

## Appendix 4E

### LYNAS CORPORATION LIMITED

ABN 009 066 648

Financial Year Ended 30 June 2004

#### For announcement to the market

	Current	Previous	Change	
	\$A'000	\$A'000	\$A'000	%
Revenues from ordinary activities	735	747	(12)	(1.6)
Loss from ordinary activities after tax attributable to members	(4,423)	(5,087)	664	13.1
Net loss for the period attributable to members	(4,423)	(5,087)	664	13.1
Earnings per share	<b>Cents</b>	<b>Cents</b>		
Basic	(2.35)	(4.52)		
Diluted	(2.35)	(4.52)		

#### Dividends

No dividends have been declared or proposed during the current year or the previous year.

#### Notes on the Financial Results

The activities of Lynas Corporation Limited ("Lynas") during the financial year have been directed toward the implementation of the integrated RED model and development of the Mt Weld Project.

During the year Lynas acquired a 19.92% shareholding in AMR Technologies Inc. ("AMR"), a Canadian TSX listed company. AMR is an international technology company that engineers Rare Earths, zirconium and magnetic powders and is the second largest producer of advanced Rare Earths in the world. AMR has manufacturing facilities in China and Thailand. Annual sales of approximately US\$50m are achieved across all global Rare Earths markets.

The Directors of Lynas believe AMR's market presence, manufacturing facilities, and Rare Earths industry experience strongly complements Lynas' Rare Earths activities.

Cash inflows from operating activities for the current year were \$0.75 million represented by interest received on surplus funds and rental income. Cash outflows from operating activities of \$5.84 million substantially reflect the operating costs involved in undertaking the feasibility study of the Mt Weld Project. The prior year operating cash outflows were \$6.45 million.

The group has sufficient funds to finance its operations for the next financial year but will seek to raise additional funds for the development of its mining and concentration operations.

Cash at 30 June 2004 was \$12.4 million with total assets of \$36.5 million and net assets of \$27.3 million representing \$0.13 per share.

The attached financial statements give full details of the performance of the Company over the past year, and changes in business activities.

## Corporate Information

ABN 27 009 066 648

### Directors

Brian Davidson (Chairman)  
Nicholas Curtis (President and Chief Executive Officer)  
Wang Ou (Harold) (Executive Director)  
David Davidson (Director)

### Company Secretary

Ivo Polovineo

### Registered Office

Level 7, 56 Pitt Street, SYDNEY NSW 2000  
Telephone: +61 2 8259 7100  
Fax: +61 2 8259 7199  
Email: [lynas@lynascorp.com](mailto:lynas@lynascorp.com)

### Solicitors

Deacons  
1 Alfred Street  
Circular Quay SYDNEY NSW 2001

### Bankers

Westpac Banking Corporation  
275 George Street SYDNEY NSW 2000

### Share Register

Security Transfer Registrars  
770 Canning Highway APPLECROSS WA 6963  
Tel: +61 8 9315 0933 Fax: +61 8 9315 2233

### Auditors

Ernst & Young  
The Ernst & Young Building  
321 Kent Street SYDNEY NSW 2000

### Internet Address

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

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## Directors' Report

Your directors submit their report for the year ended 30 June 2004.

### 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 follows. Directors were in office for this entire period unless otherwise stated.

#### Names, qualifications, experience and special responsibilities

##### Brian Davidson LL.B. (Hons) (Non-executive Chairman)

Mr Davidson is a consultant to Deacons, a major national law firm, having retired as a partner on 30 June 2004. Mr Davidson has over 35 years experience in corporate and commercial law, particularly in the natural resources industry. He has been a director of many listed public companies including Carr Boyd Minerals Ltd and is presently a director of Sino Gold Limited and a number of private company groups.

##### Nicholas Curtis, B.A. (Hons) (President and Chief Executive Officer)

Mr Curtis is the President and Chief Executive Officer of the Company; he is the Chairman of Sino Gold Limited, an Australian listed public company with gold mining operations in China; Chairman of St Vincent and Mater Health Sydney Limited; Director of Garvan Institute of Medical Research; and President of Australia China Business Council NSW Branch. His background is in resources banking and financing based on more than 20 years as a professional in the futures, commodities and stockbroking industries.

##### Harold Ou Wang, M.SC.

Mr. Wang is an Executive Director of the Company and joined the Board on 28 September 2001. Previously he was Vice President China Business Development of Sino Mining International Limited. Prior to that he was Vice Director of the Foreign Affairs Bureau of China National Nonferrous Metals Industry Corporation (CNNC) where he had responsibility for planning and administering the nonferrous industry nationwide with particular emphasis on examining and approving new projects. Mr. Wang has an undergraduate and Master's degree in engineering with an emphasis on statistical analysis and modelling.

##### David Davidson

Mr. Davidson is a Non-executive Director of the Company and joined the Board on 28 March 2002. He 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.

##### Andrew Lupton, MBA

Mr Lupton was an Executive Director and was the Vice President Corporate and Marketing until his resignation on 22 October 2003.

### COMPANY SECRETARY

##### Ivo Polovineo PNA, MNIA

Mr. Polovineo has been the company secretary for Lynas Corporation Limited for the past 3 years. He has spent over 18 years in senior management roles in the resource sector including over 15 years as company secretary of a number of listed public companies.

#### 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 Lynas Corporation Limited were:

	Ordinary Shares	Options over Ordinary Shares	Employee Options over Ordinary Shares
Brian Davidson	758,000	—	300,000
Nicholas Curtis	15,564,192	—	2,000,000
Harold Ou Wang	800,000	—	1,500,000
David Davidson	635,000	—	300,000

## Directors' Report continued

### EARNINGS PER SHARE

	Cents
Basic earnings per share	(2.35)
Diluted earnings per share	(2.35)

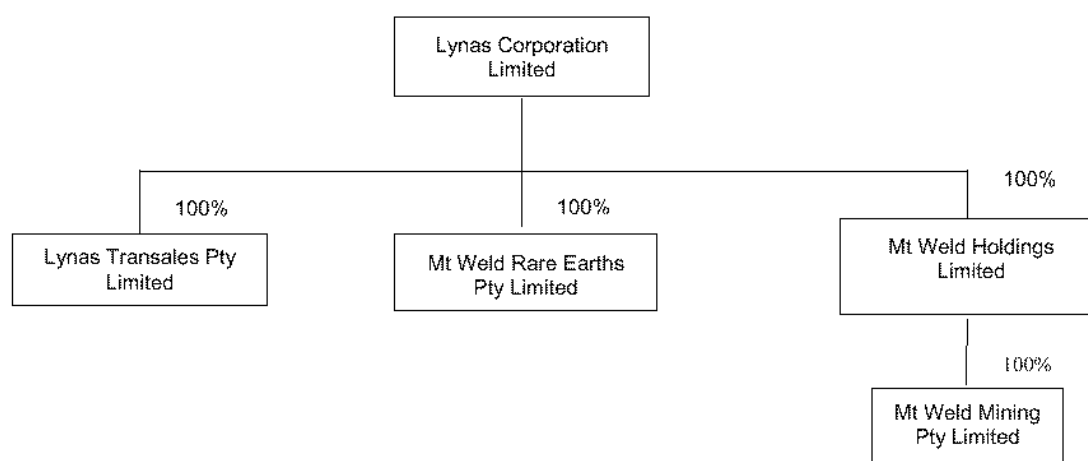
### DIVIDENDS

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

### CORPORATE INFORMATION

#### Corporate structure

Lynas Corporation Limited is a company limited by shares that is incorporated and domiciled in Australia. Lynas Corporation Limited 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:



#### Nature of operations and principal activities

The principal activities during the year of entities within the consolidated entity were:

- Exploration and development of Rare Earths deposits;
- Exploration for other mineral resources.

#### Employees

The consolidated entity employed 17 employees as at 30 June 2004 (2003: 18 employees).

### REVIEW AND RESULTS OF OPERATIONS

#### Group Overview

During the year to 30 June 2004 the company issued a further 60,680,383 shares following exercise of listed options, unlisted options, employee options and convertible notes.

#### Operating Results for the Year

	Group \$	Parent \$
Revenue	734,546	734,546
Loss before depreciation and interest	(3,827,742)	(3,821,842)
Depreciation and interest	(595,028)	(595,028)
Loss from operations before income tax	(4,422,770)	(4,416,870)
Income tax expense	—	—
Net loss	(4,422,770)	(4,416,870)

## Directors' Report continued

### Performance Indicators

Management and the Board monitor the group's overall performance, from its implementation of the mission statement and strategic plan through to the performance of the company against operating plans and financial budgets.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Management monitor KPIs on a regular basis. Directors receive the KPIs for review prior to each monthly board meeting allowing all directors to actively monitor the group's performance.

### Investments for Future Performance

The activities during the past financial year have all been directed toward the implementation of the integrated RED model and development of the Mt Weld Project.

On 28 January 2004 Lynas Corporation Limited acquired by private agreement, 3,180,375 common shares of AMR Technologies Inc. ("AMR"), a Canadian company whose shares are listed on the Toronto Stock Exchange, at a price of C\$2.35 per share from Whiterock Investments Ltd of Singapore. This acquisition increased Lynas' total holding to 3,316,375 common shares of AMR representing 19.92% of the 16,645,100 common shares at the date of acquisition.

AMR is an international technology company that engineers Rare Earths, zirconium and magnetic powders. Over the past ten years AMR has become the second largest producer of advanced Rare Earths in the world. AMR has manufacturing facilities in China and Thailand, and a nanotechnology research and development centre in the UK. Annual sales of approximately US\$50m are achieved across all global Rare Earths markets - South Korea, Japan, Europe, China, and the United States.

The strategic value of this investment is underpinned by the value of the integrated RED model. The Directors of Lynas believe AMR's market presence, manufacturing facilities, and Rare Earths industry experience strongly complements Lynas' Rare Earths activities.

### Review of Financial Condition

#### Capital Structure

At the start of the period the Company had 151,847,842 shares on issue. During the period, 60,680,383 shares were issued following exercise of listed options, unlisted options, employee options and convertible notes. At the end of the period there were 212,528,225 ordinary shares, 26,585,404 unlisted options on ordinary shares on issue.

At the end of the period there are also 155 convertible notes outstanding which, if converted would add a further 72,333,385 ordinary shares to give a total of 311,447,014 ordinary shares on a fully diluted basis.

It should be noted that the Company has sought legal advice that endorses the view that the Company may have the right to refuse conversion of the 100 convertible notes currently held by CMIEC (Australia) Pty Limited.

#### Cash from Operations

Cash inflows from operating activities for the current year of \$671,251 represent interest received on funds at bank, and rental received for surplus premises.

Cash outflows from operating activities of \$5,780,380 substantially reflect the operating costs involved in undertaking the feasibility study of the Mt Weld Project. The prior year operating cash outflows were \$6,447,599.

#### Liquidity and Funding

The group has an unsecured liability for \$7.75 million associated with outstanding convertible notes as at 30 June 2004 if such notes are not converted by their maturity date (November 2006). The group has sufficient funds to finance its operations for the next financial year with the exception of additional capital which it will seek to raise during the next financial year to commence development of the mining and concentration operations.

#### Risk Management

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

The group believes that it is crucial for Board members to be a part of this process, and as such has established a Safety, Health, Environment & Community (SHEC) Committee which manages the risks of the company and the interface with the community in which it operates.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board.

## Directors' Report continued

### Statement of Compliance

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

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Shareholders' equity increased after a further \$19,501,454 capital was raised through share issues from the conversion of listed options, unlisted options and convertible notes and these funds continue to be used to finance feasibility studies, acquisitions and working capital.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

At the date of this report there are no material events post balance date that require to be disclosed other than the exercise of the 1,000,000 July 2004 options, the lapsing of the 343,750 July 2004 options, and the exercise of 5 convertible notes of \$50,000 each to equity.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company intends raising funds and commencing project development over the next 12 months.

The Company does not intend disposing of its investment in the shares of AMR Technologies Inc.

### SHARE OPTIONS

#### Unissued shares

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

Description	Number	Expiry date	Exercise price
Unlisted options	1,000,000	July 2004	\$0.30c
Unlisted options	343,750	July 2004	\$0.36c
Incentive Plan options	9,375,000	Various dates beyond November 2004	\$0.25c
Unlisted options	4,266,656	November 2006	\$0.20c
Unlisted options	3,000,000	November 2006	\$0.20c
Incentive Plan options	300,000	30 November 2007	\$0.30c
Unlisted options	7,500,000	November 2007	\$0.30c
Unlisted options	799,998	November 2007	\$0.20c

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

### Shares issued as a result of the exercise of options

During the financial year, the following options were exercised:

- 32,421,494 listed options at an exercise price of \$0.40 each,
- 3,100,000 employees options at an exercise price of \$0.25 each and
- 933,331 unlisted options at an exercise price of \$0.20 each.

The holders of 59,670 listed options did not exercise and therefore forfeited their rights.

### 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 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 \$99,655. This amount is not included as part of the directors remuneration in note 27.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity is bound by the requirements 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.

## Directors' Report continued

### DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

#### Remuneration policy

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

To assist in achieving these objectives, the Board links the nature and amount of Executive Directors' and Officers' emoluments to the Company's financial and operational performance. All senior executives have the opportunity to qualify for participation in the Employee Share Incentive Plan which currently provides cash incentives where specified criteria are met including criteria relating to profitability, cash flow, share price growth and environmental performance. Details regarding the issue of share options under this plan are provided in note 22 to the financial statements.

Details of the nature and amount of each element of the emolument of each director of the company and each of the executive officers of the company and the consolidated entity for the financial year are as follows:

	Annual Emoluments				Long Term Emoluments			
	Base Fee	Bonus	Other	Termination & Similar Payments	Options @	Superannuation		
	\$	\$	\$	\$	Number granted	\$ Amortised cost	% of Remuneration	\$
N. Curtis	319,852	—	2,700	—	—	8,800	2.4%	27,935
A. Lupton	41,284	—	—	308,613	—	6,600	1.8%	3,716
O. Wang	200,000	—	*50,000	—	—	6,600	2.4%	16,514
B. Davidson	55,000	—	—	—	—	1,320	1.7%	20,000
D. Davidson	50,000	—	—	—	—	6,540	11.6%	—

\* Living Away From Home Allowance

#### Emoluments<sup>^</sup> of the executive officers<sup>#</sup> of the company and the consolidated entity

	Annual Emoluments				Long Term Emoluments		
	Base Fee	Bonus	Other	Termination & Similar Payments	Options @	Superannuation	
	\$	\$	\$	\$	Number granted	\$ Amortised cost	\$
M. Vaisey	208,857	—	—	—	—	1,100	18,797
M. Whillier	193,720	—	—	—	—	2,200	17,435
M. James	208,716	—	—	—	—	1,327	18,784

#### Notes

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.

\* The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity.

# Executives are those directly accountable and responsible for the operational management and strategic direction of the company and the consolidated entity.

@ The Company uses the fair value measurement provisions of AASB1046 "Director and Executive Disclosures for Disclosing Entities" and the pending AASB2 "Share-based Payment" prospectively for all options granted to directors and relevant executives, which have not vested as at 1 July 2003. The fair value of such grants is being amortised and disclosed as part of director and executive emoluments on a straight-line basis over the vesting period. No adjustments have been or will be made to reverse amounts previously disclosed in relation to options that never vest (i.e. forfeitures).

From 1 July 2003, options granted as part of director and executive emoluments have been valued using a Binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. See below for further details.

## Directors' Report continued

The fair value of each option is estimated on the date of grant using a Binomial option-pricing model with the following weighted average assumptions for grants made on 30 November 2001, 30 November 2002 and 30 June 2003:

	30 November 2001	30 November 2002	30 June 2003
Dividend yield	Nil	Nil	Nil
Expected volatility	25.6%	26.2%	25.8%
Historical volatility	25.6%	26.2%	25.8%
Risk-free interest rate	4.47%	4.89%	4.39%
Expected life of option	5 years	5 years	5 years

No dividends have been paid in the past and hence it is not appropriate to estimate future possible dividends in the calculations. The expected life of the options is based on historical data and not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The resulting weighted average fair values per option for those options vesting after 1 July 2003 are:

Number of options	Grant date	Vesting date	Weighted average fair value
4,550,000	30 November 2001	30 November 2006	\$0.02
400,000	30 November 2002	30 November 2007	\$0.04
870,000	30 June 2003	30 June 2008	\$0.01

Currently these fair values are not recognised as expenses in the financial statements. However, should these grants be expensed, they would be amortised over the vesting periods resulting in an increase in employee benefits expense of \$30,521 for the 2004 financial year (2003: \$29,149). Note that no adjustments to these amounts have been made to reflect estimated or actual forfeitures (i.e. options that do not vest).

### DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings	Meetings of Committees		
		Audit	Nomination and Remuneration	Safety, Health, Environment & Community
<b>Number of meetings held:</b>	7	2	2	1
<b>Number of meetings attended:</b>				
B. Davidson	7	2	2	
N. Curtis	7	2		1
H. Wang	6			
D. Davidson	7		2	1
A. Lupton (resigned 23 September 2003)	1			

### Committee membership

As at the date of this report, the company had an Audit Committee, a Nomination and Remuneration Committee and a Finance 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 & Community
B. Davidson (c)	B. Davidson (c)	N. Curtis
N. Curtis	D. Davidson	D. Davidson (c)

### TAX CONSOLIDATION

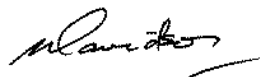
Effective 1 July 2002, for the purposes of income taxation, Lynas Corporation Ltd and its 100% owned subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

## Directors' Report continued

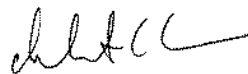
### CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Lynas Corporation Ltd seek to ensure appropriate and effective corporate governance. The company's corporate governance statement is contained in the following section of this annual report.

Signed in accordance with a resolution of the directors.



B. Davidson  
Director



N. Curtis  
Director

Sydney, 25 August 2004

## 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.

The format of the Corporate Governance Statement has changed in comparison to the previous year due to the introduction of the Australian Stock Exchange Corporate Governance Council's best practice recommendations. In accordance with the Council's recommendations, the Corporate Governance Statement must now 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 Corporate Governance Council's best practice recommendations, which are as follows:

- Principle 1. Lay solid foundations for management and oversight
- Principle 2. Structure the board to add value
- Principle 3. Promote ethical and responsible decision making
- Principle 4. Safeguard integrity in financial reporting
- Principle 5. Make timely and balanced disclosure
- Principle 6. Respect the rights of shareholders
- Principle 7. Recognise and manage risk
- Principle 8. Encourage enhanced performance
- Principle 9. Remunerate fairly and responsibly
- Principle 10. Recognise the legitimate interests of stakeholders

### Independence

Corporate Governance Council Recommendation 2.1 requires a majority of the board to be independent directors. In addition, Recommendation 2.2 requires the chairperson of the company to be independent. 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.

In accordance with the definition of independence above, and the materiality thresholds set, Brian Davidson and David Davidson are viewed as independent Directors of Lynas Corporation Limited. Whilst having had associations with the Company in the past, the Board does not view this as interfering with the exercise of unfettered and independent judgement.

In accordance with Corporate Governance Council Recommendation 2.1, Lynas Corporation Limited anticipates appointing an additional independent Director during the forthcoming year.

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.

The term in office held by each director in office at the date of this report is as follows:

Name	Term in office	Name	Term in office
B. Davidson	3 years	N. Curtis	3 years
H. Wang	3 years	D. Davidson	2 years

*For additional details regarding board appointments, please refer to our website.*

### Nomination and Remuneration Committee

Recommendation 2.4 requires listed entities to establish a nomination committee. During the year ended 30 June 2004, Lynas Corporation Limited operated a joint nomination and remuneration committee. The duties and responsibilities typically delegated to such a committee are expressly included in the board's own charter as being the responsibility of the full board. The board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team. The Board has established, as a single unit, a nomination and remuneration committee, comprising two non-executive directors. Members of this committee throughout the year were:

- B. Davidson (c)
- D. Davidson

## Corporate Governance Statement

### Audit Committee

The Board has established an audit committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. 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. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the audit committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

Recommendation 4.3 deals with the structure of the audit committee and requires independence of the members of the audit committee.

Lynas Corporation Limited has only been admitted to the ASX/S&P top 300 all ordinaries listing during the year 30 June 2004 and has not complied during the year. However, the skills and experience brought by the members of the audit committee are such that the Board does not believe that any marked efficiencies or enhancements would be achieved by a change during the period.

The Board of Lynas Corporation Limited intends to comply with Recommendation 4.3 in the ensuing financial year.

The members of the audit committee during the year were:

B. Davidson (c)

N. Curtis

#### *Qualifications of audit committee members*

Mr. Davidson LL.B. (Hons) is chairman of the audit committee. Mr Davidson is a consultant to Deacons, a major national law firm, having retired as a partner on 30 June 2004. He has over 35 years experience in corporate and commercial law, particularly in the natural resources industry and is a Fellow of the Australian Institute of Company Directors. He has been a director of many listed public companies including Carr Boyd Minerals Ltd and is presently a director of Sino Gold Limited and a number of private company groups.

Mr Curtis is the President and Chief Executive Officer of the Company; he is the Chairman of Sino Gold Limited, an Australian listed public company with gold mining operations in China; Chairman of St Vincent and Mater Health Sydney Limited; Director of Garvan Institute of Medical Research; and President of Australia China Business Council NSW Branch. His background is in resources banking and financing based on more than 20 years as a professional in the futures, commodities and stockbroking industries.

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, refer to page 9 of the Directors' Report.

### Performance

The performance of the board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the nomination committee conducted two performance evaluations which involved an assessment of each board member's and key executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Lynas Corporation Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

### Remuneration

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the 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:

- Retention and Motivation of key executives
- Attraction of quality management to the company
- Performance incentives which allow executives to share the rewards of the success of Lynas Corporation Limited

For details on the amount of remuneration and all monetary and non-monetary components for each of the non-director executives during the year and for all directors, refer to page 8 of the Directors' 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 Lynas Corporation Limited and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

## Corporate Governance Statement

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team. The Board has established a remuneration committee, comprising the non-executive directors. Members of the remuneration committee throughout the year were:

- B. Davidson (c)
- D. Davidson

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, refer to page 9 of the Directors' Report.

### Safety, Health, Environment and Community (SHEC) Committee

During April 2003 the Board recognised the need for the SHEC Committee, to prepare the company for the emerging Mt Weld project. The principal objective is to receive reports and consult with management to monitor and review, on behalf of the Board, the due compliance of the company with laws, regulations and policies relating to the following:

- workplace health and safety
- environmental matters and
- community relationships.

The key activities of the Committee are:-

- ensuring appropriate policies are in place and regularly reviewing those policies
- ensuring that appropriate systems are implemented to monitor and measure compliance with the enacted policies and the maintenance of the adherence to these systems
- reporting to the Board on its deliberations and recommending appropriate courses of action as necessary.

The members of the SHEC committee during the year were:

- D. Davidson (c)
- N. Curtis

## Statement of Financial Performance

YEAR ENDED 30 JUNE 2004	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>REVENUES FROM ORDINARY ACTIVITIES</b>	2	<b>734,546</b>	747,300	<b>734,546</b>	247,300
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>					
Depreciation expense	3	(127,629)	(192,136)	(127,629)	(192,136)
Borrowing costs expense	3	(467,399)	(348,684)	(467,399)	(348,684)
Salaries and employee benefits expense		(2,752,119)	(2,468,516)	(2,752,119)	(2,468,516)
Cost of disposal of shares in a controlled entity		—	(500,000)	—	—
Forgiveness of subsidiary company debt		—	—	—	(133,755)
Other expenses from ordinary activities	3	(1,810,169)	(2,324,802)	(1,804,269)	(2,324,802)
<b>LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		<b>(4,422,770)</b>	(5,086,838)	<b>(4,416,870)</b>	(5,220,593)
<b>INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES</b>	4	<b>—</b>	—	<b>—</b>	—
<b>NET LOSS ATTRIBUTABLE TO MEMBERS OF LYNAS CORPORATION LIMITED</b>	19	<b>(4,422,770)</b>	(5,086,838)	<b>(4,416,870)</b>	(5,220,838)
Share issue costs		—	(319,507)	—	(319,507)
<b>TOTAL EXPENSES ATTRIBUTABLE TO MEMBERS OF LYNAS CORPORATION LIMITED AND RECOGNISED DIRECTLY IN EQUITY</b>		<b>—</b>	(319,507)	<b>—</b>	(319,507)
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF LYNAS CORPORATION LTD</b>		<b>(4,422,770)</b>	(5,406,345)	<b>(4,416,870)</b>	(5,540,100)
Basic loss per share (cents per share)	25	(2.35)	(4.52)	(2.35)	(4.52)
Diluted loss per share (cents per share)	25	(2.35)	(4.52)	(2.35)	(4.52)

## Statement of Financial Position

AT 30 JUNE 2004	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash assets		12,352,556	3,183,876	12,352,543	3,183,865
Receivables	6	356,161	128,101	356,161	128,101
Other	7	2,716	148,246	2,716	148,246
<b>TOTAL CURRENT ASSETS</b>		<b>12,711,433</b>	<b>3,460,223</b>	<b>12,711,420</b>	<b>3,460,212</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	8	—	—	12,158,752	11,205,435
Investments	9	7,670,021	—	10,714,659	3,044,638
Property, plant and equipment	10	366,767	162,047	366,767	162,047
Deferred exploration, evaluation and development costs	11	15,766,074	14,252,021	530,823	—
Other	12	—	71,527	—	71,527
<b>TOTAL NON-CURRENT ASSETS</b>		<b>23,802,862</b>	<b>14,485,595</b>	<b>23,771,001</b>	<b>14,483,647</b>
<b>TOTAL ASSETS</b>		<b>36,514,295</b>	<b>17,945,818</b>	<b>36,482,421</b>	<b>17,943,859</b>
<b>CURRENT LIABILITIES</b>					
Payables	13	801,716	1,608,222	763,942	1,606,263
Interest bearing liabilities	14	57,443	—	57,443	—
Provisions	15	282,182	482,168	282,182	482,168
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,141,341</b>	<b>2,090,390</b>	<b>1,103,567</b>	<b>2,088,431</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing liabilities	16	7,750,000	3,227,828	7,750,000	3,227,828
Provisions	17	364,076	447,406	364,076	447,406
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>8,114,076</b>	<b>3,675,234</b>	<b>8,114,076</b>	<b>3,675,234</b>
<b>TOTAL LIABILITIES</b>		<b>9,255,417</b>	<b>5,765,624</b>	<b>9,217,643</b>	<b>5,763,665</b>
<b>NET ASSETS</b>		<b>27,258,878</b>	<b>12,180,194</b>	<b>27,264,778</b>	<b>12,180,194</b>
<b>EQUITY</b>					
Parent entity interest					
Contributed equity	18	48,563,869	29,062,415	48,563,869	29,062,415
Accumulated losses	19	(21,304,991)	(16,882,221)	(21,299,091)	(16,882,221)
<b>TOTAL EQUITY</b>		<b>27,258,878</b>	<b>12,180,194</b>	<b>27,264,778</b>	<b>12,180,194</b>

## Statement of Cash Flows

YEAR ENDED 30 JUNE 2004	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from rental		109,159	233,276	109,159	229,236
Payments to suppliers and employees		(5,510,618)	(6,441,549)	(5,540,533)	(8,513,100)
Interest received		562,092	87,826	562,092	87,826
Borrowing costs		(269,762)	(6,050)	(269,762)	(6,050)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	20	(5,109,129)	(6,126,497)	(5,139,044)	(8,202,088)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment	10(a)	(396,978)	(18,391)	(396,978)	(18,391)
Proceeds from sale of shares in a controlled entity	2	—	500,000	—	500,000
Proceeds from sale of tenement	2	—	25,000	—	25,000
Proceeds from sale of property, plant and equipment	2	63,295	—	63,295	—
Purchase of investments		(7,670,021)	—	(7,670,021)	—
Security bonds lodged		(228,060)	—	(228,060)	—
Advances to subsidiary company		—	—	(859,950)	—
Payments for exploration		(1,420,686)	(2,075,591)	(530,823)	—
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(9,652,450)	(1,568,982)	(9,622,537)	506,609
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issues of ordinary shares	18(b)	13,930,259	6,450,000	13,930,259	6,450,000
Payment of share issue costs	18(b)	—	(319,507)	—	(319,507)
Proceeds from borrowings		10,000,000	3,500,000	10,000,000	3,500,000
Repayments of borrowings		—	(500,000)	—	(500,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES		23,930,259	9,130,493	23,930,259	9,130,493
NET INCREASE IN CASH HELD		9,168,680	1,435,014	9,168,678	1,435,014
Add opening cash brought forward		3,183,876	1,748,862	3,183,865	1,748,851
CLOSING CASH CARRIED FORWARD	20(b)	12,352,556	3,183,876	12,352,543	3,183,865

# Notes to the Financial Statements

30 JUNE 2004

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

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

### (b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

### (c) 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.

### (d) Foreign currencies

#### *Translation of foreign currency transactions*

Transactions in foreign currencies of entities within the consolidated entity are converted to local 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.

### (e) Cash and cash equivalents

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

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

### (f) Receivables

Receivables from related parties are recognised and carried at the nominal amount due.

Funds on deposit are measured at nominal value.

### (g) Investments

Interests in listed and unlisted securities are brought to account at cost, and dividend income is recognised in the statement of financial performance when received.

All non-current investments are carried at the lower of cost and recoverable amount.

## Notes continued

30 JUNE 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate of 12%.

#### (i) Property, plant and equipment

##### *Cost and valuation*

All classes of property, plant and equipment are measured at cost.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount. Where it is expected that a liability for capital gains tax will arise, this expected amount is disclosed by way of note.

##### *Depreciation*

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

Major depreciation periods are:

	2004	2003
Leasehold improvements:	The lease term	The lease term
Plant and equipment:		
- furniture & fittings	5 years	5 years
- mine buildings, plant & equipment	5 to 15 years	5 to 15 years
- computer equipment and office machines	3 to 5 years	3 to 5 years

#### (j) 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.

The lease incentive liability in relation to the non-cancellable operating lease is being reduced on an imputed interest basis over the lease term (5 years) at the interest rate implicit in the lease.

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

#### (k) Exploration, evaluation, development and restoration costs

##### *Costs carried forward*

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or 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.

As the Mt Weld project has not yet reached final feasibility all evaluation costs including a proportion of overhead costs are deferred.

Grants and subsidies are offset against costs as incurred.

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.

##### *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.

## Notes continued

30 JUNE 2004

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Exploration, evaluation, development and restoration costs (continued)

##### *Restoration costs*

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, plant closure, platform removal and other costs associated with the restoration of the site. These estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs. Any changes in the estimates are adjusted on a retrospective basis. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such mines in the future.

#### (l) Other non-current assets

##### *Research and development costs*

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where research and development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits. 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.

##### *Expenditure carried forward*

Significant items of carry forward expenditure having a benefit or relationship to more than one period are written off over the periods to which such benefit relates.

#### (m) 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.

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

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

Liabilities for trade creditors amounts represent liabilities for goods and services provided to the Company 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.

#### (n) Interest-bearing liabilities

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues.

#### (o) 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.

#### (p) Contributed equity

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

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

## Notes continued

30 JUNE 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) 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*

Control of the right to receive the interest payment.

#### (r) Taxes

##### *Income taxes*

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

##### *Goods and Services Tax (GST)*

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

- where the GST incurred 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

#### (s) 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, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick 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.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are recognised against profits on a net basis in their respective categories.

## Notes continued

30 JUNE 2004

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Employee benefits (continued)

The value of the equity-based compensation scheme described in note 22 is not being recognised as an employee benefits expense.

In respect of the consolidated entity's defined benefits superannuation plans, any contributions made to the superannuation plans by entities within the consolidated entity are recognised against profits when due.

#### (t) 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, adjusted for any bonus element.

#### (u) 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.

#### (v) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

## Notes continued

30 JUNE 2004	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>					
<b>Revenues from non-operating activities</b>					
Rent		109,159	124,977	109,159	124,977
Interest - other persons/corporations		562,092	97,323	562,092	97,323
Proceeds from disposal of property, plant and equipment		63,295	—	63,295	—
Proceeds from disposal of shares in a controlled entity		—	500,000	—	—
Other revenue – sale of tenements		—	25,000	—	25,000
Total revenues from non-operating activities		734,546	747,300	734,546	247,300
<b>Total revenues from ordinary activities</b>		<b>734,546</b>	<b>747,300</b>	<b>734,546</b>	<b>247,300</b>
<b>3. EXPENSES AND LOSSES/(GAINS)</b>					
<b>(a) Expenses</b>					
Depreciation of non-current assets					
Leasehold improvements		3,461	—	3,461	—
Plant and equipment		124,168	77,330	124,168	77,330
Total depreciation of non-current assets		127,629	77,330	127,629	77,330
Borrowing costs expensed					
Interest expense					
Convertible note facility		327,205	233,878	327,205	233,878
Amortisation of borrowing costs		140,194	114,806	140,194	114,806
<b>Total borrowing costs expensed</b>		<b>467,399</b>	<b>348,684</b>	<b>467,399</b>	<b>348,684</b>
Other expenses					
Office expenses		662,104	1,064,067	662,104	1,064,067
Operating lease rental		165,875	96,564	165,875	96,564
Travel and accommodation		214,633	418,837	253,681	418,837
Consulting		266,480	315,193	266,480	315,193
Accounting and tax consulting		73,557	110,366	73,557	110,366
Audit and accounting fees – auditors		45,000	41,000	45,000	41,000
Legal consulting		278,805	167,916	277,905	167,916
Other		103,715	110,859	59,667	110,859
Total Other expenses		1,810,169	2,324,802	1,804,269	2,324,802
Superannuation contributions		173,009	154,157	173,009	154,157
<b>(b) Losses/(gains)</b>					
Net loss on disposal of property, plant and equipment		1,334	—	1,334	—
Net (profit) on disposal of tenements		—	(25,000)	—	(25,000)

## Notes continued

30 JUNE 2004

	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>4. INCOME TAX</b>					
The prima facie tax, using tax rates applicable in the country of operation, on profit and extraordinary items differs from the income tax provided in the financial statements as follows:					
Prima facie tax benefit on loss from ordinary activities		(1,326,831)	(1,526,051)	(1,325,061)	(1,566,178)
Tax effect of permanent differences					
Other items (net)		33,985	42,274	33,985	42,274
Future income tax benefits on tax losses not brought to account		1,292,846	1,483,777	1,291,076	1,523,904
Income tax expense attributable to ordinary activities		—	—	—	—
<i>Income tax losses</i>					
Future income tax benefit arising from tax losses of a controlled entity not recognised at reporting date as realisation of the benefit is not regarded as virtually certain		3,476,322	2,183,476	3,428,977	2,137,901

This future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

### Tax consolidation

Effective 1 July 2002, for the purposes of income taxation, Lynas Corporation Ltd and its 100% owned 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. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on 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 Ltd.

There has been no material effect on the accounting for future income tax benefit or the provision for deferred tax liabilities. Lynas Corporation Ltd has formally notified the Australian Tax Office of its adoption of the tax consolidation regime.

### 5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

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

### 6. RECEIVABLES (CURRENT)

Other receivables – security bonds		356,161	128,101	356,161	128,101
		<b>356,161</b>	<b>128,101</b>	<b>356,161</b>	<b>128,101</b>

### 7. OTHER CURRENT ASSETS

Borrowing costs		—	68,667	—	68,667
Prepayments-other		2,716	79,579	2,716	79,579
		<b>2,716</b>	<b>148,246</b>	<b>2,716</b>	<b>148,246</b>

### 8. RECEIVABLES (NON-CURRENT)

#### Related party receivables

Wholly-owned group					
– controlled entities	28	—	—	12,158,752	11,205,435
		<b>—</b>	<b>—</b>	<b>12,158,752</b>	<b>11,205,435</b>

## Notes continued

30 JUNE 2004	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>9. INVESTMENTS (NON-CURRENT)</b>					
<i>Investments at cost comprise:</i>					
Shares					
Interest in subsidiaries		—	—	3,044,638	3,044,638
Listed		7,670,021	—	7,670,021	—
Total investments		7,670,021	—	10,714,659	3,044,638

### Listed Shares

Quoted market value at balance date of investments listed on a prescribed stock exchange	7,163,028	—	7,163,028	—
--	-----------	---	-----------	---

The listed shares at cost comprises the investment in 3,316,375 common shares AMR Technologies Inc, which is listed on the Toronto Stock Exchange in Canada, as announced on 28 January 2004. Lynas' total holding of AMR shares represents 19.92% of the 16,645,100 common shares outstanding at the time of acquisition.

Lynas Corporation Limited does not have any board seats in AMR Technologies Inc, nor does it exercise significant influence over that company and accordingly this asset is carried at cost.

### Interest in Subsidiaries

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2004	2003	2004	2003
		%	%	\$	\$
Mt Weld Rare Earths Pty Ltd	Australia	100	100	5	5
Mt Weld Holdings Ltd	Australia	100	100	3,044,631	3,044,631
Mt Weld Mining Pty Ltd	Australia	100	100	1	1
Lynas Transales Pty Ltd	Australia	100	100	1	1
				3,044,638	3,044,638

	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>					
Leasehold Improvements					
At cost		105,053	—	105,053	—
Accumulated amortisation		(10,505)	—	(10,505)	—
		94,548	—	94,548	—
Furniture & Fittings					
At cost		412,086	310,141	412,086	310,141
Accumulated depreciation		(139,867)	(148,094)	(139,867)	(148,094)
		272,219	162,047	272,219	162,047
Total Property, plant and equipment					
At cost		517,139	310,141	517,139	310,141
Accumulated depreciation and amortisation		(150,372)	(148,094)	(150,372)	(148,094)
Total plant and equipment written down		366,767	162,047	366,767	162,047

## Notes continued

30 JUNE 2004	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$

### 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

#### (a) Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

#### *Leasehold improvements*

Carrying amount at beginning

Additions

Depreciation expense

	—	—		
	105,053	—		
	(10,505)	—		
	<b>94,548</b>	—		

#### *Furniture & Fittings*

Carrying amount at beginning

Additions

Disposals

Depreciation expense

	162,047	220,986		
	291,924	18,391		
	(64,628)	—		
	(117,124)	(77,330)		
	<b>272,219</b>	<b>162,047</b>		

### 11. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

Exploration, evaluation and development costs carried forward in respect of mining areas of interest

Pre-production - exploration and evaluation phases

Costs brought forward

Expenditure incurred during the year

Disposal of shares in a controlled entity

	14,252,021	12,676,430	—	—
	1,514,053	2,075,591	530,823	—
	—	(500,000)	—	—
	<b>15,766,074</b>	<b>14,252,021</b>	<b>530,823</b>	—

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of the costs carried forward for the development phase is not being recognised pending the commencement of production.

### 12. OTHER NON-CURRENT ASSETS

Expenditure carried forward – Borrowing costs

Accumulated amortisation

	—	170,000	—	170,000
	—	(98,473)	—	(98,473)
	—	<b>71,527</b>	—	<b>71,527</b>

### 13. PAYABLES (CURRENT)

Trade creditors

Trade creditors relating to exploration and technical projects

Other creditors

Withholding tax payable

	166,365	1,007,782	111,539	1,007,782
	231,163	484,017	229,203	484,017
	356,335	75,211	375,347	73,252
	47,853	41,212	47,853	41,212
	<b>801,716</b>	<b>1,608,222</b>	<b>763,942</b>	<b>1,606,263</b>

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- (ii) Other creditors are non-interest bearing and have an average term of 30 days.

### 14. INTEREST-BEARING LIABILITIES (CURRENT)

Interest on convertible notes

16

	57,443	—	57,443	—
	<b>57,443</b>	—	<b>57,443</b>	—

## Notes continued

30 JUNE 2004	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>15. PROVISIONS (CURRENT)</b>					
Employee benefits	22	236,582	138,536	236,582	138,536
Restoration, rehabilitation and closure	17(b)	45,600	343,632	45,600	343,632
		<b>282,182</b>	<b>482,168</b>	<b>282,182</b>	<b>482,168</b>

(a) Employee Benefits

Employee benefits reflect the anticipated amounts due and payable to employees at balance date for annual leave entitlements.

**16. INTEREST-BEARING LIABILITIES (NON-CURRENT)**

Borrowings secured by floating charge					
— convertible note		—	3,227,828	—	3,227,828
Unsecured borrowings					
— convertible note		7,750,000	—	7,750,000	—
		<b>7,750,000</b>	<b>3,227,828</b>	<b>7,750,000</b>	<b>3,227,828</b>

**Unsecured Borrowings**

Terms and conditions relating to the above financial instruments

In November 2003 the Company issued 100 Convertible Notes of \$50,000 each to clients of Horse Creek Mining Pty Limited and 100 Convertible Notes of \$50,000 each to CMIEC (Australia) Pty Limited. This facility is unsecured. The period of the facility is 36 months and it can be redeemed for cash, or converted into shares at the rate of:

- upon conversion within one year after issue date 333,334 Shares and 133,333 Options each to acquire one Share at a price of \$0.20 for each \$50,000 note, expiring three years after the last day of the calendar year in which the Options are issued
- upon Conversion after one year, but before two years after the Issue Date, the Noteholder will receive 294,118 Shares and 58,824 Options each to acquire one Share at a price of \$0.20 per \$50,000 note expiring three years after the last day of the calendar year in which the Options are issued
- upon Conversion after two years after the Issue Date, but before the Maturity Date the Noteholder will receive 263,158 ordinary Shares for every Note.

**Secured Borrowings**

The 30 Convertible Notes under the agreement with SG Australia Limited were converted to ordinary shares thereby repaying the entire facility.

It should be noted that the Company has sought legal advice that endorses the view that the Company may have the right to refuse conversion of the 100 convertible notes currently held by CMIEC (Australia) Pty Limited.

During the period 45 unsecured convertible notes of \$50,000 each and 30 secured convertible notes of \$100,000 each (plus accumulated interest) were exercised for a total value of \$5,571,195 in equity.

**17. PROVISIONS (NON-CURRENT)**

Employee entitlements	22	155,858	122,847	155,858	122,847
Restoration, rehabilitation and closure	17(b)	208,218	241,813	208,218	241,813
		<b>364,076</b>	<b>447,406</b>	<b>364,076</b>	<b>447,406</b>

(a) Provision for employee benefits

Employee benefits reflect the anticipated amounts due and payable to employee at balance date for long service leave.

(b) Provision for Restoration, Rehabilitation and Closure

Closure costs reflect the estimated amounts that will be incurred and the net exposure to future costs for the closure of the Perth Premises.

Provision for restoration is recognised in relation to the mining activities for costs such as reclamation, waste site closure, plant closure and other costs associated with the restoration of a mining site. Estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs, which have been discounted to their present value. In determining the restoration provision, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such mines in the future.

## Notes continued

30 JUNE 2004	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>17. PROVISIONS (NON-CURRENT) (Continued)</b>					
Movements in provisions					
(i) Employee benefits					
Carrying amount at beginning		261,383	181,300	261,383	181,300
Additional provision		131,057	668,191	131,057	668,191
Carrying amount at end		392,440	929,574	392,440	929,574
(ii) Restoration, rehabilitation and closure					
Carrying amount at beginning		668,191	579,994	668,191	579,994
Increase (reduction) in provision		(226,534)	510,931	(226,534)	510,931
Amounts utilised during the year		(187,839)	(422,734)	(187,839)	(422,734)
Carrying amount at end		253,818	668,191	253,818	668,191
<b>18. CONTRIBUTED EQUITY</b>					
(a) Issued and paid up capital					
Ordinary shares fully paid		48,563,869	29,062,415	48,563,869	29,062,415
		48,563,869	29,062,415	48,563,869	29,062,415
(b) Movements in shares on issue					
		2004		2003	
		Number of shares	\$	Number of shares	\$
Beginning of the financial year		151,847,842	29,062,415	87,347,842	22,931,922
Issued during the year					
- placement		—	—	19,500,000	1,950,000
- public equity raising		—	—	45,000,000	4,500,000
- less transaction costs		—	—	—	(319,507)
- issue of shares pursuant to exercise of convertible notes		24,225,558	5,571,195	—	—
- issue of shares pursuant to option conversion		36,454,825	13,930,259	—	—
End of the financial year		212,528,225	48,563,869	151,847,842	29,062,415
(c) Share Options					
		Number	Exercise Price	Expiry	
Unlisted options		1,000,000	\$0.30	July 2004	
Unlisted options		343,750	\$0.36	July 2004	
Incentive Plan options		1,700,000	\$0.25	December 2004	
Incentive Plan options		7,675,000	\$0.25	November 2006	
Unlisted options		4,266,656	\$0.20	December 2006	
Unlisted options		3,000,000	\$0.20	November 2006	
Incentive Plan options		300,000	\$0.30	November 2007	
Unlisted options		7,500,000	\$0.30	November 2007	
Unlisted options		799,998	\$0.20	December 2007	
		<b>26,585,404</b>			

At the end of the year there were 26,585,404 (2003: 54,099,914) unissued ordinary shares in respect of which options were outstanding.

## Notes continued

30 JUNE 2004

### 18. CONTRIBUTED EQUITY (Continued)

At the end of the financial year there were 155 convertible notes outstanding. If these notes were fully exercised there would be an additional 20,666,615 options over ordinary shares on issue.

#### (d) 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.

	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>19. ACCUMULATED LOSSES</b>					
<b>Accumulated losses</b>					
Balance at the beginning of year		(16,882,221)	(11,795,383)	(16,882,221)	(11,661,628)
Net loss attributable to members of Lynas Corporation Limited		(4,422,770)	(5,086,838)	(4,416,870)	(5,220,593)
Balance at end of year		(21,304,991)	(16,882,221)	(21,299,091)	(16,882,221)
<b>20. STATEMENT OF CASH FLOWS</b>					
<b>(a) Reconciliation of the net loss after tax to the net cash flows from operations</b>					
Net loss	19	(4,422,770)	(5,086,838)	(4,416,870)	(5,220,593)
<b>Non-Cash Items</b>					
Depreciation and Amortisation of non-current assets		127,629	77,330	127,629	77,330
Amortisation of borrowing costs		140,194	114,806	140,194	114,806
Net (profit)/loss on disposal of property, plant and equipment		1,334	—	1,334	—
Net (profit)/loss on disposal of tenements		—	(25,000)	—	(25,000)
Interest capitalised		—	227,828	—	227,828
<b>Changes in assets and liabilities</b>					
(Increase)/decrease in trade and other receivables		—	98,802	—	(1,542,501)
(Increase)/decrease in other assets		76,863	—	76,863	—
(Increase)/decrease in investments		—	—	—	(304,573)
(Decrease)/increase in trade and other creditors		(806,506)	(1,391,658)	(842,321)	(1,387,618)
(Decrease)/increase in interest bearing liabilities		57,443	—	57,443	—
(Decrease)/increase in employee entitlements		131,057	(141,767)	131,057	(141,767)
(Decrease)/increase in rehabilitation provision		(414,373)	—	(414,373)	—
Net cash flow from operating activities		(5,109,129)	(6,126,497)	(5,139,044)	(8,202,088)
<b>(b) Reconciliation of cash</b>					
Cash balance comprises:					
— cash assets		12,352,556	3,183,876	12,352,543	3,183,865
Closing cash balance		12,352,556	3,183,876	12,352,543	3,183,865

## Notes continued

30 JUNE 2004	Notes	CONSOLIDATED		LYNAS CORPORATION LIMITED		
		2004 \$	2003 \$	2004 \$	2003 \$	
<b>20. STATEMENT OF CASH FLOWS (Continued)</b>						
<b>(c) Financing facilities available</b>						
At reporting date, the following financing facilities had been negotiated and were available:						
Total facilities						
—	Convertible note facility	16	7,750,000	3,227,828	7,750,000	3,227,828
Facilities used at reporting date						
—	Convertible note facility	16	7,750,000	3,227,828	7,750,000	3,227,828
<b>21. EXPENDITURE COMMITMENTS</b>						
<b>(a) Exploration commitments</b>						
—	not later than one year		200,000	200,000	200,000	200,000
—	later than one year and not later than five years		155,954	644,554	155,954	644,554
—	later than five years		101,166	723,522	101,166	723,522
			<b>457,120</b>	<b>1,568,076</b>	<b>457,120</b>	<b>1,568,076</b>
The reduction in the overall commitment for exploration arises from the disposal of tenements during the financial year.						
<b>(b) Lease commitments</b>						
—	not later than one year		269,766	—	269,766	—
—	later than one year and not later than five years		1,083,408	—	1,083,408	—
—	later than five years		—	—	—	—
			<b>1,353,174</b>	<b>—</b>	<b>1,353,174</b>	<b>—</b>
<b>22. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS</b>						
<b>Employee Benefits</b>						
The aggregate employee benefit liability is comprised of:						
	Accrued wages, salaries and on-costs		65,296	88,615	65,296	88,615
	Provisions (current)		236,582	156,709	236,582	156,709
	Provisions (non-current)		155,858	122,847	155,858	122,847
			<b>457,736</b>	<b>368,171</b>	<b>457,736</b>	<b>368,171</b>

### Employee Share Incentive Scheme

An employee share scheme has been established where Lynas Corporation Limited may, at the discretion of directors, grant options over the ordinary shares of Lynas Corporation Limited to directors, executives and certain members of staff of the consolidated entity. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of Lynas Corporation Limited, although the management of Lynas Corporation Limited 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 options cannot be transferred and will not be quoted on the ASX. There are currently five directors, three executives and ten staff eligible for this scheme.

## Notes continued

30 JUNE 2004

### 22. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (Continued)

Information with respect to the number of options granted under the employee share incentive scheme is as follows:

	2004		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	11,975,000	\$0.25	11,675,000	\$0.25
- granted	—	—	300,000	\$0.30
- exercised	(2,300,000)	\$0.25	—	—
Balance at end of year	9,675,000	\$0.25	11,975,000	\$0.25
Exercisable at end of year	5,690,000	\$0.25	250,000	\$0.25

#### (a) Superannuation Commitments

All employees are entitled to varying levels of benefits on retirement, disability or death. Employees contribute to the plans at various percentages of their wages and salaries. Contributions by the consolidated entity of up to 9% of employees' wages and salaries are legally enforceable in Australia.

#### (b) Options held at the beginning of the reporting period:

The following table summarises information about options held by employees as at 1 July 2003:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price
2,880,000	23 December 1999	5 years to 31 December 2004	31 December 2004	0.25
150,000	31 May 2000	5 years to 31 May 2005	31 May 2005	0.25
7,675,000	30 October 2001	5 years to 30 November 2006	30 November 2006	0.25
100,000	1 August 2002	5 years to 1 August 2007	1 August 2007	0.30
100,000	2 December 2002	5 years to 2 December 2007	2 December 2007	0.30
1,070,000	30 June 2003	5 years to 30 June 2008	30 June 2008	0.30
<u>11,975,000</u>				

#### (c) Options granted during the reporting period:

No options were granted during the reporting period

#### (d) Options exercised

(i) The following table summarises information about options exercised by employees during the year ended 30 June 2004:

Number of options	Grant date	Exercise date	Expiry date	Weighted average exercise price	Proceeds from shares issued	Number of shares issued	Issue date	Fair value of shares issued
250,000	23 December 1999	28 August 2003	31 December 2004	0.25	\$62,500	250,000	28 August 2003	0.37
300,000	23 December 1999	4 September 2003	31 December 2004	0.25	\$75,000	300,000	4 September 2003	0.45
75,000	23 December 1999	12 September 2003	31 December 2004	0.25	\$85,425	75,000	12 September 2003	0.45
250,000	23 December 1999	17 September 2003	31 December 2004	0.25	\$62,500	250,000	17 September 2003	0.49
200,000	23 December 1999	19 September 2003	31 December 2004	0.25	\$50,000	200,000	19 September 2003	0.48
250,000	23 December 1999	26 September 2003	31 December 2004	0.25	\$62,500	250,000	26 September 2003	0.51
100,000	23 December 1999	2 October 2003	31 December 2004	0.25	\$25,000	100,000	2 October 2003	0.51
30,000	23 December 1999	8 October 2003	31 December 2004	0.25	\$7,500	30,000	8 October 2003	0.52
400,000	23 December 1999	13 October 2003	31 December 2004	0.25	\$100,000	400,000	13 October 2003	0.58
170,000	23 December 1999	11 November 2003	31 December 2004	0.25	\$42,500	170,000	11 November 2003	0.61
275,000	23 December 1999	28 April 2004	31 December 2004	0.25	\$68,750	275,000	28 April 2004	0.43
<u>2,300,000</u>								

(ii) No employee options were exercised by employees during the year ended 30 June 2003.

## Notes continued

Fair value of shares issued during the reporting period is estimated to be the market price of shares of Lynas Corporation Limited on the ASX as at close of trading on their respective issue dates.

30 JUNE 2004

### (e) Options held as at the end of the reporting period:

The following table summarises information about options held by the employees as at 30 June 2004:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price
580,000	23 December 1999	5 years to 31 December 2004	31 December 2004	0.25
150,000	31 May 2000	5 years to 31 May 2005	31 May 2005	0.25
7,675,000	30 October 2001	5 years to 30 November 2006	30 November 2006	0.25
100,000	1 August 2002	5 years to 1 August 2007	1 August 2007	0.30
100,000	2 December 2002	5 years to 2 December 2007	2 December 2007	0.30
1,070,000	30 June 2003	5 years to 30 June 2008	30 June 2008	0.30
<u>9,675,000</u>				

## 23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

### (a) Contingent liabilities

#### General

The Company has entered into guarantees, contracts, maintenance bonds and warranties in the normal course of business, including performance bond guarantees arranged with a bank totalling \$356,161 (2003 - \$128,101).

The tenements at Mt Weld are not presently subject to any claims under the Commonwealth Native Title Act.

#### Mt Weld Project Contingent Debt and Royalty

Lynas Corporation Limited will be responsible for making payments to Ashton Mining (WA) Pty Limited as follows:

- \$7,500,000 (indexed by the increase in the consumer price index, with the first indexation occurring on 31 December, 2001) on the occurrence of the following:
  - within 2 business days after the first drawdown (or other actual provision of funds) under financing provided to develop any Mt Weld Project or otherwise for the purpose of mining minerals from any part of the tenements (whether alone or with other purposes);
  - within one month after the date on which pre stripping (or a similar or equivalent form of major surface disturbance) commences for the purposes of mining any minerals from any part of the tenements;
  - if El Calden SA exercises its rights in the project, the total amount paid by El Calden SA up to the total amount of this contingent debt must be repaid within 2 business days of payment;
  - the whole of the contingent debt (or the portion that remains outstanding after El Calden SA exercises its rights) becomes immediately repayable if any security granted to Ashton Mining (WA) Pty Limited becomes enforceable.

The capital sum of the contingent debt is secured by a first ranking tenement mortgage over the tenements M38/58, M38/59, M38/326 and M38/327; as well as mortgages over the shares of Mt Weld Rare Earths Pty Limited and Mt Weld Mining Pty Limited.

The above contingent debt will not be payable if there exists uneconomic reserves which result in the cessation of mine development.

A Royalty capped at \$10,700,000 (indexed by the increase in the consumer price index, with the first indexation occurring on 31 December, 2001) payable at the rate of 1% on all Rare Earths sales and all mineral sales out of the Mt Weld tenements.

## 24. SUBSEQUENT EVENTS

At the date of this report there are no material post balance date events which require disclosure other than the exercise of the 1,000,000 July 2004 options, the lapsing of the 343,750 July 2004 options and the exercise of 5 convertible notes.

## Notes continued

30 JUNE 2004

	CONSOLIDATED	
	2004 \$	2003 \$
<b>25. EARNINGS PER SHARE</b>		
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit	(4,422,770)	(5,086,838)
Earnings used in calculating basic and diluted earnings per share	(4,422,770)	(5,086,838)
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share:	188,315,185	112,645,993
<b>Effect of dilutive securities:</b>		
The number of options and convertible notes which are potential ordinary shares that are not dilutive and hence not used in the calculation of the diluted earnings per share	98,918,789	54,099,914
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	188,315,185	112,645,993

### Conversions, calls, subscription or issues after 30 June 2004

There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

	CONSOLIDATED		LYNAS CORPORATION LIMITED	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>26. AUDITORS' REMUNERATION</b>				
Amounts received or due and receivable by Ernst & Young Australia for:				
– an audit or review of the financial report of the entity and any other entity in the consolidated entity	45,000	41,000	45,000	41,000
– tax relates services	50,000	—	50,000	—
– transaction advice	15,000	—	15,000	—
– accounting assistance	6,000	—	6,000	—
	116,000	41,000	116,000	41,000

### 27. DIRECTOR AND EXECUTIVE DISCLOSURES

#### (a) Details of Specified Directors and Specified Executives

##### (i) Specified directors

B. Davidson	Chairman (non-executive)
N. Curtis	Chief Executive Officer and President
H. Wang	Director (executive)
D. Davidson	Director (non-executive)
A. Lupton	Director (executive) resigned 23 October 2003

##### (ii) Specified executives

M. Vaisey	General Manager – Process Development and Technical
M. Whillier	General Manager - Finance
M. James	General Manager – Marketing and Sales

## Notes continued

30 JUNE 2004

**27. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)****(b) Remuneration of Specified Directors and Specified Executives***(i) Remuneration Policy*

The Remuneration Committee of the Board of Directors of Lynas Corporation Limited is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance. All directors and executives have the opportunity to qualify for participation in the Employee Share Incentive Plan which currently provides incentives where specified criteria are met including criteria relating to profitability, cash flow, share price growth and environmental performance.

It is the Remuneration Committee's policy that employment agreements shall only be entered into with the Chief Executive Officer and with no other executives.

The Company entered into an agreement ("Employment Agreement") dated 2 August 2001 with Mr N Curtis for the provision of Mr Curtis' services as Chief Executive Officer on reasonable commercial terms and conditions. The current employment agreement with the Chief Executive Officer has been extended and expires on 31 July 2008.

The Company entered into an agreement ("Employment Agreement") dated 2 August 2001 with Mr O Wang for the provision of Mr Wang's services as a Vice President on reasonable commercial terms and conditions.

*(ii) Remuneration of Specified Directors and Specified Executives*

	Primary Salary & Fees	Cash Bonus	LAFHA	Non Monetary benefits	Post Employment Superan- nuation	Retirement benefits	Equity Options	Bonuses	Total
<b>Specified Directors</b>									
<b>B. Davidson</b>									
2004	55,000	-	-	-	20,000	-	1,320	-	76,320
2003	75,000	-	-	-	-	-	1,320	-	76,320
<b>N. Curtis</b>									
2004	319,852	-	-	2,700	27,935	-	8,800	-	359,287
2003	272,822	-	-	5,400	24,554	-	8,800	-	311,576
<b>H. Wang</b>									
2004	200,000	-	50,000	1,790	16,514	-	6,600	-	274,904
2003	200,000	-	50,000	-	16,514	-	6,600	-	273,114
<b>D. Davidson</b>									
2004	50,000	-	-	-	-	-	6,540	-	56,540
2003	50,000	-	-	-	-	-	7,872	-	57,872
<b>A. Lupton</b>									
2004	41,284	-	-	-	3,711	308,612	6,600	-	360,213
2003	247,171	-	-	-	22,245	-	6,600	-	276,016
<b>Total Remuneration: Specified Directors</b>									
2004	666,136	-	50,000	4,490	68,185	308,612	29,860	-	1,127,264
2003*	844,993	-	50,000	5,400	63,313	-	31,192	-	994,898
<b>Specified Executives</b>									
<b>M. Vaisey</b>									
2004	208,857	-	-	-	18,797	-	1,100	-	228,754
2003	185,184	-	-	-	16,667	-	1,100	-	202,951
<b>M. Whillier</b>									
2004	193,720	-	-	-	17,435	-	2,200	-	213,355
2003	185,184	-	-	-	16,667	-	2,200	-	204,051
<b>M. James</b>									
2004	208,716	-	-	-	18,784	-	1,327	-	228,827
2003	128,557	-	-	-	11,570	-	290	-	140,417
<b>Total Remuneration: Specified Executives</b>									
2004	611,293	-	-	-	55,016	-	4,627	-	670,936
2003*	498,925	-	-	-	44,904	-	3,590	-	547,419

## Notes continued

30 JUNE 2004

### 27. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

\* Group totals in respect of the financial year ended 2003 do not necessarily equal the sums of amounts disclosed for 2003 for individuals specified in 2004, as different individuals were specified in 2003.

#### (c) Remuneration options: Granted and vested during the year

During the financial year no options were granted as equity compensation benefits to specified directors and specified executives.

#### (d) Shares issued on exercise of remuneration options

During the financial year no shares were issued on exercise of remuneration options to specified directors and specified executives.

#### (e) Option holdings of specified directors and specified executives

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 June 2004	Vested at 30 June 2004		
						Total	Not exercisable	Exercisable
	1 July 2003			#				
<b>Specified Directors</b>								
B. Davidson	400,000	-	(100,000)	-	300,000	-	-	-
N. Curtis	13,900,000	-	-	(11,900,000)	2,000,000	-	-	-
H. Wang	2,650,000	-	(300,000)	(850,000)	1,500,000	-	-	-
D. Davidson	800,000	-	(500,000)	-	300,000	-	-	-
A. Lupton	2,850,000	-	-	(1,350,000)	1,500,000	-	-	-
<b>Specified Executives</b>								
M. Vaisey	500,000	-	-	-	500,000	-	-	-
M. Whillier	600,000	-	-	(100,000)	500,000	-	-	-
M. James	500,000	-	-	-	500,000	-	-	-
<b>Total</b>	<b>22,200,000</b>	<b>-</b>	<b>(900,000)</b>	<b>(14,200,000)</b>	<b>7,100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Includes forfeits and offer to all employees under the Employee Share Scheme dated 30 June 2004 - refer to Note 22 for details of the Scheme.

#### (f) Shareholdings of Specified Directors and Specified Executives

Shares held in Lynas Corporation Ltd (number)	Balance 1 July 03 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 04 Ord
<b>Specified Directors</b>					
B. Davidson	658,000	-	100,000	-	758,000
N. Curtis	15,590,192	-	-	(26,000)	15,564,192
H. Wang	500,000	-	300,000	-	800,000
D. Davidson	135,000	-	500,000	-	635,000
A. Lupton	300,000	-	-	(300,000)	-
<b>Specified Executives</b>					
M. Vaisey	70,330	-	-	(70,330)	-
M. Whillier	298,083	-	-	12,000	310,083
M. James	580,000	-	-	(190,000)	390,000
<b>Total</b>	<b>18,131,605</b>	<b>-</b>	<b>900,000</b>	<b>(574,330)</b>	<b>18,457,275</b>

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

#### (g) Loans to specified directors and specified executives

There are no loans to specified directors or specified executives.

#### (h) Other transactions and balances with specified directors and specified executives

##### Services

Legal services amounting to \$278,805 were provided to Lynas Corporation Limited by Deacons at standard commercial rates. Mr. B. Davidson is a consultant to Deacons, a major national law firm, having retired as a partner on 30 June 2004. The contract for the provision of services was approved by shareholders at an Annual General Meeting.

## Notes continued

30 JUNE 2004

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### 27. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

Administrative services amounting to \$145,498 were provided by Sino Gold Limited to Lynas Corporation Limited at rates based on arms-length transactions. During the year the company sold \$62,655 of furniture and fittings to Sino Gold Limited at book value, which was assessed to be a fair and equitable arms-length price. Sino Gold Limited is a company of which Mr. N. Curtis and Mr. B. Davidson are directors. The contract for the provision of services was approved by shareholders at an Annual General Meeting.

Management consulting services amounting to \$120,000 were provided to Lynas Corporation Limited by Maxipot on an arms-length basis. Maxipot is a company controlled by Mr. D. Davidson. The contract for the provision of services was approved by shareholders at an Annual General Meeting.

The balance owing on items detailed above reflected in the current liabilities at year end is \$36,463 (2003 \$21,989)

### 28. RELATED PARTY DISCLOSURES

#### Ultimate parent

Lynas Corporation Limited is the ultimate parent company

#### Wholly-owned group transactions

##### Loans

Loans made by Lynas Corporation Limited to wholly-owned subsidiaries. The loans are unsecured and interest free with no fixed terms of repayment.

During the year the Lynas Corporation Limited advanced funds amounting to \$953,317 to Mt Weld Mining Pty Limited to fund feasibility study activities.

As at 30 June 2004 the total amount owing by Mt Weld Mining Pty Limited to the Parent Company was \$12,158,746 (2003: \$11,205,429). This advance is at call and interest free and is not expected to be repaid during the next twelve months. (Refer: note 8).

## Notes continued

30 JUNE 2003

### 29. SEGMENT INFORMATION

#### Segment products and locations

The Company's main concentration has been on the Rare Earths resource at Mt Weld near Laverton in Western Australia. Geographically, the group operates in a single geographic segment, being Australia.

#### Segment accounting policies

Segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.

Business segments	Rare Earths		Niobium / Tantalum		Gold		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$
Total segment revenue	—	—	—	—	—	—	—	—
Non-segment revenues								
Interest revenue	562,092	97,323	—	—	—	—	562,092	97,323
Proceeds on sale of plant and equipment	63,295	—	—	—	—	—	63,295	—
Proceeds on disposal of investments and tenements	—	—	—	500,000	—	25,000	—	525,000
Unallocated revenue - rent	109,159	124,977	—	—	—	—	109,159	124,977
Total consolidated revenue	734,546	222,300	—	500,000	—	25,000	734,546	747,300
Results								
Segment result	(3,949,471)	(4,877,960)	(5,900)	—	—	25,000	(3,955,371)	(4,852,960)
Non-segment expenses								
Interest expense	—	—	—	—	—	—	(467,399)	(233,878)
Unallocated expenses								
Consolidated entity loss from ordinary activities before income tax expense							(4,422,770)	(5,086,838)
Income tax expense							—	—
Net loss							(4,422,770)	(5,086,838)
<b>Assets</b>								
Segment assets	34,166,790	15,945,818	2,347,509	2,000,000	—	—	36,514,299	17,945,818
Total assets							36,514,299	17,945,818
<b>Liabilities</b>								
Segment liabilities	8,883,825	5,097,433	37,774	—	333,818	668,191	9,255,417	5,765,624
Non-segment liabilities							—	—
Total liabilities							9,255,417	5,765,624
Other segment information:								
Acquisition of property, plant and equipment, intangible assets and other non-current assets	9,233,542	18,391	347,509	—	—	—	9,581,051	18,391
Depreciation	127,629	77,330	—	—	—	—	127,629	77,330
Amortisation of borrowing costs	140,194	114,806	—	—	—	—	140,194	114,806

## Notes continued

30 JUNE 2004

### 30. FINANCIAL INSTRUMENTS

#### 30(a) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in:						Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		More than 5 years				2004		2003	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>(i) Financial assets</i>														
Cash	12,352,556	3,183,876	—	—	—	—	—	—	—	—	12,352,556	3,183,876	5.1	4.5
Receivables	356,161	128,101	—	—	—	—	—	—	—	—	356,161	128,101	5.1	3.5
	—	—	—	—	—	—	—	—	7,670,021	—	7,670,021	—	N/a	N/a
Total financial assets	12,708,717	3,311,977	—	—	—	—	—	—	7,670,021	—	20,378,738	3,311,977		

N/A - not applicable for non-interest bearing financial instruments.

Financial Instruments	Floating interest rate		Fixed interest rate maturing in:						Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		More than 5 years				2004		2003	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>(ii) Financial liabilities</i>														
Trade and other creditors	—	—	—	—	—	—	—	—	(801,716)	(1,608,222)	(801,716)	(1,608,222)	N/A	N/A
Convertible note loan facility	(7,807,443)	(3,227,828)	—	—	—	—	—	—	—	—	(7,807,443)	(3,227,828)	5.45	7.4
Total financial liabilities	(7,807,443)	(3,227,828)	—	—	—	—	—	—	(824,716)	(1,608,222)	(8,732,159)	(4,836,050)		

N/A not applicable for non-interest bearing financial instruments.

## Notes continued

30 JUNE 2004

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30(b) Net fair values

The carrying amounts of all financial assets and liabilities approximate the net fair values at balance date, with the exception of the investment in AMR Technologies Inc...

#### 30(c) Credit risk exposures

The maximum exposure to credit risk, excluding the value of any collateral or other security, net of any provisions for doubtful debts of those assets is the carrying value, as disclosed in the Statement of Financial Position and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

### 31. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Lynas Corporation Ltd has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company has allocated internal resources and engaged expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As Lynas has a 30 June year-end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Lynas prepare its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Lynas. At this stage the company has not been able to reliably quantify the impacts on the financial report.

#### *Measurement of Financial Instruments*

Under AASB 139 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables - measured at amortised cost, held to maturity - measured at amortised cost, held for trading - measured at fair value with fair value changes charged to net profit or loss, available for sale - measured at fair value with fair value changes taken to equity and non-trading liabilities - measured at amortised cost. This will result in a change in the current accounting policy that does not classify financial instruments.

Currently the investment in AMR Technologies Inc. is carried at cost because Lynas owns less than 20% of the shares in that company, does not have any Directors on the Board and does not exercise any influence over the Board or management of the company. Under the change in accounting standards this investment would be recorded at market value which would result in a reduction of value of the investment of \$506,993 as at 30 June 2004.

#### *Deferred Exploration, Evaluation and Development Costs*

The IASB has yet to issue a standard dealing with exploration and evaluation costs. It is currently expected that a standard will be released late in 2004 based on the Exposure Draft (ED6 - *Exploration for and Evaluation of Mineral Resources*). ED6 proposes that entities can elect to continue to recognise and measure exploration and evaluation assets in accordance with the accounting policies applied in their most recent annual financial statements. Entities will only be permitted to carry forward such costs after also having applied AASB 136 - *Impairment of Assets* in respect of any impairment.

As the standard is yet to be issued it is not included in the "stable platform" that the AASB has made available by 30 June 2004 for Australian entities to use on transition to IFRS. While early adoption is permitted, it is not mandatory. The future financial effect of this change in accounting policy is not yet known.

#### *Share based payments*

Under AASB 2 *Share based Payments*, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

#### *Income taxes*

Under the Australian equivalent to IAS 12 *Income Taxes*, the company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be any further material impact as a result of adoption of this standard. Presently, and for the past several years Lynas has been operating in a loss position. Due to the uncertainty regarding the recoverability of these losses, they have not been brought to account.

## Notes continued

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

(1) In the opinion of the directors:

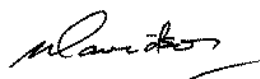
(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

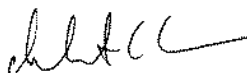
(ii) complying with Accounting Standards and Corporations Regulations 2001; and

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

On behalf of the Board



Director  
B. Davidson



Director  
N. Curtis

Sydney, 25 August 2004

## Independent audit report to members of Lynas Corporation Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Lynas Corporation Limited (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

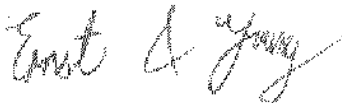
### **Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### **Audit opinion**

In our opinion, the financial report of Lynas Corporation Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of Lynas Corporation Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Michael Elliott  
Partner  
Sydney  
25 August 2004