.

Principle 1 - Lay solid foundations for management and oversight

Recommendation 1.1 – Functions reserved to the board and delegated to senior executives

The Company has established the functions reserved to the Board and the functions delegated to senior executives. The functions reserved to the Board include:

(1) oversight of the Company, including its control and accountability systems;

(2) appointing and removing the CEO (or equivalent), including approving remuneration of the CEO and the remuneration policy and succession plans for the CEO;

(3) ratifying the appointment and, where appropriate, the removal of the CFO (or equivalent) and the Secretary;

(4) input into the final approval of management's development of corporate strategy and performance objectives;

(5) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;

(6) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;

(7) approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;

(8) approving and monitoring financial and other reporting;

(9) appointment and composition of committees of the Board;

(10) on recommendation of the Audit Committee, appointment of external auditors; and

(11) on recommendation of the Nomination and Remuneration Committee, initiating Board and director evaluation.

The functions delegated to senior executives include:

(1) implementing the company's vision, values and business plan;

(2) managing the business to agreed capital and operating expenditure budgets;

(3) identifying and exploring opportunities to build and sustain the business;

(4) allocating resources to achieve the desired business outcomes;

(5) sharing knowledge and experience to enhance success;

(6) facilitating and monitoring the potential and career development of the company's people resources;

(7) identifying and mitigating areas of risk within the business;

(8) managing effectively the internal and external stakeholder relationships and engagement strategies;

(9) sharing information and making decisions across functional areas;

(10) determining the senior executives' position on strategic and operational issues; and

(11) determining the senior executives' position on matters that will be referred to the Board.

Recommendation 1.2 – Performance evaluation of senior executives

The Company has detailed written Key Responsibility Areas and Key Performance Indicators for each senior executive. The performance of senior executives is periodically reviewed against their Key Performance Indicators, at least once every 12 months, as part of the Company's formal performance review procedures.

Recommendation 1.3 - Performance evaluation of senior executives during the financial year

An evaluation of senior executives took place during the financial year. The evaluation was in accordance with the procedure disclosed in relation to Recommendation 1.2.

The matters reserved for the Board are disclosed in relation to Recommendation 1.1. In addition, these matters are summarized in the Company's Board Charter, a copy of which is available on the Company's website, *www.lynascorp.com*. The matters delegated to senior executives are disclosed in relation to Recommendation 1.1.

Principle 2 - Structure the board to add value

Recommendation 2.1 - A majority of the Board should be independent Directors

Recommendation 2.1 requires a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of unfettered and independent judgement.

The Board has a majority of independent Directors. In accordance with the definition of independence above, and the materiality thresholds set, David Davidson, Jake Klein and Liam Forde are viewed as independent Directors. Whilst Mr Forde acts as Chairman (and receives fees accordingly) of the Lamps On Board which oversees the construction of the Company's Malaysian Advanced Materials Plant, the Board does not view this as interfering with the exercise of unfettered and independent judgement.

Nick Curtis is the Executive Chairman and Chief Executive Officer of the Company. As the Chief Executive Officer of the Company, Mr Curtis is not an independent Director of the Company in accordance with the definition above.

Recommendation 2.2 – The chair should be an independent director

Nick Curtis is the Executive Chairman and Chief Executive Officer of the Company. Mr Curtis has a 1.42% shareholding in the Company and the Board does not view this as interfering with the exercise of unfettered and independent judgement.

The Company is in development phase and the Board believes that Nick Curtis is the best person to perform both the roles of Chairman and Chief Executive Officer at this stage of the Company's growth.
The dual role of Mr Curtis is balanced by the presence of a clear majority of independent directors on the Board. In addition Mr Forde acts as the lead independent director of the Company. The role of the lead independent director includes chairing meetings of the Board on matters where the chairman is unable to act in that capacity, for example due to a lack of independence.

Recommendation 2.3 – The roles of chair and chief executive officer should be separated

As disclosed in relation to Recommendation 2.2, Nick Curtis acts as both Executive Chairman and Chief Executive Officer of the Company. The reasons why Mr Curtis performs that dual role are disclosed in relation to Recommendation 2.2.

Recommendation 2.4 – Nomination Committee

The Board has established a Nomination and Remuneration Committee. A copy of the Charter of the Nomination and Remuneration Committee is available from the Company's website, *www.lynascorp.com*.

Recommendation 2.5 – Process for evaluating the performance of the Board

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

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

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

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

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

Recommendation 2.6 – Additional information concerning the Board and Directors

In accordance with Recommendation 2.6, the Company provides the following additional information:

(1) The skills and experience of each Director is set out in the Directors section of the Director's Report.

(2) The period of office of each Director is as follows:

Name	Term in office
N. Curtis	8 years
J. Klein	5 years
D. Davidson	4 years 7 months *
W. Forde	2 years 5 months

* Mr Davidson was previously a Director of the Company from March 2002 until August 2005. He rejoined the Board in December 2005.

(3) The reasons why Messrs Klein, Davidson and Forde are considered to be independent Directors are disclosed in relation to Recommendation 2.1.

(4) There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

(5) Details of the names of members of the nomination and remuneration committee and attendance at meetings are set out in the Directors Meetings section of the Director's Report.

(6) An evaluation of the performance of the Board, its committees and individual directors took place during the financial year. That evaluation was in accordance with the process disclosed.

(7) The Nomination and Remuneration Committee is responsible for providing the Board with advice and recommendations regarding the ongoing development of:

(a) a plan for identifying, assessing and enhancing director competencies; and
(b) a succession plan that is designed to ensure that an appropriate balance of skills, experience and expertise is maintained on the Board.

The Charter of the Nomination and Remuneration Committee requires that prior to identifying an individual for nomination for directorship, the Committee must evaluate the range of skills, experience and expertise currently existing on the Board to ensure that the Committee identifies the particular skills, experience and expertise that will most effectively complement the Board's current composition. If a new candidate is approved by the Nomination and Remuneration Committee, the appointment of that new candidate is ultimately subject to shareholder approval in accordance with the *Corporations Act 2001* and the Company's Constitution.

(8) Pursuant to Article 13.2 of the Company's Constitution, one-third of the directors of the Company (other than the Chief Executive Officer), or if their number is not a multiple of 3, then such number as is appropriate to ensure that no director other than alternate directors and the managing director holds office for more than 3 years, must retire at each Annual General Meeting and being eligible may offer themselves for re-election. If a candidate is approved by the Nomination and Remuneration Committee for re-election, the re-election of that candidate is subject to shareholder approval in Annual General Meeting.

(9) The Board's policy for the nomination and appointment of Directors is summarized above. Further details are set out in the Charter of the Nomination and Remuneration Committee. A copy of the Charter of the Nomination and Remuneration Committee is available from the Company's website, www.lynascorp.com.

Principle 3 – Promote ethical and responsible decision making

Recommendation 3.1 – Code of Conduct

The Company has established a code of conduct as to the:

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

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

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

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

Recommendation 3.2 – Share Trading Policy

The Company has established a policy concerning trading in the Company's securities by directors, senior executives and employees. A copy of the share trading policy is available from the Company's website, www.lynascorp.com.

Recommendation 3.3 – Availability of Code of Conduct and Share Trading Policy

As noted above, copies of the Company's code of conduct and share trading policy are available from the Company's website, www.lynascorp.com.

Principle 4 – Verify and Safeguard integrity in financial reporting

Recommendation 4.1 – Audit Committee

The Company has established an Audit Committee.

Recommendation 4.2 – Structure of the Audit Committee

The Company's Audit Committee complies with each of the requirements of Recommendation 4.2 as follows:

(1) The Audit Committee consists only of non-executive directors. The members of the Audit Committee are Messrs. Forde, Davidson and Klein. Further details are provided in the Directors Meetings section of the Director's Report.

(2) All of the members of the Audit Committee are independent directors.

(3) The Audit Committee is chaired by Liam Forde, who is an independent director and who is not chair of the Board.

(4) The Audit Committee has three members.

Recommendation 4.3 – Audit Committee Charter

The Company has adopted an Audit Committee Charter.

Recommendation 4.4 – Additional Information concerning the Audit Committee

In accordance with Recommendation 4.4, the Company provides the following additional information concerning the Audit Committee:

(1) The members of the Audit Committee are Messrs. Forde, Davidson and Klein. Details of the qualifications of the members of the Audit Committee are set out in the Directors section of the Director's Report.

(2) Two meetings of the Audit Committee were held during the financial year. All members of the Audit Committee attended those meetings.

(3) A copy of the Audit Committee Charter is available from the Company's website, www.lynascorp.com.

(4) The Audit Committee is responsible for reviewing and recommending to the Board the appointment, remuneration and terms of engagement of the external auditors.

(5) In accordance with the *Corporations Act 2001*, if an external audit engagement partner plays a significant role in the audit of the Company for 5 successive financial years, that partner is not eligible to play a significant role in the audit of the Company for a later financial year unless the partner has not played a significant role in the audit of the Company for at least 2 successive financial years.

Principle 5 - Promote timely and balanced disclosure

Recommendation 5.1 – ASX Listing Rule Disclosure Requirements

The Company has established a written policy designed to ensure:

(1) compliance with ASX Listing Rules disclosure; and
(2) accountability at a senior executive level for that disclosure.

Recommendation 5.2 – Continuous Disclosure Policy

A copy of the Company's continuous disclosure policy is available from the Company's website, *www.lynascorp.com*.

Principle 6 - Respect the rights of shareholders

Recommendation 6.1 – Shareholder Communications Policy

The Company has adopted a shareholder communications policy for:

(a) promoting effective communication with shareholders; and
(b) encouraging shareholder participation at AGMs.

A copy of the Company's shareholder communications policy is available from the Company's website, *www.lynascorp.com*.

Recommendation 6.2 – Availability of Shareholder Communications Policy

As noted above, a copy of the Company's shareholder communications policy is available from the Company's website, *www.lynascorp.com*.

Principle 7 - Recognise and manage risk

Recommendation 7.1 – Risk Management Policies

The Company has established policies for the oversight and management of its material business risks as follows:

(1) The Audit Committee oversees financial risks pursuant to the Audit Committee Charter. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.
(2) The finance department of the Company manages financial risks.
(3) The risk management, safety, health, environment and community committee oversees the Company's other material business risks.
(4) The risk management, safety, health, environment and community departments of the Company manage the Company's other material business risks
(5) The Company has adopted the following policies for the oversight and management of other material business risks: risk management policy, environmental policy, community policy and occupational health and safety policy.

Copies of the following documents referred to in this section are available from the Company's website, *www.lynascorp.com*:

(1) Audit Committee Charter;
(2) Risk Management, Safety, Health, Environment and Community Committee Charter;
(3) Risk management policy;
(4) Environmental policy;
(5) Community policy;
(6) Occupational health and safety policy.

The categories of risk reported on or referred to in the annual report are: financial risk, environmental risk, community risk, and occupational health and safety risk.

Recommendation 7.2 – Risk Management and Internal Control System

The Board has required management to design and implement a risk management and internal control system to manage the Company's business risks.

The Board has required management to report to it on whether those risks are being managed effectively.

Management has reported to the Board as to the effectiveness of the Company's management of its material business risks.

Recommendation 7.3 – Statement from the Chief Executive Officer and the Chief Financial Officer

The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.

Recommendation 7.4 – Additional Information concerning Risk Management

In accordance with Recommendation 7.4, the Company provides the following additional information concerning risk management:

(1) The Board has received the report from management under Recommendation 7.2.

(2) The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer under Recommendation 7.3.

(3) As noted above in relation to Recommendation 7.1, copies of the Company's policies on risk oversight and management of material business risks are available from the Company's website, www.lynascorp.com.

Principle 8 - Remunerate fairly and responsibly

Recommendation 8.1 – Remuneration Committee

The Company has established a Nomination and Remuneration Committee.

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

The remuneration of executive directors and senior executives during the financial year comprised the following:

(1) Fixed remuneration and superannuation payments.
(2) Share options issued for the benefit of the relevant individuals pursuant to the Company's employee share option plan.

Details of the remuneration of executive directors and senior executives during the financial year are set out in the Remuneration Report section of the Director's Report.

The remuneration of non-executive directors during the financial year comprised the following:

(1) Cash fees and superannuation payments.
(2) Share options for the benefit of the relevant non-executive directors pursuant to the Company's employee share option plan.

Details of the remuneration of non-executive directors during the financial year are set out in the Remuneration Report section of the Director's Report.

The fixed remuneration paid to executive directors and senior executives is clearly distinguished from the cash fees paid to non-executive directors.

The Company's Nomination and Remuneration Committee took advice from an external consulting firm in determining the terms of options to be issued for the benefit of non-executive directors. The Company is in project development mode, and therefore it is appropriate to conserve the Company's cash resources by including options in the remuneration of non-executive directors. In addition, the options component of remuneration provides a link to the medium term and long term strategies of growing the Company for the benefit of all shareholders. It is also noted that the issuance of options to non-executive directors was approved by the Company's shareholders at the Annual General Meeting held on 26 November 2009.

The Company complies with Recommendation 8.2 by clearly distinguishing the structure of non-executive directors' remuneration from that of executive directors and senior executives. The commentary that follows each Recommendation does not form part of the Recommendation. The commentary is provided to, among other things, highlight factors which may be relevant to consider and to make suggestions for implementation. The commentary that follows Recommendation 8.2 includes the suggestion that non-executive directors should not receive options. For the reasons discussed above, in the Company's particular circumstances it was considered appropriate for options to be issued to non-executive directors during the financial year. Therefore, during the financial year, the Company did not follow the suggestion in the commentary to Recommendation 8.2 that non-executive directors should not receive options.

Recommendation 8.3 – Additional Information concerning Remuneration

In accordance with Recommendation 8.3, the Company provides the following additional information concerning remuneration:

(1) The members of the Nomination and Remuneration Committee are David Davidson and Liam Forde. There were three formal meetings of the committee during the year, which were attended by both members. In addition, there were several informal meetings.

(2) The Company has no schemes for retirement benefits for non-executive directors, other than superannuation.

(3) A copy of the Charter of the Nomination and Remuneration Committee is available from the Company's website, www.lynascorp.com.

(4) In accordance with the Company's share trading policy, Directors and employees must not at any time hedge options issued to them under an employee option plan prior to vesting of the options. A copy of the share trading policy is available from the Company's website, www.lynascorp.com.

Lynas CORPORATION LTD

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 A$'000	2009 A$'000
REVENUE			
Interest income	3	9,130	4,088
EXPENSES			
Depreciation and amortisation expense	4	1,158	639
Borrowing costs expense		-	6,876
Salaries and employee benefits expense	4	10,365	10,364
Share based payments expense	4	6,057	5,256
Impairment of capitalised costs	4	-	1,160
Other expenses from ordinary activities	4	9,159	12,066
OTHER GAINS AND LOSSES			
Net accounting gain on convertible notes	18	-	(12,917)
Foreign exchange (gains)/ losses		(2,337)	4,548
Suspension costs	16	5,069	5,378
De-recognition of assets	11	22,700	-
LOSS BEFORE INCOME TAX EXPENSE		(43,041)	(29,282)
INCOME TAX EXPENSE	5	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF LYNAS CORPORATION LIMITED		(43,041)	(29,282)
Exchange differences on translation of overseas subsidiaries, net of tax		18,582	(1,322)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(24,459)	(30,604)
Basic loss per share (cents per share)	26	(3.23)	(4.50)
Diluted loss per share(cents per share)	26	(3.23)	(4.50)

Lynas CORPORATION LTD

Consolidated Statement of Financial Position

AS AT 30 JUNE 2010

	Note	2010 A$'000	2009 A$'000
CURRENT ASSETS			
Cash and cash equivalents	7	405,245	16,710
Trade and other receivables	8	1,052	147
Prepayments	9	801	898
TOTAL CURRENT ASSETS		407,098	17,755
NON-CURRENT ASSETS			
Inventories	10	23,887	21,009
Property, plant and equipment	11	178,631	151,503
Deferred exploration, evaluation and development costs	12	23,304	25,465
Intangible assets	13	315	15
Other non-current assets	14	7,428	2,202
TOTAL NON-CURRENT ASSETS		233,565	200,194
TOTAL ASSETS		640,663	217,949
CURRENT LIABILITIES			
Trade and other payables	15	13,419	7,875
Provisions	16	4,586	6,204
TOTAL CURRENT LIABILITIES		18,005	14,079
NON-CURRENT LIABILITIES			
Provisions	17	3,515	5,832
TOTAL NON-CURRENT LIABILITIES		3,515	5,832
TOTAL LIABILITIES		21,520	19,911
NET ASSETS		619,143	198,038
EQUITY			
Issued capital	19	719,857	288,314
Accumulated losses		(140,280)	(97,239)
Share-based payment reserve	20	14,947	8,890
Foreign currency translation reserve	20	24,619	(1,927)
TOTAL EQUITY		619,143	198,038

Lynas CORPORATION LTD

Consolidated Statement of Cash Flow

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 A$'000	2009 A$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(17,644)	(33,874)
Interest received		8,755	6,335
Net cash flows used in operating activities	21	(8,889)	(27,539)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant, equipment and intangibles		(30,454)	(84,615)
Payment for land acquisition		-	(19,794)
Security bonds (paid) / refunded		(1,128)	1,610
Payment for tenements rights		(4,200)	-
Payments for exploration and development		(176)	(2,128)
Net cash flows used in investing activities		(35,958)	(104,927)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares and exercising options		450,089	-
Equity raising establishment fees and costs		(18,546)	(2,448)
Settlement with bondholders	18	-	7,372
Net cash flows provided by financing activities		431,543	4,924
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		386,696	(127,542)
Add opening cash brought forward		16,710	145,480
Net foreign exchange differences		1,839	(1,228)
CLOSING CASH AND CASH EQUIVALENTS		405,245	16,710

Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2010

	Issued capital A$'000	Accumulated losses A$'000	Foreign currency translation reserve A$'000	Share based payment reserve A$'000	Total A$'000
At 1 July 2009	288,314	(97,239)	(1,927)	8,890	198,038
Loss for the year	-	(43,041)	-	-	(43,041)
Other comprehensive income	-	-	26,546	-	26,546
Total comprehensive income	-	(43,041)	26,546	-	(16,495)
Exercise of options	89	-	-	-	89
Allotment of new shares	450,000	-	-	-	450,000
Cost of equity raising	(18,546)	-	-	-	(18,546)
Cost of share based payments	-	-	-	6,057	6,057
At 30 June 2010	719,857	(140,280)	24,619	14,947	619,143

YEAR ENDED 30 JUNE 2009

	Issued capital A$'000	Accumulated losses A$'000	Foreign currency translation reserve A$'000	Share based payment reserve A$'000	Total A$'000
At 1 July 2008	285,624	(67,957)	(38)	3,634	221,263
Loss for the year	-	(29,282)	-	-	(29,282)
Other comprehensive income	-	-	(1,889)	-	(1,889)
Total comprehensive income	-	(29,282)	(1,889)	-	(31,171)
Allotment of new shares	2,690	-	-	-	2,690
Cost of share based payments	-	-	-	5,256	5,256
At 30 June 2009	288,314	(97,239)	(1,927)	8,890	198,038

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial report of Lynas Corporation Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 21 September 2010.

Lynas Corporation Ltd (the parent) is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and applicable Australian Accounting Standards. The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

Historical cost convention

The financial report has been prepared in accordance with the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with Australian Equivalents to International Financial Reporting Standards (AIFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made:

- Deferred exploration, evaluation and development costs;
- Deferred stripping costs;
- Provision for restoration, rehabilitation and closure;
- Share based payments; and
- Impairment.

Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements. Where appropriate, prior year numbers have been reclassified for consistency with the current year disclosures.

b) Statement of compliance

The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

New and revised standards and interpretations applicable for the year commencing 1 July 2009 have been reviewed and it was determined that changes were not required to the existing accounting policies adopted by the Group.

Australian Accounting Standards and interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the Company for the reporting period 30 June 2010. The Directors have assessed the impact of these new or amended standards and interpretations and do not consider that these will materially impact the Group.

Notes to Financial Statements

c) Change in accounting policy

From 1 July 2009, the Company has adopted the following Standards for annual periods beginning on or after 1 July 2009. Adoption of these standards did not have any effect on the financial position or the performance of the Group. Apart from the changes in the accounting policy below, the accounting policies and methods of compilation are the same as those adopted in the 2009 annual financial report.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 31, including the related revised comparative information.

AASB 101 Presentation of Financial Statements – Revised

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The group has elected to present one statement.

d) Principles of consolidation

The consolidated financial statements are those of the Consolidated Entity, comprising Lynas Corporation Limited (the Parent Company) and all entities that Lynas Corporation Limited controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date the Parent Company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Parent Company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

e) Foreign currencies

Translation of Foreign Currency Transactions

Both the functional and presentation currency of Lynas Corporation Limited and its Australian subsidiaries is the Australian dollar (A$). The functional currency of Lynas Malaysia Sdn Bhd is Malaysian Ringgit (MYR).

Transactions in foreign currencies of entities within the Consolidated Entity are converted to the functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

All resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Lynas Corporation Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at

Notes to Financial Statements

the weighted average exchange rates for the period. The exchange differences arising on the re-translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

f) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the cash flow statements, cash includes cash on hand and in banks, and money market investments with an original maturity date of three months or less, net of outstanding bank overdrafts.

g) Receivables

Receivables are recognised and carried at amortised cost. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. Funds on deposit are measured at nominal value.

h) Investments and other financial assets

Interests in listed securities are initially recognised at fair value. At each balance sheet date they are adjusted to fair value with any changes in value recognised direct to equity. Dividend income is recognised in the statement of financial performance when received. Investments in controlled entities are carried at the lower of cost and recoverable amount.

i) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to Financial Statements

j) Property, plant and equipment

Cost: All classes of property, plant and equipment are measured at historical cost less accumulated depreciation and any impairment charges.

Depreciation: Depreciation is provided on a straight-line basis on all property, plant and equipment.

	2010	2009
Leasehold improvements:	The lease term	The lease term
Leasehold land:	The lease term	The lease term
Plant and equipment:		
Furniture and fittings	5 years	5 years
Computer hardware and software	3 years	3 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate at each financial year end.

k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

l) Exploration, evaluation, development and restoration costs

Exploration and Evaluation Costs

Costs arising from exploration and evaluation are accounted for in accordance with the 'area of interest' method. Exploration and evaluation expenditure is capitalised provided the rights of tenure of the area of interest is current and either:

- The exploration and evaluation activities are expected to be recouped through successful development or alternatively, by sale; or
- where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Notes to Financial Statements

Development Costs

Development expenditure represents the costs incurred in preparing the mine at Mt Weld for production, and includes stripping and waste removal costs incurred before production commences. The costs are capitalised to the extent that they are expected to be recouped through successful exploitation of the related mining leases. Once production commences, these costs are amortised using the units of production method based on the estimated economically recoverable reserves to which they relate or are written off if the mine property is abandoned.

Stripping Costs

In mining operations, it is necessary to remove overburden and other barren waste materials to access ore from which minerals can economically be extracted. The process of mining overburden and waste materials is referred to as stripping. The Group defers stripping costs incurred both prior to and during production.

Stripping ratios are a function of the quantity of ore mined compared with the quantity of overburden, or waste required to be removed to mine the ore. Deferral of these costs is made where appropriate, when actual stripping ratios for each campaign vary from average life of mine ratios. Deferral of costs is not made when the waste to ore ratio is expected to be consistent throughout the life of mine.

Costs which have been previously deferred (deferred overburden removal costs) are recognised in profit or loss on a unit of production basis utilising average stripping ratios. Changes in estimates of average stripping ratios are accounted for prospectively from the date of the change.

As it is not possible to separately identify cash inflows relating to deferred overburden removal costs, such assets are grouped with other assets of a cash generating unit for the purposes of undertaking impairment assessments, where necessary, based on future cash flows for the operation as a whole.

Amortisation

Costs on productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis. Unamortised costs are reviewed at each reporting date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

Restoration, Rehabilitation and Closure Costs

The Group is required to decommission and rehabilitate mines and processing sites at the end of their productive lives to a condition acceptable to the relevant authorities. The costs include obligations relating to reclamation, waste site closure, plant closure, platform removal and other costs associated with the restoration of the site.

The expected cost of any approved decommissioning or rehabilitation programme, discounted to its net present value, is provided for when the related environmental disturbance occurs. The cost is capitalised when it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of closure. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision for the expected cost is included in financing expenses. Expected decommissioning and rehabilitation costs are based on the discounted value of the estimated future cost of detailed plans prepared for each site. Where there is a change in the expected decommissioning and restoration costs, the value of the provision and any related asset are adjusted and the effect is recognised in profit and loss on a prospective basis over the remaining life of the operation.

Notes to Financial Statements

m) Inventories

Inventories are valued at the lower of cost and net realisable value. The costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Ore Stockpiles

Cost of direct material and labour and a proportion of amortised development and stripping costs. To the extent ore inventories are not expected to be processed within 12 months, they are classified as non-current.

Chemical Stores

Cost of chemicals and associated freight charges.

n) Intangibles

Capitalised software is initially measured at cost. Following initial recognition, the assets are carried at cost less any accumulated depreciation and any accumulated impairment losses. The amortisation period is 3 years. Capitalised software is tested for impairment whenever there is an indication that the intangible asset may be impaired.

o) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Consolidated Entity. Liabilities for trade creditor amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables to related parties are recognised at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Deferred cash settlements are carried at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

p) Interest-bearing liabilities and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transactions costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised costs using the effective interest rate method. Fees paid on the establishment of loan facilities are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

q) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Notes to Financial Statements

r) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Group.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

s) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue received from the sale or disposal of products, material or services during the exploration, evaluation or development phases of operations is offset against deferred expenditure in respect of the area of interest or mineral resource concerned.

- *Interest* - Recognised using the effective interest rate method.
- *Rent* - revenue is recognised when the right to receive the rent payment is obtained.

t) Share-based payment transactions

The Group provides benefits to Directors and employees of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (‘equity-settled transactions’). The Executive and Employee Option Plan is in place to provide these benefits. Options granted under this vest over a three year period and have no attaching market or performance conditions.

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes valuation model.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at each reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

The income statement charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described above. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements

u) Taxes

Income Taxes

Tax-effect accounting is applied using the balance sheet method where deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST except:

- Where the GST included on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

v) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, superannuation, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, superannuation, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used. Expected salary increases and assumptions on the likely period of service are incorporated into the calculations.

Notes to Financial Statements

w) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions have been complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. They are not credited directly to shareholders equity. When the grant relates to an asset, the fair value of the grant is released to the income statement over the expected useful life of the relevant asset.

x) Earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, and adjusted for any bonus element.

y) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity’s outstanding borrowings during the period.

z) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management also considers other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

aa) Adoption of new accounting standards

The Group has reviewed new Australian Accounting Standards and Interpretations that have been issued but are not yet effective. The Company has not early adopted any new accounting policies or applied any new accounting standards in the year ended 30 June 2010. Management does not expect any such standard to have a material impact on the Group.

Notes to Financial Statements

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, cash and short term deposits.

The Group's activities expose it to a variety of financial risks; market risk (including currency risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group.

Risk Management is carried out under the direction of the CFO in accordance with policies approved by the Board of Directors.

a) Foreign currency risk

Foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group does not make use of derivative financial instruments to hedge foreign exchange risk arising from normal operations.

The following table illustrates the Group's exposure to USD foreign currency and highlights the sensitivity allowing for movements of +10% and -10% on the AUD/USD exchange rate at balance date.

	2010 A$'000	2009 A$'000
Financial assets		
Cash and cash equivalents	33,681	3,021
TOTAL Financial assets	33,681	3,021
Sensitivity analysis		
Post Tax Profit - Higher / (Lower)		
AUD/USD +10%	(2,358)	(192)
AUD/USD -10%	2,358	192
Equity - Higher / (Lower)		
AUD/USD +10%	-	-
AUD/USD -10%	-	-

Notes to Financial Statements

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

b) Interest rate risk

The Group's current exposure to interest rate risk is the risk in the movement in variable rates relevant to cash deposits, which are not hedged.

The following table illustrates the Group's exposure to interest rate movements on its financial assets and financial liabilities, and sensitivity analysis showing the impact of interest rate increase or decrease of 100 basis points.

	Interest Bearing (Floating)	
A$'000	2010	2009
Financial assets		
Cash	405,245	16,710
Trade and other receivables	-	-
Total financial assets	405,245	16,710
Financial liabilities		
Trade and other payables	-	-
Total financial liabilities	-	-
Net exposure to floating interest rates	405,245	16,710
Sensitivity analysis		
Post Tax Profit - Higher / (Lower)		
+ 1% (100 basis points)	2,837	117
- 1% (100 basis points)	(2,837)	(117)
Equity - Higher / (Lower)		
+ 1% (100 basis points)	-	-
- 1% (100 basis points)	-	-

c) Credit risk

At 30 June 2010 the only significant receivable balances were those of the Parent Entity for funding provided to subsidiary companies. At 30 June 2010 it was recognised that these balances could be considered to be impaired however it is anticipated that these balances will be able to be paid in full once the group starts production and commences sales to external parties in the 2012 financial year. There are no other receivables that are past due or impaired. The table provided under item d) Liquidity risk, illustrates the maturities of the Group's financial assets and liabilities.

Notes to Financial Statements

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

d) Liquidity risk

Liquidity risk is managed to ensure that the Group has sufficient assets to meet liabilities as they fall due by maintaining sufficient reserves of cash and drawdown of debt facilities to meet forecast cash outlays. Short-term cash flows are re-estimated for the group on a monthly basis with long-term cash flows re-estimated on a quarterly basis.

	Less than 12 months		1-5 years		Over 5 years	
A$'000	2010	2009	2010	2009	2010	2009
Financial assets						
Cash	405,245	16,710	-	-	-	-
Trade and other receivables	1,052	147	-	-	-	-
Prepayments	801	898	-	-	-	-
Total financial assets	407,098	17,755	-	-	-	-
Financial liabilities						
Trade and other payables	18,005	14,079	-	-	-	-
Total financial liabilities	18,005	14,079	-	-	-	-
TOTAL	389,093	3,676	-	-	-	-

e) Capital management

The Group considers its capital to comprise of its ordinary share capital net of accumulated losses.

In managing its capital, the Group's primary objective is to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. The Group has no debt, hence has a nil gearing ratio.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

Notes to Financial Statements

	2010 A$'000	2009 A$'000

3. REVENUE

	2010 A$'000	2009 A$'000
Interest income	9,130	4,088
Total revenue	9,130	4,088

4. EXPENSES

	2010 A$'000	2009 A$'000
Salaries and employee benefits expense		
Salaries and employee costs	9,090	9,469
Superannuation	488	435
Recruitment costs	787	460
Share based payment expense	6,057	5,256
Total salaries and employee benefits expense	16,422	15,620
Depreciation and amortisation of non-current assets		
Leasehold improvements	12	16
Plant and equipment	296	407
Intangibles	96	216
Tenement rights	102	-
Leasehold land	652	-
Total depreciation and amortisation of non-current assets	1,158	639
Other expenses		
Accounting and tax consulting	329	605
Technical and management consulting	2,899	2,196
Insurance	319	1,711
Legal expenses	191	1,298
Office expenses	889	1,170
Operating lease expenses	765	686
Share registry and listing fees	402	169
Travel and accommodation	2,155	2,209
Other	1,210	2,022
Total other expense	9,159	12,066
Losses		
Impairment of capitalised costs	-	1,160
Total losses	-	1,160

The impairment of capitalised costs relates to the write down of an earlier ERP system.

Notes to Financial Statements

	2010 A$'000	2009 A$'000

5. INCOME TAX

The prima facie tax, using tax rates applicable in the country of operation, on loss differs from the income tax provided in the financial statements as follows:

	2010 A$'000	2009 A$'000
Operating loss before income tax	(43,041)	(29,282)
Prima facie tax benefit on loss from ordinary activities at the Company's statutory income tax rate of 30% (2009: 30%)	(12,912)	(8,785)
Adjustments in respect of current income tax charge of previous years	4,743	999
Income tax benefit not recorded	8,169	7,786
Income tax expense attributable to ordinary activities	-	-

Net future income tax benefit not brought to account due to doubt over future realisation.

Tax Losses

The Group has carry forward capital tax losses that arose in Australia of $2,330,089 (2009: $2,330,089) and are available indefinitely for offset against future capital gains of a similar nature subject to continuing to meet relevant statutory tests.

The Group has carry forward revenue tax losses that arose in Australia of $79,722,411 (2009: $57,646,410) and are available indefinitely for offset against future revenue gains of a similar nature subject to continuing to meet relevant statutory tests.

Deferred tax assets are recognised to the extent necessary to offset deferred tax liabilities. No deferred tax asset is recognised on the balance sheet at 30 June 2010 for any of the remaining carry forward losses.

Tax Consolidation

Lynas Corporation Limited and its 100% owned Australian subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis.

The agreement provides for the allocation of income tax liabilities between the entities should the head entity default in its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Lynas Corporation Limited.

Notes to Financial Statements

	2010 A$'000	2009 A$'000

6. DIVIDENDS PAID

	2010 A$'000	2009 A$'000
Ordinary shares	-	-

No dividend has been recommended or declared since the end of the previous financial year.

7. CASH AND CASH EQUIVALENTS

	2010 A$'000	2009 A$'000
Cash at bank and on hand	40,812	6,058
Short-term deposits	364,433	10,652
	405,245	16,710

8. TRADE AND OTHER RECEIVABLES (CURRENT)

	2010 A$'000	2009 A$'000
Other receivables	592	32
GST receivable	460	115
	1,052	147

9. PREPAYMENTS (CURRENT)

	2010 A$'000	2009 A$'000
Prepaid insurance	319	322
Other prepaid expenses	482	576
	801	898

10. INVENTORIES (NON-CURRENT)

	2010 A$'000	2009 A$'000
Stockpile ore	19,470	19,470
Chemicals	4,417	1,539
	23,887	21,009

Notes to Financial Statements

11. PROPERTY, PLANT AND EQUIPMENT

		2010 A$'000	2009 A$'000
Capitalised project costs			
Advanced Materials Processing Plant (Gebeng, Malaysia)	(i)	110,755	97,671
Concentration Plant (Mt Weld, WA)		35,969	22,119
Other capitalised project costs		6	109
		146,730	119,899
Leasehold land	(ii)		
At cost		31,450	30,692
Accumulated amortisation		(652)	-
		30,798	30,692
Leasehold improvements			
At cost		229	186
Accumulated amortisation		(149)	(137)
		80	49
Furniture and fittings			
At cost		2,054	1,862
Accumulated depreciation		(1,133)	(1,069)
		921	793
Motor vehicles			
At cost		133	83
Accumulated depreciation		(31)	(13)
		102	70
Total property, plant and equipment		178,631	151,503

(i) A comprehensive review was completed in the current year to assess whether all of the capitalised project costs in relation to the Advanced Material Plant in Gebeng, Malaysia were still expected to provide a future economic benefit or whether some of the capitalised costs should be de-recognised based on developments in the current financial year.

Based on this analysis the Company identified costs of $22.7 million which were no longer expected to render any future economic benefit. These costs primarily represent issues around the change in 2009 in the engineering, design and construction management contractor which, due the complicated nature of the transition after project suspension, resulted in significant rework and duplicated costs.

(ii) Consistent with normal land-holding structure in Malaysia, Leasehold Land represents the cost of the leases for the land at Gebeng where the Advanced Materials Plant is being constructed. The land is in 2 leasehold titles and the expiry dates are 3 December 2099 and 30 October 2106 respectively. Leasehold Land is amortised over the period of the lease, and the Company is in the process of consolidating the land into one leasehold title.

Notes to Financial Statements

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial years

	Opening balance	Additions	De-recognition of assets	Depreciation and amortisation for year	Transfers	Foreign exchange impact	Closing balance
	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000	A$'000
2010							
Advanced Materials Processing Plant	97,671	31,022	(22,700)	-	-	4,762	110,755
Concentration Plant	22,119	13,850	-	-	-	-	35,969
Leasehold land	30,692	-	-	(652)	-	758	30,798
Leasehold improvements	49	43	-	(12)	-	-	80
Furniture and fittings	793	608	-	(278)	(202)	-	921
Motor vehicles	70	50	-	(18)	-	-	102
Other capitalised projects	109	-	-	-	-	(103)	6
	151,503	45,573	(22,700)	(960)	(202)	5,417	178,631
2009							
Advanced Materials Processing Plant	34,327	63,344	-	-	-	-	97,671
Concentration Plant	6,506	15,613	-	-	-	-	22,119
Leasehold land	-	30,692	-	-	-	-	30,692
Leasehold improvements	65	-	-	(16)	-	-	49
Furniture and fittings	772	416	-	(395)	-	-	793
Motor vehicles	33	49	-	(12)	-	-	70
Other capitalised projects	-	109	-	-	-	-	109
	41,703	110,223	-	(423)	-	-	151,503

Notes to Financial Statements

	2010 A$'000	2009 A$'000

12. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

Exploration, evaluation and development costs carried forward in respect of mining areas of interest and Rare Earths processing facilities:

	2010 A$'000	2009 A$'000
Capitalised exploration expenditure	2,846	2,670
Capitalised development expenditure	16,380	18,717
Deferred stripping asset	4,078	4,078
	23,304	25,465

Reconciliation

Reconciliations of the carrying amounts of deferred exploration, evaluation and development costs at the beginning and end of the current and previous financial years

	2010 A$'000	2009 A$'000
Costs brought forward	25,465	24,647
Expenditure incurred during the year	176	2,128
Reduction in carrying value	(2,337)	(1,310)
	23,304	25,465

13. INTANGIBLE ASSETS

	2010 A$'000	2009 A$'000
Computer software licences		
At cost	606	16
Accumulated amortisation	(291)	(1)
	315	15

Reconciliation

Reconciliations of the carrying amounts of intangibles at the beginning and end of the current and previous financial years.

	2010 A$'000	2009 A$'000
Intangibles		
Opening balance	15	620
Additions	396	608
Amortisation for year	(96)	(216)
Impairment of capitalised costs	-	(1,160)
	315	15

Notes to Financial Statements

	2010 A$'000	2009 A$'000

14. OTHER NON-CURRENT ASSETS

	2010 A$'000	2009 A$'000
Tenement rights		
At cost	4,200	-
Accumulated amortisation	(102)	-
	4,098	-
Security deposits		
At cost	3,330	2,202
	3,330	2,202
Total other non-current assets	7,428	2,202

Security Deposits relate to cash provided for security bonds issued to secure the mining tenements at Mount Weld. The weighted average interest rate per annum was 3.5%. Other receivables are non-interest bearing and are generally on 60-day terms. The carrying value of the other receivables approximates the fair value.

Reconciliation

Reconciliations of the carrying amounts of other non-current assets at the beginning and end of the current and previous financial years.

	2010 A$'000	2009 A$'000
Tenement rights		
Opening balance	-	-
Additions	4,200	-
Amortisation for year	(102)	-
	4,098	-
Security deposits		
Opening balance	2,202	2,411
Additions	1,128	-
Repayments	-	(209)
	3,330	2,202

Notes to Financial Statements

	2010 A$'000	2009 A$'000

15. TRADE AND OTHER PAYABLES (CURRENT)

	2010 A$'000	2009 A$'000
Trade creditors	12,354	7,730
Other creditors	1,065	145
	13,419	7,875

Trade creditors are non-interest bearing and are normally settled on 30 day terms. Other creditors are non-interest bearing and have an average term of 30 days. The carrying value of trade and other creditors approximates the fair value.

16. PROVISIONS (CURRENT)

	2010 A$'000	2009 A$'000
Employee benefits	528	901
Suspension costs	4,058	5,303
	4,586	6,204

In February 2009, the Company placed the Rare Earths Project into suspension and at 30 June 2010, a provision of $4,058,000 has been made to meet specific delay claims from vendors and contractors.

Movements in provision for suspension costs

	2010 A$'000	2009 A$'000
Carrying amount at beginning	5,303	-
Increase in provision	5,069	5,303
Utilisation	(6,174)	-
Foreign exchange impact	(140)	-
Carrying amount at end	4,058	5,303

Notes to Financial Statements

17. PROVISIONS (NON-CURRENT)

	2010 A$'000	2009 A$'000
Long service leave	239	219
Restoration, rehabilitation and closure	3,276	5,613
	3,515	5,832

Restoration, rehabilitation and closure costs reflect the estimated amounts that will be incurred, and the net exposure to future costs for the closure of the Mt Weld operations, based on disturbance to date.

Movements in provision for restoration, rehabilitation and closure

	2010 A$'000	2009 A$'000
Carrying amount at beginning	5,613	6,923
Reduction in provision	(2,337)	(1,310)
Carrying amount at end	3,276	5,613

18. CONVERTIBLE NOTES

The $12,917,000 gain in the 2009 financial year represents the net accounting gain on the Company's convertible notes which were settled as at 30 June 2009. The following table illustrates the different components recorded in relation to the settlement with the bondholders, and the unwinding of the convertible notes in 2009.

Impact on Profit and Loss	2010 A$'000	2009 A$'000
Change in fair value of embedded derivative	-	29,662
Interest expense	-	(7,978)
Interest expense (loss on the cancellation of the convertible notes)	-	(20,255)
Net foreign exchange gains	-	10,063
Interest income on restricted cash	-	1,425
Net accounting gain on convertible notes	-	12,917

For further information please refer to note 19 of the Company's 2009 Annual Report.

Notes to Financial Statements

19. ISSUED CAPITAL

	2010 A$'000	2009 A$'000
Ordinary shares fully paid	719,857	288,314

Movements in shares on issue	2010 Number of shares '000	2010 A$'000
Beginning of the financial year	654,799	288,314
Issued during the year		
issue of shares pursuant to option conversion	700	89
equity raising	1,000,000	450,000
cost of equity raising	-	(18,546)
Total share issues during the year	1,000,700	431,543
End of financial year	1,655,499	719,857

Notes to Financial Statements

19. ISSUED CAPITAL (continued)

Reconciliation of options on issue

Unlisted share options	30 June 2009	Issued	Exercised	Expired/ cancelled	30 June 2010	Exercise price	Expiry
Incentive plan options	250,000	-	(250,000)	-	-	$0.11	15-Nov-09
Incentive plan options	8,200,000	-	(250,000)	(100,000)	7,850,000	$0.11	30-Jun-11
Incentive plan options	50,000	-	-	-	50,000	$0.13	11-Oct-11
Incentive plan options	700,000	-	-	-	700,000	$0.52	29-Mar-12
Incentive Plan options	50,000	-	-	-	50,000	$0.64	4-Apr-12
Incentive Plan options	20,000	-	-	(20,000)	-	$0.83	29-Mar-12
Incentive Plan options	11,180,000	-	-	(30,000)	11,150,000	$1.01	25-Jun-12
Incentive Plan options	100,000	-	-	-	100,000	$0.91	2-Jul-12
Incentive Plan options	50,000	-	-	-	50,000	$0.81	24-Aug-12
Incentive Plan options	200,000	-	-	-	200,000	$1.08	15-Oct-12
Incentive Plan options	500,000	-	-	-	500,000	$1.06	31-Dec-12
Incentive Plan options	200,000	-	-	-	200,000	$1.09	30-Apr-13
Incentive Plan options	1,000,000	-	-	-	1,000,000	$0.98	21-Jul-13
Incentive Plan options	2,700,000	-	-	-	2,700,000	$0.81	24-Sep-13
Incentive Plan options	15,750,000	-	-	(1,100,000)	14,650,000	$0.66	24-Sep-13
Incentive Plan options	1,100,000	-	-	-	1,100,000	$0.16	5-Jan-14
Incentive Plan options	-	200,000	-	-	200,000	$0.66	24-Sep-13
Incentive Plan options	-	24,500,000	-	-	24,500,000	$0.66	8-Oct-14
Subtotal	42,050,000	24,700,000	(500,000)	(1,250,000)	65,000,000		
Unlisted options	200,000	-	(200,000)	-	-	$0.17	11-Aug-09
Unlisted options	2,000,000	-	-	(2,000,000)	-	$0.50	11-Aug-09
Subtotal	2,200,000	-	(200,000)	(2,000,000)	-		
TOTAL	44,250,000	24,700,000	(700,000)	(3,250,000)	65,000,000		

Terms and conditions of contributed equity

Ordinary shares: Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Options: Option holders have no right to receive dividends nor are they entitled to vote at a meeting of the Company.

Notes to Financial Statements

	2010 A$'000	2009 A$'000

20. RESERVES

	2010 A$'000	2009 A$'000
Share-based payments reserve	14,947	8,890
Foreign currency translation reserve	24,619	(1,927)
	39,566	6,963

Reconciliation

Reconciliations of the movement in reserve balance at the beginning and end of the current and previous financial years

	2010 A$'000	2009 A$'000
Reserve balance brought forward	6,963	3,596
Currency translation differences	26,546	(1,889)
Cost of share-based payments during the year	6,057	5,256
	39,566	6,963

Share-based payments reserve

The share-based payments reserve is used to record the value of share options provided to employees and Directors as part of their remuneration.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Notes to Financial Statements

21. NOTE TO THE STATEMENT OF CASH FLOWS

Reconciliation of the net loss after tax to the net cash flows from operations

	2010 A$'000	2009 A$'000
Net loss	(43,041)	(29,292)
Non-cash items		
Depreciation and amortisation of non-current assets	1,158	639
Impairment of capitalised costs	-	1,160
Suspension costs	5,069	5,378
Share-based employee remuneration	6,057	5,256
Capitalised interest expense on convertible notes	-	7,978
Change in the fair value of the embedded derivative related to the convertible notes	-	(29,662)
Foreign exchange (gains) / losses	(2,337)	4,548
De-recognition of assets	22,700	-
Changes in assets and liabilities		
(Increase) / decrease in trade and other receivables	(906)	12,057
Increase in inventory	(2877)	(1,539)
Decrease / (increase) in prepayments	97	(94)
Increase / (decrease) in trade and other creditors	5,545	(4,551)
(Decrease) / increase in employee entitlements	(354)	583
Net cash flow used in operating activities	(8,889)	(27,539)

Notes to Financial Statements

22. EXPENDITURE COMMITMENTS

(a) Exploration commitments

	2010 A$'000	2009 A$'000
not later than one year	250	389
later than one year and not later than five years	1,097	1,053
later than five years	3,550	3,030
	4,897	4,472

As a condition of the mining tenements held by Mt Weld Mining Pty Ltd, the group is required to spend a minimum amount on the development of those tenements. The commitment represents that minimum commitment over the life of the tenement licenses.

(b) Capital commitments

	2010 A$'000	2009 A$'000
not later than one year	111,680	65,823
	111,680	65,823

The Group has issued contracts and orders for the procurement of equipment in relation to the development of the Concentration Plant at Mt Weld and the Advanced Materials Processing Plant in Malaysia. At 30 June 2010 the value of the uncommitted expenditure totaled $111.7 million. It is anticipated that payment in relation to these contracts will all be made within 12 months.

(c) Operating lease commitments

	2010 A$'000	2009 A$'000
not later than one year	1,801	1,020
later than one year and not later than five years	2,196	2,811
	3,997	3,831

The Group has contracts for several operating leases for the business premises occupied by the Company in Sydney, Perth, Laverton, Beijing in China, and Gebeng in Malaysia. The Group also has several operating leases for motor vehicles.

Notes to Financial Statements

23. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

The aggregate employee benefit liability is comprised of:

	2010 A$'000	2009 A$'000
Current		
Accrued wages, salaries and on-costs	168	529
Accrued annual leave	528	401
	696	930
Non-current		
Provision for long service leave	239	219
	239	219
	935	1,149

Notes to Financial Statements

24. SHARE-BASED PAYMENTS

Employee Option Plan

An employee option plan has been established whereby the Company may, at the discretion of Directors, grant options over the ordinary shares of the Company for the benefit of Directors, executives and certain employees of the Consolidated Entity. The options issued for nil consideration, are granted in accordance with performance guidelines established by the Directors of the Company, although the management of the Company retains the final discretion on the issue of the options. The options are issued for a term of 5 years and are exercisable beginning on the third anniversary of the date of grant. The Directors, at their discretion, may cancel options during the vesting period, if employment is terminated with the Company. The options cannot be transferred and will not be quoted on the ASX.

Information with respect to the number of options granted to Directors, Key Management Personnel and other employees under the employee share incentive scheme are as follows:

	2010 Number of options '000	2009 Number of options '000
Balance at beginning of year	42,050	21,500
Options issued	24,700	20,550
Options cancelled	(1,250)	-
Options exercised or lapsed	(500)	-
Balance at end of year	65,000	42,050
Exercisable at end of year	19,800	8,450

Notes to Financial Statements

24. SHARE-BASED PAYMENTS (continued)

Adjustment to the Exercise Price of Options

One component of the capital raising announced on 29 September 2009 was the 1 for 1 entitlement offer to existing shareholders of the Company.

In accordance with ASX Listing Rule 6.22, the entitlement offer resulted in a $0.19 reduction in the exercise price of all employee options granted before 29 September 2009 as compensation to the option holders for the dilutive effect of the entitlement offer. The amounts stated under the heading "Weighted average exercise price" have been adjusted by $0.19 where applicable.

Options held at the beginning of the reporting period:

Number of options '000	Grant date	Vesting date	Expiry date	Weighted average exercise price
250	15 Nov 2004	15 Nov 2007	15 Nov 2009	$0.11
8,200	30 Jun 2006	30 Jun 2009	30 Jun 2011	$0.11
50	11 Oct 2006	11 Oct 2009	11 Oct 2011	$0.13
700	29 Mar 2007	4 Apr 2010	4 Apr 2012	$0.52
50	4 Apr 2007	4 Apr 2010	4 Apr 2012	$0.64
20	18 Apr 2007	29 Mar 2010	29 Mar 2012	$0.83
11,180	25 Jun 2007	25 Jun 2010	25 Jun 2012	$1.01
100	2 Jul 2007	2 Jul 2010	2 Jul 2012	$0.91
50	20 Aug 2007	24 Aug 2010	24 Aug 2012	$0.81
200	15 Oct 2007	15 Oct 2010	15 Oct 2012	$1.08
500	19 Mar 2008	31 Dec 2010	31 Dec 2012	$1.06
200	6 May 2008	30 Apr 2011	30 Apr 2013	$1.09
1,000	21 Jul 2008	21 Jul 2011	21 Jul 2013	$0.98
2,700	24 Sep 2008	24 Sep 2011	24 Sep 2013	$0.81
15,750	24 Sep 2008	24 Sep 2011	24 Sep 2013	$0.66
1,100	5 Jan 2009	5 Jan 2012	5 Jan 2014	$0.16
42,050				

Notes to Financial Statements

24. SHARE-BASED PAYMENTS (continued)

Options granted for the benefit of employees during the reporting period:

Number of options '000	Grant date	Vesting date	Expiry date	Weighted average exercise price
200	10 Jul 2009	24 Sep 2011	24 Sep 2013	$0.66
24,500	8 Oct 2009	8 Oct 2012	8 Oct 2014	$0.66
24,700				

Unlisted non-employee options:

During the financial year, the following additional non-employee options to acquire shares in the Company were also outstanding. The following options were not issued under the employee share scheme:

Number of options '000	Grant date	Vesting date	Expiry date	Weighted average exercise price
200	11 Aug 2006	11 Aug 2006	11 Aug 2009	$0.17
2,000	21 Dec 2006	21 Dec 2006	11 Aug 2009	$0.50
2,200				

Options expired, cancelled, vested and exercised during the reporting period:

Number of employee options exercised	500,000
Number of employee options cancelled	1,250,000
Number of employee options vested	11,950,000
Number of unlisted non-employee options exercised	200,000
Number of unlisted non-employee options expired	2,000,000

Notes to Financial Statements

24. SHARE-BASED PAYMENTS (continued)

Total options held as at the end of the reporting period:

Number of Options '000	Grant date	Vesting date	Expiry date	Weighted average exercise price
7,850	30 Jun 2006	30 Jun 2009	30 Jun 2011	$0.11
50	11 Oct 2006	11 Oct 2009	11 Oct 2011	$0.13
700	29 Mar 2007	29 Mar 2010	29 Mar 2012	$0.52
50	4 Apr 2007	4 Apr 2010	4 Apr 2012	$0.64
11,150	25 Jun 2007	25 Jun 2010	25 Jun 2012	$1.01
100	2 Jul 2007	2 Jul 2010	2 Jul 2012	$0.91
50	20 Aug 2007	24 Aug 2010	24 Aug 2012	$0.81
200	15 Oct 2007	15 Oct 2010	15 Oct 2012	$1.08
500	19 Mar 2008	31 Dec 2010	31 Dec 2012	$1.06
200	6 May 2008	30 Apr 2011	30 Apr 2013	$1.09
1,000	21 Jul 2008	21 Jul 2011	21 Jul 2013	$0.98
2,700	24 Sep 2008	24 Sep 2011	24 Sep 2013	$0.81
14,650	24 Sep 2008	24 Sep 2011	24 Sep 2013	$0.66
1,100	5 Jan 2009	5 Jan 2012	5 Jan 2014	$0.16
200	10 Jul 2009	24 Sep 2011	24 Sep 2013	$0.66
24,500	8 Oct 2009	8 Oct 2012	8 Oct 2014	$0.66
65,000				

Options granted for the benefit of Directors, executives and employees are issued to the trustee of the Lynas Employee Share Trust (the 'Trust'). The relevant Directors, executives and employees are issued an equivalent number of share units in the Trust.

25. CONTINGENT LIABILTIES AND CONTINGENT ASSETS

The Company had no contingent liabilities or contingent assets at 30 June 2010.

Notes to Financial Statements

	2010 A$'000	2009 A$'000

26. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	2010 A$'000	2009 A$'000
Net loss attribute to ordinary shareholders	(43,041)	(29,282)
Earnings used in calculating basic and diluted earnings per share	(43,041)	(29,282)

	2010 000's	2009 000's
Weighted average number of ordinary shares used in calculating basic earnings per share:	1,332,579	651,688
Effect of dilutive securities:		
The number of options which are potential ordinary shares that are not dilutive and hence not used in the valuation of the diluted earnings per share	9,700	9,800
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	1,332,579	651,688
Basic loss per share (cents per share)	(3.23)	(4.50)
Diluted loss per share (cents per share)	(3.23)	(4.50)

Conversions, calls, subscriptions or issues after 30 June 2010

The following events have occurred since 30 June 2010:

- 1,000,000 new employee options were issued.

Information concerning the classification of securities

Options

Options granted to employees under the Lynas Corporation Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

Notes to Financial Statements

27. SUBSEQUENT EVENTS

Subsequent to year end no events have occurred which had a significant impact on the Group.

28. AUDITORS REMUNERATION

	2010 A$	2009 A$
Amounts received or due and receivable by Ernst & Young (Australia) for:		
(i) an audit or review of the financial report	134,702	167,311
(ii) tax related services	103,250	132,508
(iii) transaction and accounting advisory services	22,866	154,031
	260,818	453,850
Amounts received or due by related practices of Ernst & Young (Australia) for:		
(i) an audit or review of the financial report	16,084	10,530
(ii) due diligence services provided by an overseas Ernst & Young firm	3,481	15,560
	19,565	26,090
	280,383	479,940

Notes to Financial Statements

29. DIRECTORS AND KEY MANAGEMENT PERSONNEL

a) Compensation of Directors and Key Management Personnel

	2010 A$	2009 A$
Cash, salary and fees	2,388,447	2,382,393
Bonus Payments	532,500	-
Non-monetary benefits	-	-
Termination Payments	340,774	-
Superannuation	308,632	156,941
Share based payments	5,129,969	4,144,985
	8,700,322	6,684,319

b) Number of options held for the benefit of Directors and Key Management Personnel

30 June 2010	Balance at beginning of period	Granted as remuneration	Options exercised/ cancelled	Net change	Balance at end of period	Vested at 30 June 2010
A. Arnold	2,000,000	2,400,000	-	2,400,000	4,400,000	-
J. Brien	700,000	-	-	-	700,000	-
N. Curtis	15,000,000	12,000,000	-	12,000,000	27,000,000	10,000,000
D. Davidson	800,000	1,100,000	-	1,100,000	1,900,000	-
W. Forde	1,100,000	1,400,000	-	1,400,000	2,500,000	-
M. James	4,750,000	1,500,000	-	1,500,000	6,250,000	3,000,000
J. Klein	800,000	1,100,000	-	1,100,000	1,900,000	-
E. Noyrez	-	5,000,000	-	5,000,000	5,000,000	-
J. G. Taylor	1,000,000	-	-	-	1,000,000	-
M. Vaisey	2,750,000	-	-	-	2,750,000	1,750,000
M. Wolley	3,450,000	-	(1,000,000)*	(1,000,000)	2,450,000	-
TOTAL	32,350,000	24,500,000	(1,000,000)	23,500,000	55,850,000	14,750,000

*options cancelled

Notes to Financial Statements

29. DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

30 June 2009	Balance at beginning of period	Granted as remuneration	Options exercised/ cancelled	Net change	Balance at end of period	Vested at 30 June 2009
A. Arnold	-	2,000,000	-	2,000,000	2,000,000	-
J. Brien	200,000	500,000	-	500,000	700,000	-
N. Curtis	10,000,000	5,000,000	-	5,000,000	15,000,000	5,000,000
D. Davidson	-	800,000	-	800,000	800,000	-
W. Forde	-	1,100,000	-	1,100,000	1,100,000	-
M. James	3,000,000	1,750,000	-	1,750,000	4,750,000	1,000,000
J. Klein	-	800,000	-	800,000	800,000	-
W. Moss	300,000	1,000,000	-	1,000,000	1,300,000	500,000
I. Polovineo	500,000	-	-	-	500,000	-
J. G. Taylor	-	1,000,000	-	1,000,000	1,000,000	-
M. Vaisey	1,750,000	1,000,000	-	1,000,000	2,750,000	750,000
M. Wolley	1,700,000	1,750,000	-	1,750,000	3,450,000	-
TOTAL	17,450,000	16,700,000	-	16,700,000	34,150,000	7,250,000

Notes to Financial Statements

29. DIRECTORS AND KEY MANAGEMENT PERSONNEL (continued)

c) Number of shares held by Directors and Key Management Personnel

30 June 2010	Balance at beginning of period	Received during year on exercise of options	Other changes during the year	Balance at end of period
A. Arnold	-	-	1,000	1,000
J. Brien	-	-	-	-
N. Curtis	27,156,478	-	(4,110,720)	23,045,758
D. Davidson	935,000	-	-	935,000
W. Forde	250,000	-	750,000	1,000,000
M. James	650,000	-	(51,000)	599,000
J. Klein	1,580,580	-	500,000	2,080,580
J. G. Taylor	-	-	49,836	49,836
M. Vaisey	500,000	-	450,000	950,000
E. Noyrez	-	-	-	-
TOTAL	31,072,058	-	(2,410,884)	28,661,174

30 June 2009	Balance at beginning of period	Received during year on exercise of options	Other changes during the year	Balance at end of period
A. Arnold	-	-	-	-
J. Brien	-	-	-	-
N. Curtis	25,656,478	-	1,500,000	27,156,478
D. Davidson	935,000	-	-	935,000
W. Forde	150,000	-	100,000	250,000
M. James	899,643	-	(249,643)	650,000
J. Klein	1,580,580	-	-	1,580,580
W. Moss	10,000	-	-	10,000
J. G. Taylor	-	-	-	-
M. Vaisey	500,000	-	-	500,000
M. Wolley	30,000	-	-	30,000
TOTAL	29,761,701	-	1,350,357	31,112,058

d) Loans to Directors and Key Management Personnel

There were no loans made to specified Directors or specified Key Management Personnel during the year, and there were no loans outstanding at 30 June 2010.

e) Other transactions with Directors and Key Management Personnel

There were no other transactions with Directors and Key Management Personnel.

Notes to Financial Statements

30. RELATED PARTY DISCLOSURES

Ultimate Parent

Lynas Corporation Limited is the ultimate Parent Entity of the Group.

Wholly-owned Group transactions

Loan

Loans are made by the Parent Company to wholly-owned subsidiaries. The loans are made in the ordinary course of business, and are unsecured and interest free with no fixed term of repayment.

As at 30 June 2010 the total amount owing by wholly-owned subsidiaries to the Parent Company was $78,800,895 (2009: $172,355,000). This amount is at call and interest free and is not expected to be repaid during the next twelve months.

31. SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Executive Chairman and the executive management team (the chief operating decision makers) in assessing performance and determining the allocation of resources.

The focus of the Group's current activities is in the construction of the Rare Earths processing facilities and the operating cost centres identified by management are by geographic location. The reportable operating segments identified by management are Malaysia, Western Australia and other, which primarily includes costs incurred as part of the head office. Financial information about these segments is communicated to the executives.

Discrete pre-tax financial information, being expenditure incurred year to date and from the start date, about each of these segments is reported to the executive team on at least a monthly basis.

Accounting policies

Segment revenue and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis.

The accounting policies used by the Company in reporting segments internally are the same as those contained in note 2.

The only intersegment transactions within the Group are intersegment loans and receivables. Loans are initially recognised at the consideration received excluding transaction costs. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

The segment results include the capitalised allocation of overhead that can be directly attributed to an individual business segment.

The following items and associated assets and liabilities are not allocated to segments as they are not considered part of the core operations of any segment:

- finance income;
- finance costs; and
- net accounting gains on convertible notes.

Notes to Financial Statements

31. SEGMENT INFORMATION (continued)

A$'000	Malaysia		Western Australia		Other		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
INCOME STATEMENT								
Segment revenue	-	-	-	-	-	-	-	-
Segment expenses	(42,353)	(14,959)	(2,344)	(2,653)	(7,474)	(21,799)	(52,171)	(39,411)
Segment result	(42,353)	(14,959)	(2,344)	(2,653)	(7,474)	(21,799)	(52,171)	(39,411)
Interest income							9,130	4,088
Borrowing costs							-	(6,876)
Net accounting gain on convertible notes							-	12,917
Consolidated entity loss from ordinary activities before income tax expense							(43,041)	(29,282)
ASSETS								
Current assets	220,114	3,614	678	97	186,306	14,044	407,098	17,755
Non-current assets	146,186	130,008	77,303	61,647	10,076	8,539	233,565	200,194
Total assets	366,300	133,622	77,981	61,744	196,382	22,583	640,663	217,949
LIABILITIES								
Liabilities	(9,033)	(11,195)	(10,379)	(6,648)	(2,108)	(2,068)	(21,520)	(19,911)
Intercompany assets/ (liabilities)	(4,665)	(140,960)	(74,141)	(59,290)	78,806	200,250	-	-
Total liabilities	(13,698)	(152,155)	(84,520)	(65,938)	76,698	198,182	(21,520)	(19,911)
NET ASSETS	352,602	(18,533)	(6,539)	(4,194)	273,080	220,765	619,143	198,038
CASH FLOW INFORMATION								
Net cash flow from operating activities	(3,577)	(17,008)	(2,670)	(3,533)	(2,642)	(6,998)	(8,889)	(27,539)
Net cash flow from investing activities	104,337	22,930	(140,232)	(127,857)	(63)	-	(35,958)	(104,927)
Net cash flow from financing activities	-	-	-	-	431,543	4,924	431,543	4,924

Notes to Financial Statements

32. PARENT ENTITY INFORMATION

INFORMATION RELATION TO LYNAS CORPORATION LTD At 30 JUNE 2010	2010 A$'000	2009 A$'000
Current Asset	186,307	16,241
Total Asset	621,252	200,105
Current Liabilities	1,870	1,848
Total Liabilities	2,109	2,067
Issued Capital	719,857	288,314
Retained Earnings	(115,661)	(99,166)
Share Based Payment Reserve	14,947	8,890
Total Shareholders' Equity	619,143	198,038
Loss of the Parent Entity	(16,495)	(31,171)
Total Comprehensive Loss of the Parent Entity	(16,495)	(31,171)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	-	-
Details of any contingent liabilities of the parent entity	-	-
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment	2,959	3,316

Directors' Declaration

In accordance with a resolution of the directors of Lynas Corporation Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

> (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
>
> (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(b);

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

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.

On behalf of the Board

N. Curtis
Executive Chairman
Sydney
22 September 2010

Independent Audit Report

ERNST & YOUNG

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

Report on the Financial Report

We have audited the accompanying financial report of Lynas Corporation Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Independent Audit Report (continued)

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of Lynas Corporation Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Lynas Corporation Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

M. Elliott

Michael Elliott
Partner
Sydney

22 September 2010