

26 October 2016

AMENDMENTS TO LYNAS DEBT FACILITIES

Lynas Corporation (ASX:LYC, OTC:LYSDY) is pleased to announce proposed, substantive amendments to its debt facilities with JARE and the Convertible Bondholders. Summaries of the proposed amendments are set out in Annexures A and B to this announcement. Implementation of the amendments to the convertible bonds is subject to shareholder approval at the Lynas Annual General Meeting on 30 November 2016, and it is subject to FIRB approval. If the amendments to the convertible bonds are not approved by shareholders and the FIRB, the amendments to the debt facility with JARE will cease to have effect.

Over the past two years, Lynas has implemented many business improvements, including increasing production output, sales revenue and overall company efficiency. However, the continued weakening of rare earth market prices has resulted in the business operating at approximately a break-even level before financing charges.

The proposed amendments which have been agreed with each lender will deliver significant savings in interest liabilities and introduce a new principal repayment mechanism more suited to current Rare Earth market conditions.

The key amendments are as follows:

- The term of both debt facilities will be extended by approximately 2 years, with the JARE facility maturing in June 2020, and the convertible bond facility maturing in September 2020.
- The interest rates on both debt facilities will be reduced significantly. The JARE interest rate will reduce from the current rate of 6.0% per annum to a new rate of 2.5% per annum. The convertible bond interest rate will reduce from the current rate of 2.75% per annum to a new rate of 1.25% per annum. The interest rates of both the convertible bonds and the JARE facility may be adjusted based on the average sale price of NdPr products as set out in Annexures A and B. **Over the remaining four year term of the facilities, at the proposed new rates of 2.5% per annum and 1.25% per annum, the total interest saving will be approximately A\$70 million (including past interest waived and future interest savings).**
- There will be no fixed principal repayments from unrestricted cash during the term of the facilities. The principal balances of both facilities will be repayable in 2020. **Under the amendments, Lynas will defer until maturity fixed instalments totalling US\$50 million that are due to JARE, under the current agreement, by December 2017.**

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- Under the proposed amendments to the JARE facility, the fixed principal repayment schedule will be replaced with a cash sweep mechanism, whereby unrestricted cash balances above A\$40 million will be applied as principal repayments.
- The Conversion Price for the Convertible Bonds will be reduced to A\$0.10 and the exchange rate for conversion will be adjusted to US\$1.00=A\$0.75.
- The Bondholders will be issued 348,843,837 warrants each of which entitles the warrant holder to one Share upon payment of the strike price of A\$0.05 per Share ("New Warrants"). The New Warrants are exercisable until the new maturity date of the convertible bonds, being 30 September 2020.

The various potential implications for Lynas as a result of the amendments to the terms of the convertible bonds and the issue of the new warrants will be explained in detail in the AGM Notice of Meeting, which is expected to be issued at the end of October.

The effect of these amendments to the financing terms is to provide Lynas with significant savings on its financing costs and allow it to continue as a going concern. Importantly by extending the maturity of the facilities to mid-2020, it allows the business more time to deliver further improvements in the financial performance of the business, including a continued focus on reducing operating costs. Further, whilst pricing for Rare Earths products has remained low, demand, particularly for NdPr, remains strong and is forecast to continue to grow. Therefore there is potential that market prices for these products will increase in the future, which should translate to improved financial returns for the Lynas business.

In negotiating the proposed amendments, Lynas has been mindful that if the convertible bonds are converted in the future, then the existing Shareholders will be diluted.

Notwithstanding the potential for dilution, the Lynas Directors have concluded that approval of the proposed amendments is important to assist the continued operation of the Lynas business as a going concern.

The Directors unanimously recommend that shareholders vote in favour of the proposed convertible bond amendments at the AGM on 30 November 2016, as they consider the amended terms of the convertible bonds and the Senior Facility with JARE are in the best interests of shareholders.

Lynas Chairman Mike Harding said, "I encourage the shareholders of Lynas Corporation to carefully consider the proposed amendments and to understand that without their approval, the Board is concerned at the ability of Lynas to continue to operate as a going concern.

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“The proposed amendments offer significant relief from the costs of the Company’s debt facilities and provide the best opportunity for Lynas to deliver improved financial outcomes in the future.

“Lynas shareholders can expect to receive an AGM Notice of Meeting at the end of October. I encourage all shareholders to vote in favour of the amendments to the convertible bond facility,” Mr Harding concluded.

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ANNEXURE A – PROPOSED AMENDMENTS TO THE BONDS

Term	Existing Convertible Bond	Proposed Amended Convertible Bond
Maturity: Date	30 September 2018	30 September 2020 (or if the Senior Facility has been earlier repaid in full, then the date that is 3 months after such early repayment date of the Senior Facility).
Conversion Period	Any time during period up to and including the Maturity Date, being 30 September 2018.	To be amended to allow conversion up to (and including) the new Maturity Date, being 30 September 2020.
Coupon:	2.75% per annum	On and from the effective date, the interest rate is reduced to 1.25% per annum, subject to the following. If, on the last day of any calendar month (“ Test Date ”) the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is US\$38 per kilogram or greater, the interest rate will increase to 1.875% per annum, effective on and from the day after the Test Date. The interest rate will remain 1.875% per annum until there have been 6 consecutive Test Dates on which the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is less than US\$38 per kilogram, in which case the interest rate will revert to 1.25% per annum effective on and from the day after such 6th consecutive Test Date and will remain 1.25% per annum until any Test Date on which the weighted average realized sale price of NdPr products sold by the Group in the immediately preceding 6 calendar month is US\$38 per kilogram or greater.
Interest Payment Dates	Interest periods on the Senior Facility and the Bonds have been aligned (i.e. interest periods ending on: June 30 and December 31).	Interest periods on the Senior Facility and the Bonds have been aligned (i.e. interest periods ending on: June 30 and December 31) with a final interest period for the Bonds ending on 30 September 2020). The interest payment date will be the last day of each interest period, with the last interest payment date being the Maturity Date.
Interest Deferral	All interest payments that were scheduled to be made to both lender groups from January 2016 to September 2016 are postponed to	The payment of interest in respect of the period commencing on 1 January 2016 and ending on 31 December 2016 will be deferred

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	the end of December 2016 without additional interest or penalty.	to the Maturity Date (with no penalty, and no additional interest).
Restricted Interest Account Release	No equivalent mechanism	Any amounts released to the Bondholders from the Bond restricted interest account will be applied first to pay accrued and unpaid interest on and thereafter principal of the Bonds. Such payment will occur within 5 Business Days after the first date after 31 July 2017 on which the Group's unrestricted cash balance exceeds A\$25 million. The Bondholder Majority may, in its sole discretion, extend the repayment and interest payment for a period of 6 months, at which time the Bondholders will review the position in their discretion, having regard to the expected cash flows of Lynas and rare earth market conditions. Future interest payments will be made directly to the Bondholders from unrestricted cash and not via the Bond restricted interest account. The entire balance (if any) remaining in the Bond restricted interest account will be paid to the Bondholders at the final repayment date under the Senior Facility.
Conversion Price	The Conversion Price of the Bonds is set at A\$0.5634 per share, subject to adjustment pursuant to the section of this Annexure headed "Anti-Dilution Adjustment".	On and from the effective date, the Conversion Price is reduced to AU\$0.10, subject to the section of this Annexure headed "Anti-Dilution Adjustment".
Conversion exchange rate	The Conversion Amount per Bond is fixed at US\$1 = A\$0.9533. This is applied as subscription funds at the Conversion Price.	On and from the effective date the Conversion Amount is fixed at US\$1 = A\$(1 / 0.75).
Anti-Dilution Adjustment	<p>Anti-dilution adjustments apply for customary events including:</p> <ul style="list-style-type: none"> - consolidations, reclassifications or subdivisions; - capitalisation of profits or reserves; - payment of dividends; - rights issues, new issues and similar issues in respect of shares or other securities; - modification of certain rights; - other offers of securities; and - certain other events or circumstances. <p>In addition, if there is any Issue at less than the highest of:</p>	<p>The existing anti-dilution adjustment mechanism applies if there is any issue of equity securities at less than or equal to the current market price per Share on the date of the first public announcement by the Company of the terms of issue of the equity securities.</p> <p>The exception for Issues to fund the consideration for any merger and acquisition transactions by a Group Company is deleted.</p> <p>The proportion of 8.40% referred to in paragraph (a) of the adjustment clause is amended to 42.19%, to reflect the change in the Conversion Price from A\$0.5634 to A\$0.10.</p>

(i) the Current Market Price per Share on the date of the first public announcement by the Company of the terms of issue of the Securities;

(ii) the closing price per Share on the ASX on the last Dealing Day completed before the first public announcement of the terms of issue of the Securities; or

(iii) if the announcement referred to in paragraph (ii) above was made while the Company is in a trading halt or suspension of trading, the last trading price per Share on the ASX before the trading halt or suspension took effect,

(excluding any Issues to fund the consideration for any merger and acquisition transactions by a Group Company), the Conversion Price shall be adjusted after each such Issue is made to the lower of the:

(a) Conversion Price that will result in the Bondholders receiving a proportion of shares equal to 8.40% of the issued shares on a fully diluted basis; or

(b) Conversion Price as adjusted by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

A = the number of Shares on issue at close of business on the Dealing Day immediately before first public announcement of the terms of an issuance

B = the number of Shares which the aggregate consideration for the issuance would purchase at the current market price per Share

C = the number of Shares issued in the issuance.

The definition of "Current Market Price" under the Convertible Bond Deed Poll references the "VWAP" of a Share on each of ten consecutive Dealing Days. The Current

In addition, the definition of "VWAP" in Schedule 6 of the Convertible Bond Deed Poll is amended to read:

"VWAP means on any Dealing Day, in respect of an Share or, as the case may be, a Spin-Off Security the daily volume-weighted average sale price (rounded to the nearest 1/10 of a cent) of Shares sold on ASX or, as the case may be, a Spin-Off Security, calculated using the Bloomberg page 'AQR' or (in the case of a Spin-Off Security) from the relevant principal stock exchange or securities market on which such Spin-Off Securities are then listed or quoted or dealt in, if any, or, in any such case, such other source as shall be determined to be appropriate by an Independent Financial Adviser on such Dealing Day, provided that on any such Dealing Day where such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Share or, as the case may be, a Spin-Off Security in respect of such Dealing Day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding Dealing Day on which the same can be so determined."

Market Price is effectively the arithmetic average of the VWAP on each of those ten days subject to adjustment if Shares are trading cum or ex dividend during that period. The current definition of "VWAP" is potentially unclear as it does not include a reference period for determining the VWAP, which Lynas and the Bondholders agree should be a "Dealing Day."

Warrants	On 7 September 2015, Lynas issued warrants to the Mount Kellett led Bondholder group, for 174,365,466 shares at a strike price of A\$0.038 per share.	The Bondholders or their affiliates will be issued an additional 348,843,837 warrants on the effective date, at a strike price of A\$0.05/share. The warrants must be issued within 2 trading days after the effective date. The warrants are issued at no cost and are not attached to the Bonds and allow the warrant holder to exercise the warrants at any time from issuance up to 30 September 2020 and to receive 1 ordinary share for every 1 warrant that is exercised. The other substantive terms of the warrants will be the same as the terms of the warrants that were issued by the Company on 7 September 2015.
Exercise of Warrants and conversion of Bonds	<p>The warrants can be exercised at any time from the issue of the warrants until 5.00pm (Sydney time) on 30 September 2018, at which point, any warrants that have not been exercised will automatically lapse.</p> <p>Bondholders are currently entitled to convert the Bonds and may continue to do so until the Maturity Date, being 30 September 2018.</p>	A Bondholder shall not be permitted to exercise any warrants, nor convert any Bonds, and nor shall Lynas be required to issue any shares in Lynas upon either exercise or conversion (as applicable) of the warrants or Bonds, to the extent that it would result in a breach of section 606 of the Corporations Act. At the request of Majority Bondholders, the Company shall from time to time as soon as practicable call a general meeting of shareholders to seek approval for issuance to the Bondholders of the Shares issuable upon exercise of the Warrants and/or conversion of the Bonds, and prepare a circular for shareholder approval of such issuance.
Conditions Precedent:	No conditions precedent remain outstanding.	<p>The following conditions precedent apply to the proposed amendments to the Bonds:</p> <ol style="list-style-type: none">1. that Lynas executes with JARE a binding term sheet with JARE that effectuates amendments to the Senior Facility that conform to the summary attached in Annexure B - [this condition has been satisfied];2. there is no default on any indebtedness

- of any obligor;
3. the shareholders of the Company approve the amendments to the Bonds;
 4. The Foreign Investment Review Board approves the following and the Bondholders provide evidence of such approval to Lynas:
 - the issuance of the Warrants and the issue of Shares on exercise of the Warrants; and
 - the acquisition of a substantial interest in Shares on the adjustment of the Conversion Price of the Bonds contemplated by this term sheet and the issue of Shares on the conversion of the Convertible Bonds by the Bondholders.
 5. ASX confirms that the terms of the Warrants and the terms of the Convertible Bonds as amended by this term sheet are appropriate and equitable for the purposes of Listing Rule 6.1.

ANNEXURE B – PROPOSED AMENDMENTS TO THE SENIOR DEBT FACILITY WITH JARE

Term Existing JARE Senior Facility

Maturity: 30 June 2018
Date

Principal Repayments Repayment Schedule

Repayment Date	Amount
30 June 2016	US\$2m (paid)
21 December 2016	US\$5m
30 June 2017	US\$15m
21 December 2017	US\$30m
30 June 2018	US\$153m

Proposed Amended JARE Senior Facility

30 June 2020

A US\$3 million principal repayment will be payable to JARE on 27 October 2016 from the balance in the JARE restricted interest account.

A principal repayment from the remaining balance in the JARE restricted interest account would occur if the balance in unrestricted cash exceeds A\$25 million on any date after 31 July 2017. In addition, JARE may call for the principal repayment from the remaining balance in the JARE restricted interest account if the Bond restricted interest account is closed following a conversion of the Bonds. JARE has the option to extend the repayment referred to in this paragraph for a period of 6 months, having regard to the expected cash flows of Lynas and rare earth market conditions.

There is a principal repayment test on each Interest Payment Date commencing on 31 December 2016. On each Interest Payment Date any balance in Lynas' unrestricted cash accounts above A\$40 million is paid as a principal repayment to JARE pursuant to a cash sweep mechanism. If Lynas receives the proceeds of a future equity raising then at least 50% of the proceeds will be exempt from the cash sweep.

When the full balance in the JARE restricted interest account is repaid as a principal repayment, interest for the period from 1 October 2014 to 31 December 2015 will be forgiven.

Except as indicated above there are no compulsory principal repayments due until the Maturity Date.

Additional voluntary principal repayments can be made without penalty at any time.

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Interest Rate:	<p>The current interest rate on the Senior Facility is 6.0% per annum.</p> <p>The Company has agreed an interest regime which provides Lynas with the ability to reduce the interest rate on the Senior Facility from its initial 7% per annum to a floor of 2.8% per annum over time. The framework sets specific targets that, if met, will effect a cascading decrease in the interest rate payable on the Senior Facility. This is based on meeting certain milestones for cumulative NdPr production from 1 July 2015.</p> <p><u>Scheduled Repayments</u></p> <p>Each time a scheduled repayment is fully paid on or before its scheduled repayment date, the interest rate decreases by 0.3% per annum effective from the day after the repayment is made.</p> <p><u>Principal Prepayments</u></p> <p>If, at any time on or before 21 December 2016, the total repayment and prepayment amount (including the US\$20m already repaid by 2 October 2014) is equal to or greater than US\$50m, the interest rate decreases by 1.0%. An additional 0.5% reduction applies if, at any time on or before 30 June 2017, the total repayment and prepayment amount (including the US\$20m already repaid by 2 October 2014) is equal to or greater than US\$70m. In the alternative, if, at any time on or before 30 June 2017, the total repayment and prepayment amount (including the US\$20m already repaid by 2 October 2014) is equal to or greater than US\$50m, the interest rate decreases by 0.4%.</p>	<p>Effective from completion, the interest rate under the Senior Facility becomes 2.5% per annum.</p> <p>If, on the last day of any calendar month (“Test Date”) the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is US\$38 per kilogram or greater, the interest rate will increase to 3.75% per annum, effective on and from the day after the Test Date. The interest rate will remain 3.75% per annum until there have been 6 consecutive Test Dates on which the weighted average sale price of NdPr products sold by the Group in the immediately preceding 6 calendar months is less than US\$38 per kilogram, in which case the interest rate will revert to 2.5% per annum effective on and from the day after such 6th consecutive Test Date, and will remain 2.5% per annum until any Test Date on which the weighted average realized sale price of NdPr products sold by the Group in the immediately preceding 6 calendar month is US\$38 per kilogram or greater.</p>
Interest Payment Dates	Interest periods on the Senior Facility and the Bonds have been aligned (i.e. interest periods ending on June 30 and December 31).	The interest payment date will be the last day of each interest period, with the last interest payment date being the Maturity Date.
Interest Deferral	All interest payments that were scheduled to be made to both lender groups from January 2016 to September 2016 are postponed to the end of December 2016 without additional interest or penalty.	The payment of interest in respect of the period commencing on 1 January 2016 and ending on 31 December 2016 will be deferred to the Maturity Date (with no penalty, and no additional interest).

Restricted Interest Account Release	The balance in the restricted accounts is available, at the lenders' discretion, for reuse in the Lynas business.	<p>Future interest payments will be made directly to JARE from unrestricted cash and not via the JARE restricted interest account.</p> <p>The entire balance (if any) remaining in the JARE restricted interest account will be paid to JARE at the final repayment date under the Senior Facility.</p>
Additional Capital Restrictions	<p>Without the prior written consent of JARE, Lynas shall not enter into the following during the term of the Senior Facility:</p> <ol style="list-style-type: none"> 1. dividends; 2. share buy-backs; 3. capex above A\$25 million in a 6 month period; and 4. liabilities other than a list of pre-approved "Permitted Financial Liabilities". 	No amendments
Priority NdPr Supply to Japan	<p>Any fundraising will not hinder Lynas' ability to support Japanese industries diversifying their rare earths supply sources, in accordance with the Availability Agreement announced on 30 March 2011.</p> <p>Lynas to prioritize NdPr supply from the LAMP to the Japanese market.</p>	<p>Lynas shall ensure that in the event of competing demands from the Japanese market and a non-Japanese market for the supply by the Borrower or Lynas Malaysia for NdPr produced from the LAMP, the Japanese market shall have priority of supply up to 3,600 tonnes per year subject to the terms of the Availability Agreement and to the extent that Lynas will not have any opportunity loss. This clause survives any failure to satisfy the Conditions Precedent below.</p>
Conditions Precedent:	No conditions precedent remain outstanding.	<p>The following conditions precedent apply to the proposed amendments to the Senior Facility:</p> <ol style="list-style-type: none"> 1. that Lynas executes with the Bondholders a binding term sheet that effectuates amendments to the Bonds that conform to the summary attached in Annexure A; [this condition has been satisfied]; and 2. that any conditions precedent in the binding term sheet executed with the Bondholders are satisfied.