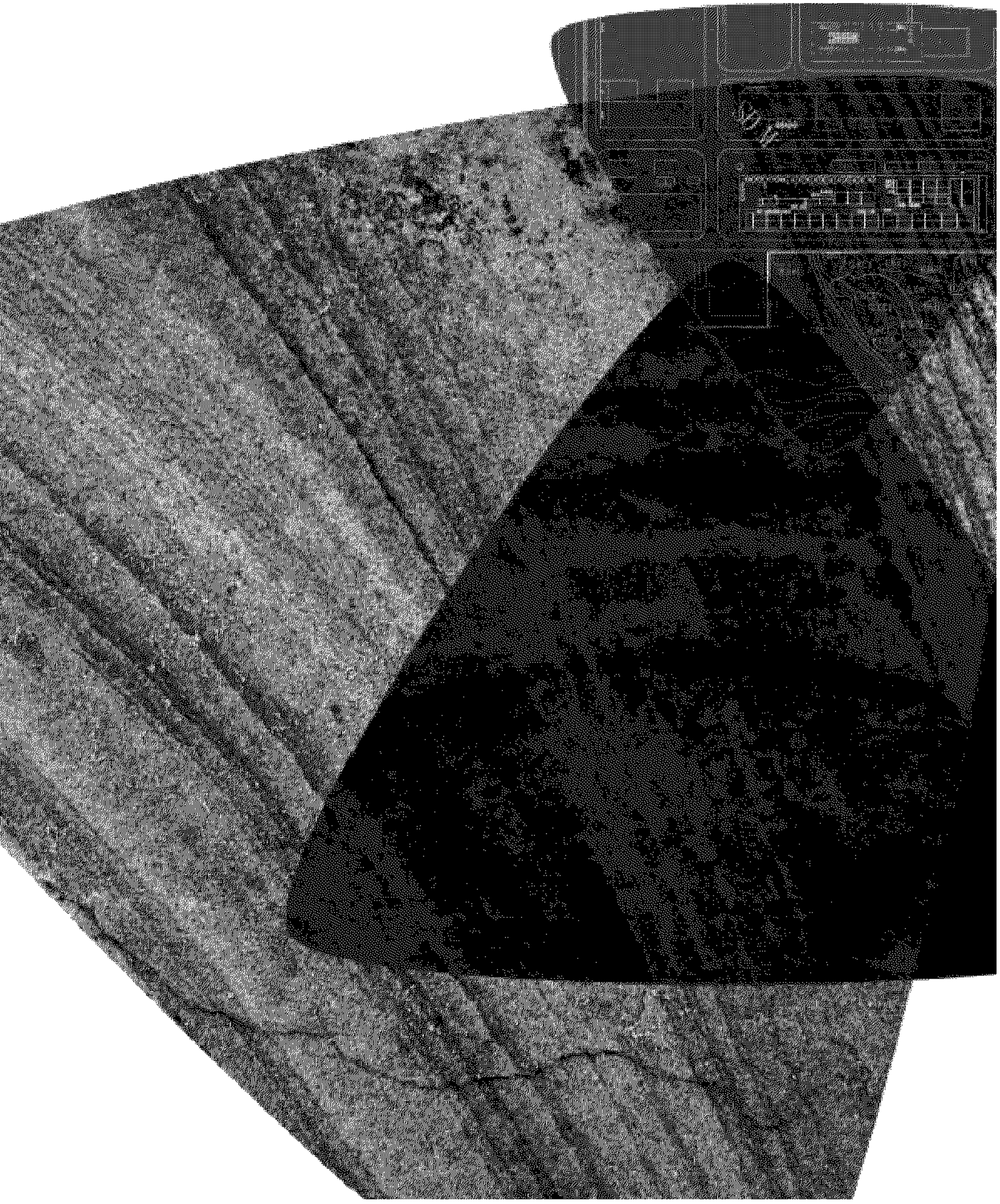
Lynas
CORPORATION LTD

Annual Report 06



Contents

2006 was a breakthrough year for the Rare Earths industry and Lynas

Highlights

▲ $75 million funding received for development of the Mt Weld Rare Earths project. ▲ Rare Earths prices continued to climb; the quarterly average price for the Mt Weld composition increased 63% over the last year. ▲ A favourable independent technical review on the Mt Weld Rare Earths Project was completed by Behre Dolbear Australia (BDA). ▲ Heads of Agreement for supply and cooperation was signed with a major Rare Earths customer. ▲ Ashton Mining (WA) Pty Ltd (Ashton) Contingent Debt restructured, and subsequently paid in full. ▲ Engineering Design Institutes appointed and Basic Engineering Design underway. ▲ Pilot plant tests for 'cracking section' of the process plant successfully completed. ▲ Rare Earths market report completed by BCC Research forecast strong demand growth with potential supply shortage. ▲ Environmental and capital constraints now restricting Chinese Rare Earths supply.

Chairman's Report and Outlook Statement

2006 was a breakthrough year for the Rare Earths industry and Lynas.

We commenced the year hoping to merge or partner with AMR, a Canadian listed company of whom we were the largest shareholder, to form an integrated Rare Earths company. This was unsuccessful and we sold our shareholding in August 2005.

We then focused on independent development of our Rare Earths business and were successful in signing a new customer agreement in February for over 30% of our production. This acted as a catalyst for a successful capital raising, resulting in sufficient funding for project development and allowing Lynas to independently develop its business model.

This resurgence occurred simultaneously with industry parameters moving strongly in Lynas' favour. Prior to this year the industry as a whole did not recognise a looming shortage of Rare Earths supply. Previously the balance of pricing power was with the end-user; this year that has changed. A shortage of raw material has become apparent and prices have increased strongly.

The forecast by Lynas of a continuing increase in demand combined with an unstable supply base has been realised. The imposition of restrictive mining production quotas by the Chinese Government and the continued enforcement of China's environmental protection policies have forced plant shutdowns and a reduction in Rare Earths raw material production in both the northern region of China and the southern ionic clay regions impacting supply of light and heavy Rare Earths. We believe that this will not change in the near term.

Lynas is well positioned to benefit from these changes occurring in the Rare Earths industry, as these events improve the company's position in the Rare Earths market and give credence to the key value propositions of Lynas' RED business model in:

▲ Building the world's only integrated supply system from mine to a diverse set of customers;

▲ Producing Rare Earths that meet the world's environmental standards; and

▲ Marketing an international brand of guaranteed quality.

In the RED model Lynas controls Rare Earths materials from the Mt Weld mine through the processing stages by direct ownership or strategic alliance. Lynas will be unique in its ability to offer security of supply at known costs to the global Rare Earths consumers. Lynas believes that market opportunities will be created by:

▲ Allowing stable long term fixed or framed price contracts to be struck if desired by the customer;

▲ Offering supply chain transparency to the customer, allowing them to minimise inventory costs; and

▲ Giving the customer the confidence to apply Rare Earths to new applications enabling product development activities and re-tooling.

HAVING BEEN ENTRUSTED BY SHAREHOLDERS WITH THE NECESSARY CAPITAL, WE LOOK FORWARD TO DELIVERING ON THIS TRUST BY CREATING A GLOBALLY SIGNIFICANT POSITION IN AN INDUSTRY VITAL TO FUTURE TECHNOLOGICAL DEVELOPMENTS.

Our funding package was finalised in June and approved by shareholders in August 2006. I am delighted that the entire funding package was placed to high quality international institutional clients. This endorses the strategic significance of the business we are building. The details of our funding package of $75 million are described under Business Development on page 6.

Rare Earths remain at the heart of technological development. We do not see ourselves as building simply a mining company, but rather creating a company that will supply a significant portion of global demand for metals that are vital to key technologies in the automotive and electronic industries. We will do this by establishing a reliable partnership with major international chemical companies as a clear alternative to the non transparent Chinese supply system. We believe that consumers will continue to demand more environmentally friendly and energy efficient products in the future. As the applications outlined in this annual report demonstrate many of the applications supporting these basic social trends, such as the hybrid vehicle, require Rare Earths in order to operate.

The achievements over the last year, including the significant capital raising, enable us to proceed with confidence and urgency on the development of our business.

Having been entrusted by shareholders with the necessary capital, we look forward to delivering on this trust by creating a globally significant position in an industry vital to future technological developments.

By becoming a long term reliable and transparent supplier of Rare Earths for our customers we will build a long term, sustainable and highly profitable business for our shareholders.

These achievements have been built through the efforts of our management team and our Board. I want to recognise the significant contributions of our team in the last year. In particular I would like to thank Peter Newton and Mark Okeby, who stepped down from the Board this year, for their support at a critical period in the company's development. I am grateful to David Davidson for accepting a reappointment to the Board in August.

Nicholas Curtis
Executive Chairman

Vision

WE WILL LEAD THE GROWTH OF THE GLOBAL RARE EARTHS INDUSTRY BY CREATING A RELIABLE, FULLY-INTEGRATED SOURCE OF SUPPLY FROM MINE THROUGH TO OUR CUSTOMERS.

Values

AS A TEAM WE WILL:

▲ STRIVE FOR EXCELLENCE IN SAFETY, HEALTH AND THE ENVIRONMENT

▲ VALUE OUR DIFFERENCES AND BE OPEN TO CHANGE

▲ OPERATE IN AN HONEST, CANDID AND TRANSPARENT MANNER

▲ DELIVER QUALITY PRODUCTS, PROCESSES AND SERVICES

▲ ALWAYS RESPECT AND CONTRIBUTE TO THE COMMUNITIES IN WHICH WE OPERATE

Board of Directors

Nicholas Curtis

Executive Chairman

Appointed Executive Chairman of the Company in 2004. Prior to this Nick was President and Chief Executive Officer. He has over 20 years background in mining and finance including founding Sino Gold Limited, an Australian public company with gold mining assets in China and serving as Chairman for five years until November 2005. Nick also serves as Chairman of St Vincents & Mater Health Sydney Limited and as a Director on the Boards of the Sisters of Charity Health Service and the Garvan Institute of Medical Research.

David Oliver Davidson

Director - Non Executive

David is an independent 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, David has been providing executive and corporate advice on organisation development and strategy.

Jacob Klein

Director - Non Executive

Appointed an independent Director of the Company, Jake joined the Board on 28 August 2004. He is also President and Chief Executive Officer of Sino Gold Limited and President of Australia China Business Council NSW. Jake has over 15 years experience in senior finance and managerial positions. He brings invaluable knowledge of management of operations in China gained through his role as Chief Executive Officer of Sino Gold Limited.

Business Development

Capital Raising

In January 2006 RAB Capital plc ('RAB') were welcomed on to the Lynas share register with the completion of a share placement to raise $1.4 million. The placement to RAB was timely in raising funds for the anticipated restructure and reduction of the Contingent Debt with Ashton Mining (WA) Pty Limited ('Ashton').

Support from RAB was also a positive step towards raising the equity required for the development of the Mt Weld Rare Earths Project. Mr Philip Richards, Chief Executive Officer of RAB Capital plc stated "RAB has a successful track record of investing in emerging companies which hold world class assets and we believe the Mt Weld deposit to be a globally significant Rare Earths resource. RAB is positive on the market outlook for Rare Earths and believes that Lynas has a unique opportunity to develop a leading position in the Rare Earths market."

In April 2006 Lynas agreed to the terms of a proposed placement of $27 million of Convertible Notes. Transocean Securities Pty Ltd were appointed to manage the placement and secured an underwriting facility from RAB for the entire Convertible Note placement. The underwriting facility from RAB allowed the company to continue with the development of the Rare Earths project without delay, and represented a significant portion of the funding required for the Mt Weld Rare Earths project.

In June 2006 $75 million of funding was secured for the development of the project. The convertible note underwriting of $27 million was not invoked as the issue was oversubscribed and the Directors instead elected to accept the full oversubscriptions of up to $8 million, increasing the total amount raised to $35 million. In addition a $40 million share placement was subscribed to by major international investment groups in the US and Europe, including Goldman Sachs and Ospraie Management.

The commercial terms of the Convertible Notes included:

1. Five year term;
2. 8.25 % coupon paid quarterly in arrears;
3. 40 cent conversion price into Lynas Fully Paid Ordinary Shares;
4. Listing the Convertible Notes on the Singapore Stock Exchange.

The capital raisings were confirmed when Lynas obtained shareholder approval for the issue of the notes and shares at a shareholder meeting held in August 2006. As a result the company has a strong register with excellent institutional support.

Restructure of Ashton Contingent Debt

Lynas and Ashton entered into negotiations to restructure the Ashton Contingent Debt and Royalty obligations in December 2005. A new agreement which restructured these obligations was signed in April 2006.

The key terms of the restructure were that Lynas assumed an obligation to pay Ashton

$75 million in funding received for development of the Mt Weld Rare Earths project

"RAB IS POSITIVE ON THE MARKET OUTLOOK FOR RARE EARTHS AND BELIEVES THAT LYNAS HAS A UNIQUE OPPORTUNITY TO DEVELOP A LEADING POSITION IN THE RARE EARTHS MARKET". MR PHILIP RICHARDS CEO, RAB CAPITAL plc

an amount equivalent to the Contingent Debt on a schedule of payments over the next three years, including a $3 million payment on signing of the agreement, or payment in full on the occurrence of a capital raising for the development of the Mt Weld tenements.

In return for Lynas agreeing to and complying with this payment schedule, Ashton suspended its claw back rights and the Royalty obligations. These rights terminated completely on full payment of the Contingent Debt.

The effect of this agreement, and the initial $3 million payment, provided additional time for Lynas to develop the Mt Weld Rare Earths project. This reduced risk of returning half of the tenement to Ashton, and also removed an indexed Royalty obligation of $12.7 million.

The outstanding debt of approximately $5.6 million payable by Lynas to Ashton was paid in August 2006 upon the successful capital raising discussed above. Full payment of the debt removed Ashton's right to claw back half of the project.

Customer Supply Agreement

The signing of a Heads of Agreement in February 2006 for supply to a global consumer of Rare Earths was a key milestone in the development of the Mt Weld Rare Earths project. The project was reviewed by the customer and received positive outcomes from both a technical and comparative industry cost perspective, resulting in Lynas securing a cornerstone customer for the Mt Weld Rare Earths project.

The sales represent greater than 30% by value of the planned 10,500 tonnes Rare Earths oxide annual production from Mt Weld under terms which are satisfactory from Lynas' perspective. Due to the close- knit nature of the Rare Earths community and the tight market conditions, the specific terms of the Agreement and customer details are commercial-in-confidence. The Heads of Agreement enabled Lynas to secure the funding required for project development. As at the financial year end, the Supply Agreement is progressing well.

Review of Site Selection

Over the last year it became apparent that the cost base of the Chinese Rare Earths producers has increased quite substantially. The cost of power, reagents and increases in labour costs have contributed to the increase in operating costs for the Chinese industry, however the increase has largely been driven by Chinese Government policy.

The first indications of this trend occurred in 2005 with the removal of the VAT export rebate in Rare Earths. This trend has continued this year as the Chinese Government has introduced policies which are enforcing environmental compliance and requiring Chinese Rare Earths plants to invest capital and increase operating costs to meet required standards.

The imposition of mining production quotas by the Chinese Government to achieve a 25% decrease in Chinese production in 2006 compared to the production tonnages of 2005 was viewed by Lynas as a watershed in the Government's intention to control and restructure the industry. The National Development Reform Commission (NDRC) and the Ministry of Commerce (MofCom) have also reduced the tonnage in the existing export quota system and have restricted the trading of these quotas.

Following the tightening of export quotas Lynas resubmitted to MofCom our formal application for exemption from export quotas on the basis that Lynas' raw material will be imported into China from Australia, which Lynas believes to be consistent with WTO guidelines.

The company determined at that time it was prudent to investigate potential sites outside of China for the processing plant; to both mitigate the risk of being subjected to export quota requirements and to investigate the potential of improving project economics by avoiding the escalating cost structures in China whilst gaining access to more favourable tax environments available in alternative countries.

It should be noted that the Chinese design and procurement work can be redirected to alternative sites.

The RED Business Model

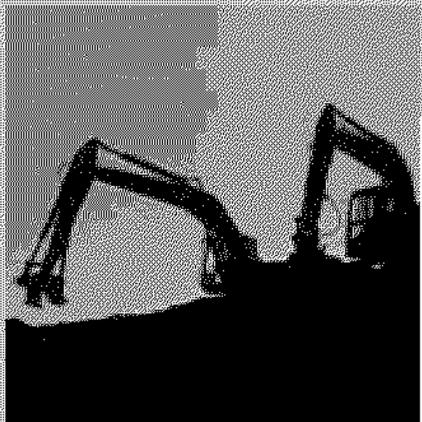
UPSTREAM

1

Mt Weld Mine

The Mt Weld asset is a world class ore body. The JORC code compliant resource of 7.7 million tonnes @ 11.9% REO is the highest grade Rare Earths resource in the world. The favourable distribution of the Rare Earths elements at Mt Weld means our material is 30% more valuable per unit of REO than the competition. Due to significantly lower thorium and negligible fluorine content of the Mt Weld ore, our plant will not have the problematic environmental issues that other Rare Earths plants experience. The 'Upstream Project' is built on these strong foundations, with mining and crushing at the mine site before transporting the 'whole of ore' to the processing site.

The mine has full environmental approval. Lynas has commenced grade control drilling, and pit development will commence in early 2007 following approval of the Mining Proposal to the Western Australian Department of Industry and Resources. The Mt Weld tenements are exempt from Native Title claims and Aboriginal Heritage issues have been cleared through a process of archaeological and anthropological studies and site inspections with the traditional land owners.



UPSTREAM

2

Rare Earths Concentration

The Lynas concentration process employs a unique flotation reagent regime. This was developed by Lynas together with a Chinese research institute. A pilot plant utilising this oxide flotation process achieved a steady state process recovery for the Rare Earths oxide of 63% at 40% REO grade. Funding of the project is secured and the engineering design for the concentrator is well underway with a Chinese Engineering Design Institute working with our own experienced Rare Earths engineers.

UPSTREAM

3

Rare Earths Cracking and Initial Separation

The Mt Weld concentrate will be processed in a purpose built plant located alongside the concentrator. This plant will produce intermediate Rare Earths products for further separation that are free from impurities and suitable for use by Rare Earths separation plants for the manufacture of individual Rare Earths compounds.

The mature cracking and initial separation process employs sulfuric acid treatment of Mt Weld concentrate and solvent extraction processes to produce the intermediate Rare Earths products. The sulfuric acid treatment process has undergone pilot plant testing to specifically understand materials handling and waste gas treatment issues.

DOWNSTREAM

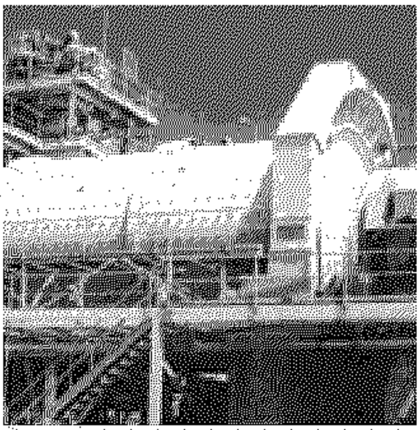
4

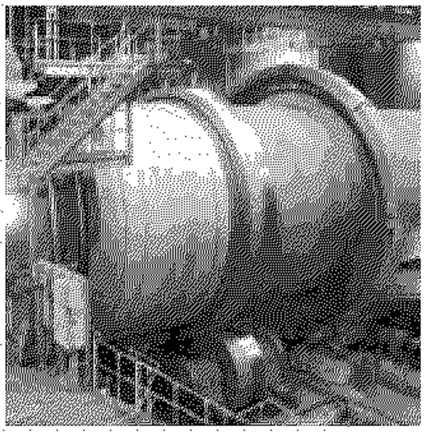
Separation into Individual Rare Earths

The intermediate Rare Earths products are further separated into individual Rare Earths oxides of various purities for their individual or combined commercial use utilising standard solvent extraction technology.

Lynas has signed a Heads of Agreement with a major processor of Rare Earths with several separation plants that could undertake toll separation through strategic alliance, thereby establishing an integrated supply chain from mine through to separated oxides that will be marketed under the Lynas RED® brand.

Given the current shortage of material from China, Lynas is actively examining opportunities to maximise market penetration of the desired market through this strategic alliance.





Operational Review

Independent Technical Review

As part of the due diligence process necessary for successful capital raising, the Board appointed Behre Dolbear Australia ('BDA') to conduct an independent technical review on the Mt Weld Rare Earths project.

The operations team hosted representatives from financial broker firm Arbuthnot Securities and technical due diligence experts from BDA during visits to both Western Australia and China for project appraisal and technical review.

BDA visited the Mt Weld site, the Zibo City plant site, the Chinese Design Institutes preparing the detailed plant designs, and the relevant transport routes and infrastructure facilities in both Western Australia and China.

The Scope of work of BDA's technical review included:

- ▲ an independent assessment of the technical aspects of the project as currently defined
- ▲ preparation of a summary report and risk assessment of the geology, drill and sample data, resource and reserve estimates, proposed mining plans and mining operations, metallurgical testwork, planned process flowsheet, plant design and proposed processing operations, infrastructure and environmental issues
- ▲ review of the capital and operating cost estimates
- ▲ review of the proposed Rare Earths products
- ▲ review of environmental proposals

BDA raised no significant technical issues during this review. A copy of their report is available to shareholders upon request.

OPERATIONS AUSTRALIA

Tenements

Extensions of term for Mt Weld Mining Leases M38/58 and M38/59 were approved by the Western Australian Department of Industry and Resources, for a second 21 year period until 2026. All previous approvals and conditions on the leases remain valid for the new term.

Mine Planning

With all major aspects of mine Reserves and schedules completed, activity was directed towards detailed planning for mine establishment, including a review of mine grade control strategy. A test grade control drilling program conducted from the surface prior to overburden mining has the potential to halve the cost of grade control and may save several weeks in the lead up to first ore production. This program including resource grade modelling is scheduled for completion in October 2006.

Other planning matters involved approvals for construction of the haul road from the mine and logistics planning for road and rail transport of Rare Earths ore to the Port of Esperance.

Mining Proposal

Documentation for a statutory Mining Proposal for Rare Earths mining at Mt Weld was progressively compiled. The Mining Proposal is the detailed technical description of the mining operation to be submitted to the Western Australian Department of Industry and Resources for approval prior to commencement of mining activity.

OPERATIONS CHINA

In preparation for the next stage of development in China the company relocated its China

A favourable independent technical review on the Mt Weld Rare Earths Project was completed by Behre Dolbear Australia

office and staff from Beijing to a new office in Shandong, which is close to the proposed plant site. This has an added benefit of office costs being substantially below those of Beijing.

Lynas increased the engineering capabilities and capacity of its owner's team with the recruitment of three Rare Earths specialist engineers to be based at the company's Zibo City Office, Shandong. These personnel bring valuable Rare Earths industry experience to be applied as the company commences detailed engineering of the project, and together with the General Manager in China, will form the management core of the operational team running the plant after construction.

Engineering Design

Following an intensive selection process, two experienced, well qualified Chinese Design Institutes were appointed for the basic and detailed engineering design of the processing plants.

Lynas appointed the Metallurgical Design Institute of Shandong (SDM) for the metallurgical plant and general site infrastructure, and the Eastern China Engineering Science and Technology Co. (ECEC) for the cracking-separation plant.

Consistent with normal practice in China, the pre-construction engineering design process follows a sequential path with well defined phases; Process Design Package, Basic Engineering Design, and Detailed Engineering Design.

The process design package for the cracking and separation plant was completed by a team of Lynas and AMEC personnel in Shanghai. The Basic Engineering Design is underway and following a review Detailed Engineering Design will commence.

Process Development – Cracking Process Pilot Plant

A pilot plant was run at the laboratories of SGS Lakefield in Perth, Western Australia to collect specific design information for the cracking section of the process plant. The pilot plant comprised principally of a 4 metre rotary kiln which was fitted with waste gas treatment equipment, hydrometallurgical equipment and process monitoring sensors. The plant was fed with Mt Weld Rare Earths concentrate which was subjected to the sulfuric acid bake process. A series of test campaigns led up to a continuous operation producing material suitable for the next stage of the total processing operation.

The successful trials provided valuable data specific to materials handling, waste gas treatment, maintenance of continuous operation and design data for optimisation of the full scale plant.

Project Management

The company continued to build a small but strong owner's team in China for the management of engineering, procurement and construction. Lynas is currently considering proposals from organisations in China that can assist with procurement and construction management and intends to make appointments during the September quarter.

The execution of the project will be managed by an owner's team comprised of Lynas personnel and specialist international consultants with proven Chinese industry experience to enhance the interface between the owner's team and the Chinese design and construction companies.

The company's philosophy is to utilise the experience within the Chinese Rare Earths industry and the benefits of the locally based Chinese Design Institutes, whilst ensuring transparent project controls enable the owner's team to monitor and manage project budget and scheduling. The Operations team is engaged with major equipment manufacturers and suppliers of key services and reagents.

Environmental

Responsible environmental performance by industry is a priority issue for State and Provincial authorities in China, and Lynas is committed to a high level of performance at its operations designed to meet both Chinese Government and World Bank environmental standards.

The processing site water balance and water treatment options were reviewed and refined to optimise water quality and conservation.

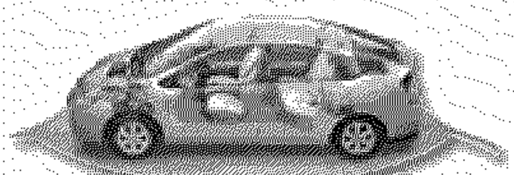
An independent water consultant reviewed data for the integrated plant site in Shandong and submitted a final proposal to Lynas for the Shandong site water balance flowsheet. This world class system reduces water consumption and recycles water of high quality for process use whilst discharging a minimal volume of waste water at the required discharge water quality standard.

Iron Oxide Filler

Additional markets for the inorganic filler co-product produced by the concentrator were investigated to ensure sufficient market demand can be secured. The company is in discussion with large volume customers who manufacture cement and other construction materials.

Main Applications Driving Demand

HYBRID VEHICLES

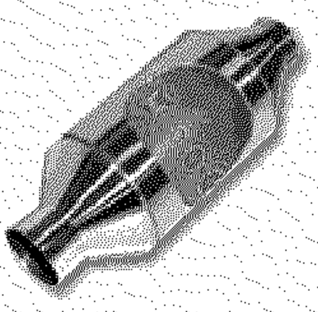


Hybrid Vehicles Rare Earths are helping drive the auto industry into a new greener era with multiple applications within a hybrid vehicle. Hybrid vehicles cut fuel use by combining a gasoline engine, battery-powered electric motors and brakes that capture energy from stopping. These components rely on Rare Earths; the battery is a nickel–metal hydride unit (NiMH), the metal hydride component is an alloy of Rare Earths; and the electric motor, generator and regenerative braking systems are dependent on Rare Earth magnets.

Overall a typical hybrid vehicle contains approximately 15kg of Rare Earths, with over 12kg contained in the batteries, approximately 1.5kg in electric motors per vehicle, and the remainder in other applications. Based on a conservative forecast for hybrid sales by 2010 of 2 million vehicles, additional demand from this new application alone would add ~30,000 tonnes of Rare Earths demand. A more aggressive forecast by Booz Allen Hamilton indicates hybrid vehicle sales could reach 20% of North American new car sales by 2010, or 4 million units, in which case the demand for Rare Earths from hybrid vehicles would exceed 60,000 tonnes in 2010.

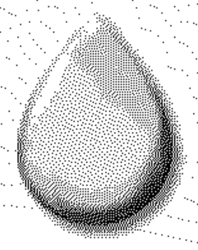
In addition to hybrid vehicles, NiMH batteries are also used for rechargeable portable equipment, and alternatives to disposable single charge batteries used to power consumer electronics. Lithium ion batteries are replacing NiMH batteries in some applications such as mobile phones and computers. However issues exist concerning the safety of lithium ion batteries with regard to overheating and combustion, as attested by the recent recall by Sony, Dell, Apple, Toshiba and Matsushita of over six million laptop batteries, and combustion risks during impact inherent in lithium ion battery application in hybrid vehicles.

CATALYTIC CONVERTERS



Catalytic Converters An automotive catalytic converter ('autocat') transforms the primary pollutants in engine exhaust gases into non-toxic compounds. Rare Earths play a critical role in the chemical reactions within an autocat and also enable the autocat to run at high temperatures. They increase the effectiveness of the autocat and reduce the required amount and cost of platinum and other precious metals.

FLUID CRACKING CATALYSTS



Fluid Cracking Catalysts (FCC) used in the refining operation of crude oil are the major contributor to value-add in the refining process. The process enables the transformation of heavy molecules into lighter compounds that make up gasoline and other fuels such as gas, jet fuel and diesel.

Rare Earths play a major role in the catalysts used in modern petroleum refineries. Lanthanum and cerium serve to stabilise the structure and chemistry of the high surface area zeolites used as molecular filters in the FCC process.

The market is driven by oil consumption and the quality of oil being refined; as heavier oils and tars are increasingly used, the amount of FCC used per barrel of oil will increase.

DISPLAYS

Displays Television, computer and other visual displays that use cathode ray tube (CRT), liquid crystal display (LCD) or plasma display panels (PDP) technologies have multiple components that use Rare Earths.

Phosphors that generate the colour red require the Rare Earths element europium, for which there is no alternative. The introduction of plasma televisions saw the development of a new blue europium phosphor that retains brightness ten times longer than previous blue phosphors. Phosphors generating the colour green are doped with the Rare Earth element terbium. A combination of these primary colour phosphors are used to create the white 'backlight' used in LCD screens and the energy efficient 'tri-phosphor' light bulbs.

Cerium oxide, through its unique physical and chemical properties, has been the building block upon which glass polishing has been based for over 40 years. It is a very efficient polishing compound as it removes glass both by its chemical dissolution and by mechanical abrasion. Polishing powders are used to polish cathode ray tubes, plasma display panels and liquid crystal display glass.

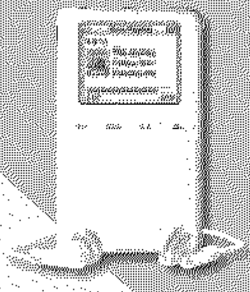
High purity cerium is added to the glass of CRTs, as a stabiliser to counteract browning of the glass caused by cathode radiation. While CRT demand is expected to decrease slightly, they are expected to remain in demand, particularly in developing countries because they are less expensive.

Rare Earths are also added to a variety of other glass applications including; some flat glass batch formulations as a decolouriser to counteract the colour caused by iron; as a UV blocker in auto glass to reduce damage to interiors, to architectural glass to reduce air-conditioning energy consumption, and to optical glass resulting in smaller, lighter yet more optically powerful cameras, binoculars and microscopes.

COMPACT FLUORESCENT LIGHTS

Compact Fluorescent Lights Energy efficient lighting is a major application of europium and terbium Rare Earth based phosphors. The compact fluorescent lamp (CFL) uses only a quarter of the power needed to produce the same amount of light as the standard incandescent light bulb. The potential of this application is best described by former President of the United States, Bill Clinton, "In our country, 20 per cent of all electricity is consumed by lighting. If every home replaced every incandescent light bulb with a compact fluorescent one, which costs three times as much, lasts 10 times as long, emits one third as much greenhouse gases, every purchaser of a light bulb would save 25 to 40 per cent, no matter how many bulbs they purchased, just as long they were being used. And we would cut the greenhouse gas emissions attributable to lighting in America by 50 per cent".

CONSUMER ELECTRONICS



Consumer Electronics Neodymium Rare Earth magnets are much more powerful than alternatives, providing better performance from a smaller size; this has lead to many miniaturised consumer electronic applications.

Tiny Neo magnets are used to drive the speakers within earphones, including Apple's popular iPod music player, as well as in numerous other high performance speakers, headphones or buds; resulting in smaller, lighter speakers with faster base response and lower overall distortion.

Neodymium Rare Earth magnets are used in hard disk drives, CD-Roms, DVDs and personal video recorders. In addition to consumer electronic products, Rare Earth magnets are also used in various automotive motors and sensors, and are also being used in the next generation of consumer air-conditioning units.

Rare Earths Market

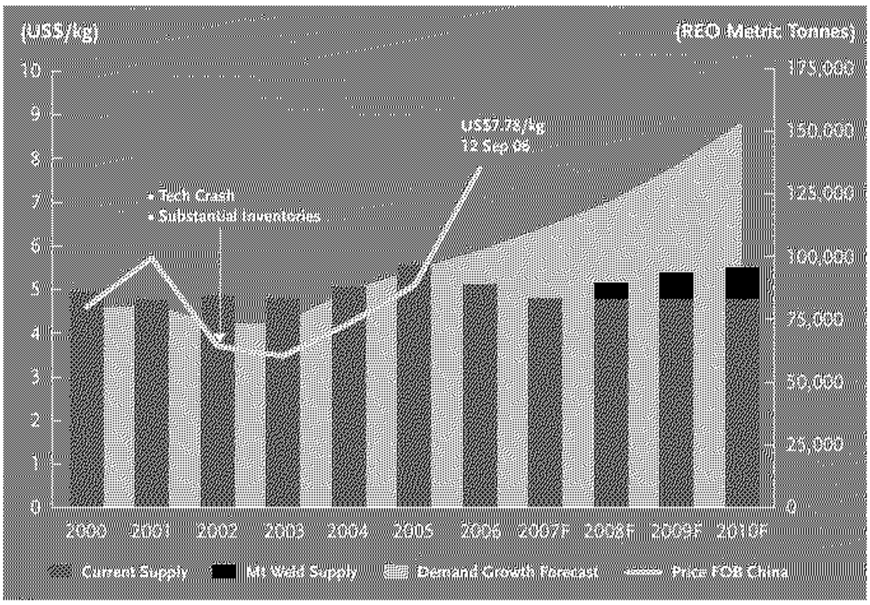
Rare Earths Demand

The overall demand growth for Rare Earths is derived from, but not limited to, society's insatiable desire for smaller, cleaner, lighter, brighter and faster technologies, and the increasingly large number of applications that rely on Rare Earths.

Global demand for Rare Earths was 95,000 metric tonnes of Rare Earths Oxide (REO) equivalents in 2005. Traditional applications are driving sustained growth in Rare Earths demand of 5% to 10% per annum. However new applications such as the hybrid vehicle are expected to increase total demand growth to over 10% annually or more than 150,000 metric tonnes REO in 2010.

Current demand is dominated by catalysts, which use the Rare Earths elements lanthanum and cerium; and Rare Earth magnets, which use neodymium, praseodymium, dysprosium and terbium. Whilst these two sectors are expected to continue to dominate demand over the next few years, the highest growth is expected for NiMH batteries in response to growth in hybrid vehicles.

Chart 1. Historical and Forecast Rare Earths Supply, Demand and Pricing



Source: BCC Research, 2006, Lynas Corporation

Table 1.
Rare Earths Demand for Key Applications

Tonnes per annum	2004	2005	AACR 2005-10	2010E
Total REO consumption FCCs	14,900	15,400	3.5%	18,400
Total REO consumption Neo Magnets	13,650	17,150	12.6%	31,100
Total REO consumption Polishing Powders	14,100	15,150	9.2%	23,500
Total REO consumption Glass Additive	13,440	13,590	1.0%	13,990
Total REO consumption NiMH Battery Alloy	6,200	7,200	30.6%	27,300
Total REO consumption Auto catalysts	4,740	4,830	4.3%	5,960
Total REO consumption Phosphors	3,652	4,007	13.0%	7,512
Total REO consumption CFLs	1,600	1,846	15.0%	3,779

AAGR = Annual Average Growth Rate
Source: BCC Research, 2006

Rare Earths prices continued to climb; the quarterly average price for the Mt Weld composition increased 63% over the last year

Rare Earths Supply

The global production of Rare Earths in 2005 was estimated to be 103,000 metric tonnes REO. China currently supplies approximately 95% of the global Rare Earths market from three Rare Earths producing regions:

- ▲ Bastnasite (a Rare Earths carbonate mineral) from Baiyun Obo Iron Ore mine located 130km north of Baotou, Inner Mongolia
- ▲ Bastnasite mined by a group of small provincial companies at Mianning, Sichuan Province
- ▲ Southern Ionic Clays mined in Jiangxi and other provinces in southern China

In terms of Rare Earths composition, the most similar to Lynas' Mt Weld Rare Earths phosphate deposit is the bastnasite from the Baotou region, with the exception that it contains less than half the europium of the Mt Weld phosphate mineral.

In April 2006, the Chinese Ministry for Land and Resources announced the imposition of production quotas on the mining of Rare Earths in China, limiting the nationally controlled output of REO in concentrate volume to 86,520 tonnes in 2006.

BCC Research reported that in 2005, 49,000 tonnes REO contained in concentrate was mined from Baotou. The Chinese Government has recently mandated a limit on production to 46,000 tonnes per annum in 2006 and beyond.

Sichuan Province produced 25,700 tonnes REO contained in concentrate with future production being limited to 31,000 tonnes REO.

The Jiangxi region has a combined capacity of approximately 20,000 tonnes per annum of heavy REO; however, significant environmental concerns have forced the Chinese Government to limit production to 7,000 tonnes per annum in 2006 and beyond.

Many Chinese plants producing Rare Earths carbonate, which is the most important intermediate material for Rare Earths oxide and metal production, were forced to shutdown this year following the Chinese Government's implementation of their stringent environmental regulations. Although larger plants have resumed production, industry news reports that the local governments continue to strengthen the control to reduce output, limiting supply. Lynas believes that the supply shortage of Rare Earths carbonate will continue due to the strong underlying market growth, the production quotas on Rare Earth concentrate, and the high levels of investment required for Rare Earths plants to overcome their environmental issues.

The national annual export quota set by the Chinese Government for 2006 was 45,000 tonnes, which is only half of the current production volume. Given that Chinese Customs calculates the volume exported based on the product weight rather than the actual REO content, this quota system promotes the export of higher value separated Rare Earths Oxides and compounds with higher REO content. The export of low value, high volume compounds such as cerium and lanthanum are disadvantaged particularly when the annual quota volume is tight.

Chart 1 shows this tightening of supply in conjunction with increased demand. High growth applications have seen demand outstrip supply for selected Rare Earths elements such as those used in the permanent magnet market (praseodymium, neodymium, terbium and dysprosium) and has resulted in the significant price increases shown in Chart 1.

red.

RareEarthsDirect®

Rare Earths Market

continued

Rare Earths Prices

Rare Earths prices have increased dramatically over the last twelve months. The prices in Chart 1 and Table 2 are for a generic composite of Rare Earths equivalent to the distribution of Rare Earths at Mt Weld, which has increased 63% from August 2005 when it was US$4.77/kg to US$7.78/kg at the end of August 2006.

With supply expected to be limited within China to lower than current production levels and the demand for most Rare Earths expected to continue to grow over the next five years at 10% per annum; the current outlook for Rare Earths prices is positive.

Table 2 below shows the quarterly average price for 'standard' 99% purity individual element oxides and for a generic composite of Rare Earths equivalent to the Rare Earths distribution at Mt Weld, on a FOB China basis.

The prices quoted are obtained from a weekly market price report; higher purity oxides and other value added properties will attract higher prices than those shown. News reports from industry publications often suggest higher contract prices are being received. For example, by the end of September 2006 Asian Metal had quoted 99%min neodymium and praseodymium oxides to be selling in excess of US$20/kg.

Table 2. Rare Earths Prices FOB China (US$/kg)

Rare Earths Oxide (Purity 99% min)	**Quarter Average Price**									**Price change**
	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05	Dec 05	Mar 06	Jun 06	Sep 06	2004 - 2006
Lanthanum Oxide	1.62	1.53	1.45	1.45	1.63	1.84	1.92	2.15	2.22	37%
Cerium Oxide	1.53	1.43	1.31	1.36	1.47	1.49	1.51	1.65	1.69	10%
Neodymium Oxide	5.77	5.85	5.88	6.05	7.86	9.77	9.97	11.07	18.12	214%
Praseodymium Oxide	8.18	7.67	7.54	7.55	8.52	9.58	9.69	10.70	17.07	109%
Samarium Oxide	2.67	2.67	2.60	2.60	2.55	2.50	2.44	2.40	2.47	-7%
Dysprosium Oxide	34.60	34.70	35.20	36.40	45.00	50.80	54.10	70.44	79.60	130%
Europium Oxide	300.00	300.00	292.50	286.20	282.00	244.00	249.10	240.00	240.00	-20%
Terbium Oxide	357.20	318.50	302.50	300.00	313.00	325.00	338.60	433.00	528.80	48%
Av. Mt Weld Composition	4.36	4.24	4.12	4.15	4.64	4.96	5.07	5.50	7.27	67%

THE MT WELD CARBONATITE IS ALSO HOST TO EXTENSIVE POLYMETALLIC RESOURCES WITHIN THE 'CROWN DEPOSIT' INCLUDING NIOBIUM, TANTALUM, ZIRCONIUM, TITANIUM, AND RARE EARTHS.

Crown Polymetallic Resource

Table 3. Polymetallic Mineral Resources for Coors and Crown Sectors, Mt Weld

Category	Mt	Ta_2O_5	Nb_2O_5	TLnO	ZrO_2	Fe_2O_3	P_2O_5	Y_2O_3	Al_2O_3	TiO_2
Indicated	1.5	0.037	1.40	1.65	0.32	45.5	8.9	0.10	9.94	5.8
Inferred	36.2	0.024	1.06	1.14	0.30	42.6	8.0	0.09	11.3	3.9
Total	**37.7**	**0.024**	**1.07**	**1.16**	**0.30**	**42.8**	**8.0**	**0.09**	**11.3**	**4.0**

Mt = million tonnes, other figures are percentages. Ta_2O_5 tantalum oxide, Nb_2O_5 niobium oxide, TLnO Rare Earths Oxide, ZrO_2 zirconia, Fe_2O_3 iron oxide, P_2O_5 phosphate, Y_2O_3 yttria, Al_2O_3 alumina, TiO_2 titanium oxide.

In addition to the world class Rare Earths deposit, the Mt Weld carbonatite is also host to extensive polymetallic resources within the 'Crown Deposit' including niobium, tantalum, zirconium, titanium and Rare Earths.

A number of drilling programs have been targeted specifically at the Crown Polymetallic Deposit, particularly at assessment of the niobium and tantalum resources. A scoping study completed in 2005 envisages an open-cut mine and a process route based on existing Chinese technology to produce a suite of metal compounds and products.

Dr Phillip Hellman of Hellman & Schofield Pty Ltd, Sydney, completed a JORC-compliant multi-metal geostatistical resource estimation study which resulted in Indicated and Inferred Resources totalling 37.7 million tonnes. The ore composition is presented in the table above. The majority of the ore lies between 30m and 60m in depth, suitable for open pit mining.

A large proportion of the resource value lies in the niobium which has an average grade of 1.07% Nb_2O_5 (niobium oxide). Taking into account the credits for the other metals and by-products, the equivalent niobium oxide grade is 2.1%.

The Mt Weld niobium resource is potentially the world's second largest when ranked by contained niobium metal and compared to the resources of existing commercial operations which include:

- ▲ CBMM's Araxa deposit in Brazil, with 460 million tonnes grading 2.5% Nb_2O_5 supplying over 80% of the world niobium market,
- ▲ Mineracao Catalao de Goias Ltd's (Anglo American plc) deposit in Brazil totalling approximately 18 million tonnes at an average of 1.34% Nb_2O_5, and
- ▲ Niobec Inc's Canadian underground deposit of 24 million tonnes at 0.65% Nb_2O_5.

Titanium

Titanium metal and Ti-ferroalloy products are used in the aerospace industry, for specialised process equipment in power engineering and chemical processing; and in sporting equipment, notably golf clubs. Titanium prices have increased by more than 25% since end 2004 due to increased demand from the aerospace industry, power generation and chemical processing industries.

Rare Earths and Scandium

The Mt Weld Crown Polymetallic deposit also contains significant grades of Rare Earths, strongly enriched with the valuable heavy lanthanides, which could ultimately contribute considerable value. Also present is scandium which is used in high strength aluminium alloys.

Next Steps

Given the size of the resource and the economic and technical strength of the scoping study, the next step for the Crown Polymetallic deposit is commencement of process test work and an ensuing feasibility study. Mineralogy studies are expected to commence prior to the end of 2006.

Lynas Corporation Limited

ACN 009 066 648

Financial Report

for the year ended 30 JUNE 2006

Directors' Report

30 JUNE 2006

Your directors submit their report for the year ended 30 June 2006

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

Nicholas Curtis, B.A. (Hons) (Executive Chairman)

Mr Curtis is the Executive Chairman of the company; he is the Chairman of St Vincent and Mater Health Sydney Limited; and a Director of Garvan Institute of Medical Research. His background is in resources banking and financing based on more than 20 years as a professional in the futures, commodities and stockbroking industries. During the past three years the only other listed company directorship held by Mr Curtis was in Sino Gold Limited until November 2005.

Jacob Klein, BCom (Hons) ACA, DipFinmarkets (Sec Inst)

Mr Klein joined the Board on 25 August 2004. He has over 15 years experience in senior finance and managerial positions in both South Africa and Australia. He joined Macquarie Bank in 1991 and in 1995, as an associate director at Macquarie, he participated in the formation of Asia Resource Capital Limited, a joint venture between Macquarie Bank and CNNC. From 1996 to June 2000 he worked for Sino Mining International. Mr Klein is CEO of Sino Gold Limited and president of the Australia China Business Council NSW Branch. During the past three years the only other listed company directorship held by Mr Klein was in Sino Gold Limited.

David Davidson

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

Peter Newton

Mr Newton was a stockbroker for 25 years until 1994. Since then he has been a significant participant in the Australian resource industry as an investor and a director of a number of listed companies. In recent years he has been the Chairman of both Hill 50 Limited and Abelle Limited. He is presently Chairman of Bluestone Tin Limited and a director of Metals Exploration Limited. Mr Newton resigned from the Board on 8 December 2005.

Mark Okeby, LLM

Mr Okeby has considerable experience in the resources industry both as a Solicitor and as a director of listed companies. In recent years he has been an executive director of Hill 50 Limited and Abelle Limited. He is presently a director of Bluestone Tin Limited and Metals Exploration Limited. Mr Okeby resigned from the Board on 8 December 2005.

COMPANY SECRETARY

Ivo Polovineo PNA

Mr Polovineo has been the Company Secretary for Lynas Corporation Limited for the past 5 years. He has spent over 20 years in senior management roles in the resource sector including over 15 years as company secretary of a number of listed public companies.

Directors' Report

30 JUNE 2006

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
Nicholas Curtis	23,656,478	7,000,000
Jacob Klein	1,580,580	-
David Davidson	635,000	300,000

EARNINGS PER SHARE

	Cents
Basic loss per share	(1.86)
Diluted loss per share	(1.86)

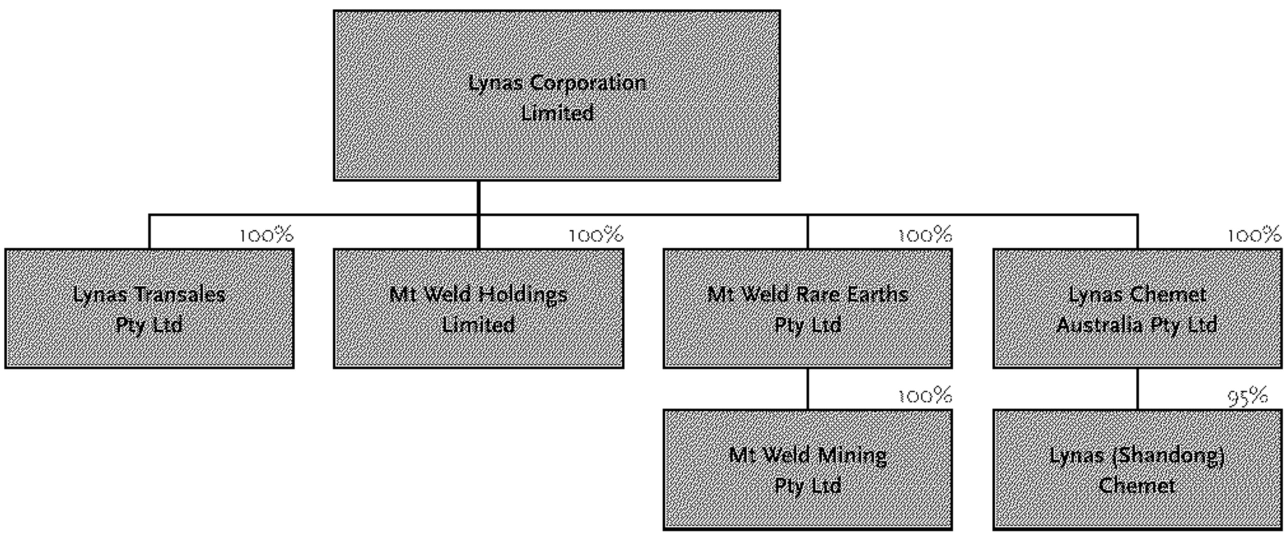
DIVIDENDS

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 continued to be:

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

Employees

The consolidated entity employed 19 employees as at 30 June 2006 (2005: 16 employees).

Directors' Report

30 JUNE 2006

REVIEW AND RESULTS OF OPERATIONS

Group Overview

During the year to 30 June 2006 the company issued a further 13,563,329 shares following a share placement, exercise of unlisted options, employee options and convertible notes.

Operating Results for the Year	Group 2006 $	Group 2005 $
Revenue	779,704	612,115
Loss before depreciation and interest and write down	(3,889,251)	(5,947,306)
Depreciation and interest	(612,810)	(462,983)
Write down in asset carrying value		(7,766,074)
Loss from operations before income tax	(4,502,061)	(14,176,363)
Income tax expense		-
Net loss	(4,502,061)	(14,176,363)

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 board meeting allowing all directors to actively monitor the group's performance.

Review of Operating Activities

Rare Earths

The activities of the past financial year have been directed toward the implementation of the RED model and development of the Mt Weld Project. The Lynas China office was relocated from Beijing to Shandong, close to the proposed plant, to prepare for the next stage of development.

Chinese design institutes were engaged to assist with completion of the Process Design Package for the Rare Earths processing plant, and are currently engaged with the next stage of engineering design which is the Basic Engineering Design. A pilot plant test for the cracking section of the process plant was successfully completed. Behre Dolbear Australia completed an independent technical review of the Mt Weld Rare Earths project, with no significant technical issues raised.

Commercial discussions were carried out throughout the year aimed at securing long-term supply contracts. In February 2006 a Heads of Agreement was signed with Rhodia Electronics and Catalysis for the supply of rare earths to Rhodia. Substantial ground has been covered in advancing final documentation following on from the Heads of Agreement.

Financing of the project was a major part of this years work. A UK institution was introduced to the register in the second quarter, and subsequently $75 million funding was secured for development of the Mt Weld Rare Earths project, which was approved by shareholders at the 4 August Extraordinary General Meeting. In addition the Ashton Mining (WA) Pty Limited contingent debt facility was restructured and after year end this debt was repaid.

Rare Metals

The engineering scoping study for the globally significant poly-metallic resource, referred to as the 'Crown Deposit', which is separate and in addition to the Mt Weld Rare Earths resource, was reviewed during the year. The conceptual process flow sheet and end marketable products were improved.

Review of Financial Condition

Capital Structure

At the start of the period the Company had 232,261,595 shares on issue. During the period 13,563,329 shares were issued following a share placement, exercise of unlisted options, employee options and convertible notes. At the end of the period there were 245,824,924 ordinary shares and 38,236,640 unlisted options over ordinary shares on issue.

At the end of the period there were also 100 convertible notes outstanding which, if converted would add up to a further 26,315,789 ordinary shares to give a total of up to 310,377,353 ordinary shares on a fully diluted basis.

Cash from Operations

Cash inflows from operating activities for the current year of $779,704 (2005: $611,360) represent interest received on funds at bank, and rentals received for surplus premises.

Cash outflows from operating activities of $5,394,844 substantially reflect the operating costs involved in finalising the feasibility study and advancing development of the Mt Weld Project. The prior year operating cash outflows were $6,252,499.

Liquidity and Funding

The group has an unsecured liability for $5 million associated with outstanding convertible notes as at 30 June 2006 if such notes are not converted by their maturity date (November 2006). Subsequent to 30 June 2006 the group raised a total of $75 million in funding through a convertible note issue of $35 million and a share placement of $40 million. The group therefore has sufficient funds to finance its operations for the next financial year and to proceed with 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 than 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.

Statement of Compliance

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the issue of shares during the financial year and the capital raising completed in August 2006 there were no significant changes in the state of affairs of the company.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

(a) Following approval by shareholders on 4 August 2006 the company completed a capital raising totalling $75 million on 11 August 2006.

The capital raising comprised a $40 million share placement at $0.31 per share and a $35 million convertible notes issue. The commercial terms of the convertible notes include:

- Five year term
- 8.25% coupon interest paid quarterly in arrears
- 40 cent conversion price to Lynas fully paid ordinary shares

(b) Following completion of the capital raising stated above:

(i) the residual liability owing to Ashton was fully repaid on 15 August 2006. The final amount paid to Ashton at completion was $5,727,200 - refer to note 15.

(ii) the outstanding 100 convertible notes were redeemed at their face value of $5,000,000 on 21 August 2006.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Subsequent to 30 June 2006 the group raised a total of $75 million in funding through a convertible note issue of $35 million and a share placement of $40 million. The group therefore has sufficient funds to finance its operations for the next financial year and to proceed with development of the Mt Weld project.

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
Incentive Plan options	7,700,000	30 November 2006	$0.25
Unlisted options	2,933,326	31 December 2006	$0.20
Unlisted options	1,000,000	30 November 2006	$0.20
Incentive Plan options	300,000	26 November 2007	$0.30
Unlisted options	7,500,000	30 November 2007	$0.30
Unlisted options	7,733,314	31 December 2007	$0.20
Incentive Plan options	1,270,000	30 June 2008	$0.30
Unlisted options	9,800,000	16 January 2009	$0.17

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:

- 1,733,329 unlisted options at an exercise price of $0.20 each;
- 30,000 employees options at an exercise price of $0.25 each; and
- 2,000,000 unlisted options at an exercise price of $0.20 each.

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 $123,457. This amount is not included as part of the directors remuneration in note 29.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity is bound by the requirements 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.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A. Remuneration policy

B. Details of remuneration

C. Service agreements

D. Share-based compensation

Directors' Report

30 JUNE 2006

A. Remuneration Policy (Audited)

Philosophy

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:

a. Retention and Motivation of key executives;
b. Attraction of quality management of the company; and
c. 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 Table 1 of this report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of 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.

Remuneration 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 a remuneration committee, comprising the non-executive directors. Members of the remuneration committee throughout the year were:

D Davidson (c)

J Klein

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice where required from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. No additional fee is paid for board committees on which a director sits.

Non-executive directors have long been encouraged by the Board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company whose board he or she sits. The non-executive directors of the company can participate in the Executive and Employee Option Plan.

Senior manager and executive director remuneration

Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

i. reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
ii. align the interests of executives with those of shareholders;
iii. link reward with the strategic goals and performance of the company; and
iv. ensure total remuneration is competitive by market standards.

Structure

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

Remuneration consists of the following key elements:

- Fixed remuneration
- Variable remuneration
  - Short Term Incentive ("STI"); and
  - Long Term Incentive ("LTI")

The proportion of fixed and variable remuneration is decided by the Remuneration Committee after consideration of the overall performance of the company and the individual. The remuneration is not necessarily linked to specific performance targets. The remuneration of the key management personnel for the year ending 30 June 2006 is detailed below.

B. Details of remuneration (Audited)

The key management personnel of Lynas Corporation Limited and of the Group are the Board of Directors and the following other key personnel of the company and Group.

M Vaisey – General Manager/Operations & Technical Services

M James – General Manager/Corporate and Business Development

H Wang – President/ China Operations (ceased to be an employee on 30 September 2005)

I Polovineo – Company Secretary

Amounts of remuneration paid

Table 1

2006	**Short-term employee benefits**				**Post- employee benefits**		**Share-based payment**	
Name	**Cash salary and fees**	**Cash bonus**	**Other**	**Non monetary benefits**	**Super-annuation**	**Retirement benefits**	**Options**	**Total**
Executive director								
N Curtis	333,829	-	-	655	5,504	-	14,667	354,655
Non-executive directors				-				
J Klein	45,872	-	-	-	4,128	-	-	50,000
D Davidson	25,795	-	-	-	2,322	-	1,500	29,617
P Newton	22,936	-	-	-	2,064	-	-	25,000
M Okeby	25,000	-	-	-	-	-	-	25,000
Sub total non-executive directors	**119,603**	**-**	**-**	**-**	**8,514**	**-**	**1,500**	**129,617**
Other Key personnel								
M James	239,352	-	730	-	21,542	-	11,167	272,791
M Vaisey	223,412	-	6,028	-	20,107	-	3,667	253,214
H Wang	28,211	-	*18,750	-	4,645	-	11,000	62,606
I Polovineo	-	-	-	-	-	-	**1,833	1,833
Total	**944,407**	**-**	**25,508**	**655**	**60,312**	**-**	**43,834**	**1,074,716**

2005	Short-term employee benefits				Post- employee benefits		Share-Based payment	
Name	Cash salary and fees	Cash bonus	Other	Non monetary benefits	Super-annuation	Retirement benefits	Options	Total
Executive director								
N Curtis	366,972	-	-	-	33,028	-	14,667	414,667
Non-executive directors				-				
J Klein	38,905	-	-	-	2,690	-	-	41,595
D Davidson	50,000	-	-	-	-	-	1,500	51,500
B Davidson	22,102	-	-	-	8,037	-	-	30,139
P Newton	27,563	-	-	-	2,480	-	-	30,043
M Okeby	30,043	-	-	-	-	-	-	30,043
Sub total non –executive directors	**168,613**	**-**	**-**	**-**	**13,207**	**-**	**1,500**	**183,320**
Other Key personnel								
M James	221,560	-	-	-	19,940	-	11,667	253,167
M Vaisey	221,560	-	-	-	19,940	-	3,667	245,167
H Wang	120,414	-	*43,750	-	10,836	-	11,000	186,000
I Polovineo	-	-	-	-	-	-	**1,833	1,833
Total	**1,099,119**	**-**	**43,750**	**-**	**96,951**	**-**	**44,334**	**1,284,154**

* *living away from home allowance*

** *services provided by Sino Gold Limited – refer note 29*

C. Service agreements

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 Mr Curtis 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.

D. Share-based compensation

Options granted as part of remuneration for the year needed 30 June 2006

There were no options granted during the period and no options vested during the period.

Fair value of options:

The fair value of each option is estimated on the date of grant using a Black & Scholes valuation 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	77%	30%	60%
Historical volatility	77%	30%	60%
Risk-free interest rate	4.87%	5.4%	4.7%
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 life of the options is based on a 5 year expiry from date of issue and therefore not necessarily indicative of exercise patterns that may occur. The 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 2005 are:

Number of options	Grant date	Vesting date	Weighted average fair value
7,730,000	30 November 2001	30 November 2006	$0.022
300,000	30 November 2002	30 November 2007	$0.015
1,270,000	30 June 2003	30 June 2008	$0.067

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:

		Meetings of Committees		
	Directors' Meetings	Audit	Nomination and Remuneration	Safety, Health, Environment & Community
Number of meetings held:	5	2	1	1
Number of meetings attended:				
N Curtis	5	2	-	1
D Davidson	5	-	1	1
J Klein	5	2	1	-
P Newton (resigned 8 December 2005)	1	-	-	-
M Okeby (resigned 8 December 2005)	1	1	-	-

Committee membership

As at the date of this report, the company had an Audit Committee, a Nomination and Remuneration Committee and a Safety, Health, Environment and Community ("SHEC") Committee of the board of directors.

Members acting on the committees of the board during the year were:

Audit	Nomination and Remuneration	Safety, Health, Environment & Community
J Klein (c)	D. Davidson (c)	D. Davidson (c)
N Curtis	J Klein	N. Curtis
M Okeby (resigned 8 December 2005)		

(c) Designates the chairman of the committee

TAX CONSOLIDATION

Effective 1 July 2002, for the purposes of income taxation, Lynas Corporation Limited 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.

CORPORATE GOVERNANCE

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

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the following independence declaration from our auditors, Ernst & Young:

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock
Exchange 10172

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

In relation to our audit of the financial report of Lynas Corporation Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Michael Elliott
Partner
12 September 2006

Signed in accordance with a resolution of the directors.

N Curtis
Executive Chairman

J Klein
Director

Sydney
12 September 2006

Corporate Governance Statement

30 JUNE 2006

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.

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, David Davidson and Jake Klein 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.

Nick Curtis is the Executive Chairman of the Company. Although he has a 6% shareholding in the Company the Board does not view this as interfering with the exercise of unfettered and independent judgement. The composition of the Board and the nature and present state of the company's business activities precludes the Company from having both a Chairman and a Chief Executive Officer.

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
N Curtis	5 years
J Klein	2 years
D Davidson	7 months *

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

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 2006, 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 during the year were:

D Davidson (c) -appointed 8 December 2005

J Klein

M Okeby (resigned 8 December 2005)

Corporate Governance Statement

30 JUNE 2006

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; and
- 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 Table 1 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.

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.

The members of the audit committee during the year were:

J Klein (c)

N Curtis

D Davidson (appointed 8 December 2005)

M Okeby (resigned 8 December 2005)

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.

Safety, Health, Environment and Community (SHEC) Committee

The Company has a SHEC Committee, principal objective of which 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

Income Statement

30 JUNE 2006

YEAR ENDED 30 JUNE 2006		Consolidated		Lynas Corporation Limited	
		2006	2005	2006	2005
	Notes	$	$	$	$
REVENUE FROM CONTINUING OPERATIONS	3	779,704	612,115	773,413	612,115
EXPENSES FROM CONTINUING ACTIVITIES					
Depreciation expense	4	(105,037)	(122,565)	(105,037)	(122,565)
Borrowing costs expense	4	(507,773)	(340,418)	(507,773)	(340,418)
Salaries and employee benefits expense		(1,576,139)	(2,471,338)	(1,566,171)	(2,471,338)
Write down of investment in listed company		-	(1,143,192)	-	(1,143,192)
Impairment of deferred exploration, evaluation and development costs		-	(7,766,074)	-	-
Provision against receivable from subsidiary		-	-	-	(7,766,074)
Other expenses from ordinary activities	4	(3,092,816)	(2,944,891)	(3,067,051)	(2,950,791)
LOSS BEFORE INCOME TAX EXPENSE		(4,502,061)	(14,176,363)	(4,472,619)	(14,182,263)
INCOME TAX EXPENSE	5	-	-	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF LYNAS CORPORATION LIMITED		(4,502,061)	(14,176,363)	(4,472,619)	(14,182,263)
Basic loss per share (cents per share)	26	(1.86)	(6.22)	(1.86)	(6.22)
Diluted loss per share (cents per share)	26	(1.86)	(6.22)	(1.86)	(6.22)

Balance Sheet

30 JUNE 20066

AT 30 JUNE 2006		Consolidated		Lynas Corporation Limited	
		2006	2005	2006	2005
	Notes	$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	21(b)	7,185,572	7,240,438	6,190,937	7,240,424
Trade and other receivables	7	266,042	164,000	249,339	164,000
Other financial assets	8	-	6,526,828	-	6,526,828
Prepayments	9	67,609	19,599	4,998	19,599
TOTAL CURRENT ASSETS		7,519,223	13,950,865	6,445,273	13,950,851
NON-CURRENT ASSETS					
Prepayments	10	430,420	-	430,420	-
Receivables	11	-	-	15,324,002	4,543,700
Other financial assets	12	-	-	2,925,491	2,925,491
Property, plant and equipment	13	903,192	308,098	214,242	308,098
Deferred exploration, evaluation & development costs	14	17,119,788	8,000,000	530,823	530,823
TOTAL NON-CURRENT ASSETS		18,453,400	8,308,098	19,424,978	8,308,112
TOTAL ASSETS		25,972,623	22,258,963	25,870,251	22,258,963
CURRENT LIABILITIES					
Trade and other payables	15	6,262,485	261,098	6,258,111	261,098
Interest bearing liabilities	16(a)	4,947,482	179,071	4,947,482	179,071
Provisions	17	227,957	204,151	227,957	204,151
TOTAL CURRENT LIABILITIES		11,437,924	644,320	11,433,550	644,320
NON-CURRENT LIABILITIES					
Interest bearing liabilities	16(b)	-	5,000,000	-	5,000,000
Provisions	18	220,335	352,265	220,335	352,265
TOTAL NON-CURRENT LIABILITIES		220,335	5,352,265	220,335	5,352,265
TOTAL LIABILITIES		11,658,259	5,996,585	11,653,885	5,996,585
NET ASSETS		14,314,364	16,262,378	14,216,366	16,262,378
EQUITY					
Parent entity interest					
Issued capital	19	53,840,034	51,713,869	53,840,034	51,713,869
Convertible notes – equity component		532,468	-	532,468	-
Accumulated losses		(40,274,292)	(35,511,217)	(40,244,850)	(35,511,217)
Reserves	20	216,154	59,726	88,714	59,726
TOTAL EQUITY		14,314,364	16,262,378	14,216,366	16,262,378

Statement of Changes in Equity

30 JUNE 2006

YEAR ENDED 30 JUNE 2006 CONSOLIDATED	Issued capital $	Convertible Notes Equity Component $	Accumulated losses $	Reserves $	Total $
At 1 July 2004	48,563,869	-	(21,334,854)	29,863	27,258,878
Loss for the year	-	-	(14,176,363)	-	(14,176,363)
Total expense for the year	-	-	(14,176,363)	-	(14,176,363)
Conversion of Convertible Notes	2,750,000	-	-	-	2,750,000
Exercise of options	400,000	-	-	-	400,000
Cost of share based payments	-	-	-	29,863	29,863
At 30 June 2005	51,713,869	-	(35,511,217)	59,726	16,262,378
Adoption of AASB 132 & 139	-	532,468	(261,014)	-	271,454
At 1 July 2005	51,713,869	532,468	(35,772,231)	59,726	16,533,832
Currency translation differences	-	-	-	127,440	127,440
Total income for the year recognised directly in equity	-	-	-	127,440	127,440
Loss for the period	-	-	(4,502,061)	-	(4,502,061)
Total income/(expense) for the year	-	-	(4,502,061)	127,440	(4,374,621)
Exercise of options	754,165	-	-	-	754,165
Allotment of new shares	1,372,000	-	-	-	1,372,000
Cost of share based payments	-	-	-	28,988	28,988
At 30 June 2006	53,840,034	532,468	(40,274,292)	216,154	14,314,364

COMPANY					
At 1 July 2004	48,563,869	-	(21,328,954)	29,863	27,264,778
Loss for the period	-	-	(14,182,263)	-	(14,182,263)
Total expense for the year	-	-	(14,182,263)	-	(14,182,263)
Conversion of Convertible Notes	2,750,000	-	-	-	2,750,000
Exercise of options	400,000	-	-	-	400,000
Cost of share based payments	-	-	-	29,863	29,863
At 30 June 2005	51,713,869	-	(35,511,217)	59,726	16,262,378
Adoption of AASB 132 & 139		532,468	(261,014)	-	271,454
At 1 July 2005	51,713,869	532,468	(35,772,231)	59,726	16,533,832
Loss for the period	-	-	(4,472,619)	-	(4,472,619)
Total expense for the year	-	-	(4,472,619)	-	(4,472,619)
Exercise of options	754,165	-	-	-	754,165
Allotment of new shares	1,372,000	-	-	-	1,372,000
Cost of share based payments	-	-	-	28,988	28,988
At 30 June 2006	53,840,034	532,468	(40,244,850)	88,714	14,216,366

Cash Flow Statement

30 JUNE 2006

YEAR ENDED 30 JUNE 2006		Consolidated		Lynas Corporation Limited	
		2006	2005	**2006**	2005
	Notes	**$**	$	**$**	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from rental		158,542	95,290	152,890	95,290
Payments to suppliers and employees		(4,941,742)	(6,033,709)	(4,958,508)	(5,882,688)
Interest received		621,162	516,070	620,523	516,070
Borrowings costs		(453,102)	(218,790)	(453,102)	(218,790)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	21(a)	(4,615,140)	(5,641,139)	(4,638,197)	(5,490,118)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of investment in listed company		6,526,828	-	6,526,828	-
Purchase of property, plant and equipment	13(a)	(715,483)	(66,950)	(26,533)	(66,950)
Proceeds from sale of property, plant and equipment		470	3,810	-	3,810
Security bonds released/(paid)		-	192,161	-	192,161
Advances to subsidiary company		-	-	(3,000,000)	(151,022)
Payments for exploration and development		(3,377,706)	-	(2,037,750)	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		2,434,109	129,021	1,462,545	(22,001)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares	19	2,126,165	3,150,000	2,126,165	3,150,000
Repayment of borrowings		-	(2,750,000)		(2,750,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES		2,126,165	400,000	2,126,165	400,000
NET DECREASE IN CASH HELD		(54,866)	(5,112,118)	(1,049,487)	(5,112,119)
Add opening cash brought forward		7,240,438	12,352,556	7,240,424	12,352,543
CLOSING CASH CARRIED FORWARD	21(b)	7,185,572	7,240,438	6,190,937	7,240,424

Notes to Financial Statements

30 JUNE 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report of Lynas Corporation Limited for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 12 September 2006.

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

Compliance with IFRS

Compliance with AIFRS ensures that the consolidated financial statements and notes of Lynas Corporation Limited comply with International Financial Reporting Standards (IFRS).

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Lynas Corporation Limited financial statements to be prepared in accordance with AIFRS. AASB 1 first-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Lynas Corporation Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Lynas Corporation Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in note 2.

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are related to impairment. These are disclosed in note 1(h).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in accounting policies

Australian Accounting Standards and UIG Interpretations that have recently been amended and are effective from 1 January 2006 are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on Group accounting policies	Application date
AASB 2004-3	Amendments to Australian Accounting Standards [AASB 119]	Amendment to AASB 119 to incorporate changes to IFRS in connection with the 'corridor approach' to account for movements in actuarial gains and losses for defined benefit plans.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 January 2006
AASB 2005-1	Amendments to Australian Accounting Standards [AASB 139]	Amendment to AASB 139 to allow the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in certain circumstances.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 January 2006
AASB 2005-4	Amendments to Australian Accounting Standards [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 138]	Amendments relate to the restriction on designating financial instruments at fair value through profit and loss.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 January 2006
AASB 2005-5	Amendments to Australian Accounting Standards [AASB 1, & AASB 139]	Consequential amendments made to AASB 1 due to the issue of UIG Interpretation 4. Consequential amendments made to AASB 139 due to the issue of UIG Interpretation 5.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 January 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies (continued)

Reference	Title	Summary	Application date of standard	Impact on Group accounting policies	Application date
AASB 2005-6	Amendments to Australian Accounting Standards [AASB 3]	The definition of 'contribution by owners' is removed and the AASB 3 scope exclusion for business combinations involving entities or businesses under common control is adopted.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 January 2006
AASB 2005-9	Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]	Amendments to all four standards providing guidance as to which standard applies to financial guarantee contracts under certain circumstances.	For annual reporting periods beginning on or after 1 January 2006	Impact has not yet been assessed	1 January 2006
AASB 2006-1	Amendments to Australian Accounting Standards [AASB 121]	The amendment clarifies the requirements relating to an entity's investment in foreign operations and assists the financial reporting of entities with investments in operations that have a different functional currency.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 January 2006
UIG 4	Determining whether an Arrangement contains a Lease	Specifies criteria for determining whether an arrangement is, or contains, a lease	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 January 2006
UIG 5	Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds	Addresses accounting for the rights to interests in decommissioning, restoration and environmental rehabilitation funds and for additional contributions to such a fund.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore there has been no impact.	1 January 2006

Notes to Financial Statements

30 JUNE 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies (continued)

Reference	Affected Standard (s)	Summary	Application date
2005-10	AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First	These amendments arise from the release of AASB 7 relating to financial instrument disclosures.	For annual reporting periods beginning on or after 1 January 2007
	AASB 7 Financial Instruments: Disclosures	The Standard requires disclosure of: - the significance of financial instruments for an entity's financial position and performance; and - qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk.	For annual reporting periods beginning on or after 1 January 2007
	UIG 8 Scope of AASB 2	Clarifies that the scope of AASB 2 deals with transactions in which an entity cannot identify specifically some or all of the goods or services received as consideration for the share-based payment instrument	For annual reporting periods beginning on or after 1 May 2006
	UIG 9 Reassessment of Embedded Derivatives	Requires an embedded derivative that has been combined with a non-derivative to be separated from the host contract and accounted for as a derivative in certain circumstances.	For annual reporting periods beginning on or after 1 June 2006

(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

Both the functional and presentation currency of Lynas Corporation Limited and its Australian subsidiaries is Australian dollars ($). The functional currency of the China operations of Lynas Chemet Australia Pty Ltd is Renmimbi Yuan ("RMB").

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 current contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

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

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The functional currency of the overseas subsidiary is Renmimbi Yuan ("RMB").

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Lynas Corporation Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

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

(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 Cash Flow Statements, cash includes cash on hand and in banks, and money market investments with an original maturity date of three months or less, net of outstanding bank overdrafts.

(f) Receivables

Receivables from related parties are recognised and carried at amortised cost. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Funds on deposit are measured at nominal value.

(g) Investments and other financial assets

2006

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

Investments in controlled entities are carried at the lower of cost and recoverable amount.

2005

Interests in listed and unlisted securities are carried at the lower of cost and recoverable amount and dividend income is recognised in the income statement when received.

Investments in controlled entities are carried at the lower of cost and recoverable amount.

(h) Impairment of assets

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

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

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

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

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

(i) Property, plant and equipment

Cost

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

Depreciation

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

Notes to Financial Statements

30 JUNE 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	2006	2005
Major depreciation periods are:		
Leasehold improvements:	The lease term	The lease term
Plant and equipment:	5 years	5 years
– furniture & fittings		

(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 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

Exploration and evaluation costs

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.

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.

Development costs

Development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where 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.

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.

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.

Restoration costs

Restoration costs are provided for when exploration and evaluation activities give rise to the need for restoration. 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 prospective 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) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

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

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

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.

(m) Interest-bearing liabilities

30 June 2005

The company has applied the exemptions from applying AASB132 and 139 to comparatives and as such for comparatives all loans are measured at the principal amount. Interest is recognised as an expense as it accrues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

30 June 2006

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs.

On the issue of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time, is recognised as a finance cost.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of issue costs. The value of the conversion option is not changed in subsequent years.

(n) Provisions

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

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

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

(o) Issued capital

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.

(p) 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 realisably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

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

Interest – Recognised using the effective interest rate method.

Rent – Control of the right to receive the rent payment.

Rendering of services – Control of the right to receive the payment

(q) Share-based payment transactions

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

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

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

The income statement charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Notes to Financial Statements

30 JUNE 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(r) Taxes

Income taxes

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

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

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

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

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

Goods and Services Tax (GST)

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

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

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

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

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

(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 resect 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 benefits 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.

(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.

	Consolidated		Lynas Corporation Limited	
	30 June 2005 $	1 July 2004 $	30 June 2005 $	1 July 2004 $
2. IMPACT OF ADOPTION OF AIFRS				
(a) Reconciliation of total equity as presented under AGAAP to that under AIFRS				
Total equity under AGAAP	16,262,378	27,258,828	16,262,378	27,264,778
Adjustment to equity:				
Cash of share based payments	(29,863)	(29,863)	(29,863)	(29,863)
Equity value of share based payments	29,863	29,863	29,863	29,863
Total equity under AIFRS	16,262,378	27,258,878	16,262,378	27,264,778

(b) Reconciliation of profit after under AGAAP to that under AIFRS	Consolidated 2005 $	Parent Entity 2005 $
Loss after tax as previously reported	(14,146,500)	(14,152,400)
Recognition of share based payments	(29,863)	(29,863)
Profit after tax under AIFRS	(14,176,363)	(14,182,263)

Share based payment costs are charged to the income statement under AASB 2 "share based payments", but not under AGAAP.

(c) Other differences	Consolidated 2005 $	Parent Entity 2005 $
Revenue as previously reported	615,170	615,170
Proceeds from disposal of property plant and equipment	(3,810)	(3,810)
Profit disposal of property plant and equipment	755	755
	612,115	612,115

Previously under AGAAP revenue included proceeds on sale of property and equipment whereas AIFRS only include profit on sale as revenue.

(d) There are no material differences between the cash flow statement presented under AIFRS and previous AGAAP

(e) The company has applied the exemption under AASB 1 "First-time adoption of AIFRS" which permits the application of AASB 2 "Share-based payments" to equity instruments granted only after 7 November 2002.

	Consolidated		Lynas Corporation Limited	
	2006 $	2005 $	2006 $	2005 $
3. REVENUE				
Revenues from continuing operations				
Sales revenue	5,652	-	-	-
Other revenue				
Rent	88,721	95,289	88,721	95,289
Interest – other persons/corporations	621,162	516,070	620,523	516,070
Income from outsourcing	64,169	-	64,169	-
Profit from disposal of property, plant and equipment	-	756	-	756
Total other revenues	774,052	612,115	773,413	612,115
Total revenues	779,704	612,115	773,413	612,115
4. EXPENSES AND LOSSES/(GAINS)				
(a) Expenses				
Depreciation of non-current assets				
Leasehold improvements	24,161	27,050	24,161	27,050
Plant and equipment	80,876	95,515	80,876	95,515
Total depreciation of non-current assets	105,037	122,565	105,037	122,565
Borrowing costs expensed				
Interest expense	507,773	340,418	507,773	340,418
Total borrowing costs expensed	507,773	340,418	507,773	340,418
Other expenses				
Office expenses	367,164	429,973	362,436	429,973
Operating lease rental	235,949	346,747	235,949	346,747
Travel and accommodation	365,842	339,149	364,701	336,989
Consulting	1,091,729	1,096,137	1,091,080	985,050
Marketing and market research	119,091	7,683	119,091	7,683
Conference	22,556	8,322	22,556	8,322
Accounting and tax consulting	44,881	50,500	44,881	50,500
Audit and accounting fees – auditors	50,161	50,478	50,161	50,478
Legal consulting	419,377	398,174	419,377	398,174
Share registry and stock listing fees	48,173	47,734	48,173	47,734
Tenement costs	35,125	33,918	35,125	33,918
Provision for diminution in subsidiaries	-	-	-	119,147
Other	292,768	136,076	273,522	136,076
Total other expenses	3,092,816	2,944,891	3,067,052	2,950,791
Share based employee benefits	28,988	29,863	28,988	29,863
Superannuation contributions	100,009	213,229	100,009	213,229

	Consolidated 2006 $	Consolidated 2005 $	Lynas Corporation Limited 2006 $	Lynas Corporation Limited 2005 $
4. EXPENSES AND LOSSES/(GAINS)				
(b) Losses/(gains)				
Net loss/(gain) on disposal of property, plant and equipment	14,882	(756)	14,882	(756)
Write down of investment in listed company	-	1,143,192	-	1,143,192
Impairment of deferred exploration evaluation and development costs	-	7,766,074	-	-
Provision for doubtful debt – subsidiary	-	-	-	7,766,074
Total Losses	14,882	8,908,510	14,882	8,908,510
5. INCOME TAX				
The prima facie tax, using tax rates applicable in the country of operation, on loss differs from the income tax provided in the financial statements as follows:				
Prima facie tax benefit on loss from ordinary activities	(1,350,618)	(4,252,909)	(1,341,786)	(4,254,679)
Deferred tax asset not brought to account	1,350,618	4,252,909	(1,341,786)	4,254,679
Income tax expense attributable to ordinary activities	-	-	-	-
Net future income tax benefit not brought to account due to doubt over future realisation				
Deferred tax asset in respect of				
- Carry forward income	12,117,266	8,187,424	12,117,266	8,187,424
- Carry forward capital loss	978,439	635,481	978,439	635,481
- Other Items	134,488	166,925	134,488	166,925
	13,230,193	8,989,830	13,230,193	8,989,830
Deferred income tax liability in respect of				
- Deferred exploration, evaluation and development costs	(5,018,160)	(2,400,000)	(2,777,407)	(159,247)
- Other Items	(130,677)	(43,913)	(130,677)	(43,913)
	(5,148,837)	(2,443,913)	(2,908,084)	(203,160)
	8,081,356	6,545,917	10,322,109	8,786,670
(Less) unrecognised tax losses	(8,081,356)	(6,545,917)	(10,322,109)	(8,786,670)
Total	-	-	-	-

Tax consolidation

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 n 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.

6. DIVIDENDS PAID

Ordinary Shares

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

	Consolidated		Lynas Corporation Limited	
	2006 $	2005 $	2006 $	2005 $
7. TRADE AND OTHER RECEIVABLES (CURRENT)				
Security bonds	164,000	164,000	164,000	164,000
Other receivables	62,333	-	45,630	-
GST tax receivable	39,709	-	39,709	-
	266,042	164,000	249,339	164,000
Trade and other receivables are non-interest bearing and are generally on 60-day terms				
8. OTHER FINANCIAL ASSETS (CURRENT)				
Listed shares at market value	-	6,526,828	-	6,526,828
	-	6,526,828	-	6,526,828
9. PREPAYMENTS (CURRENT)				
Prepaid project costs	67,609	19,599	4,998	19,599
	67,609	19,599	4,998	19,599
10. PREPAYMENTS (NON-CURRENT)				
Deferred share issue costs	430,420	-	430,420	-
	430,420	-	430,420	-
11. TRADE AND OTHER RECEIVABLES (NON-CURRENT)				
Related party receivables				
Controlled entities	-	-	23,090,076	12,309,774
Less provision for doubtful debts	-	-	(7,766,074)	(7,766,074)
	-	-	15,324,002	4,543,700

For terms and conditions relating to related party receivables refer to note 30

	Consolidated 2006 $	Consolidated 2005 $	Lynas Corporation Limited 2006 $	Lynas Corporation Limited 2005 $
12. OTHER FINANCIAL ASSETS (NON-CURRENT)				
Investments at cost comprise:				
Shares				
Interest in subsidiaries	-	-	3,044,639	3,044,639
Less provision for diminution	-	-	(119,148)	(119,148)
Total investments	-	-	2,925,491	2,925,491

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity 2006 %	2005 %	Investment 2006 $	2005 $
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
Lynas Chemet Australia Pty Ltd	Australia	100	100	1	1
				3,044,639	3,044,639

	Consolidated 2006 $	Consolidated 2005 $	Lynas Corporation Limited 2006 $	Lynas Corporation Limited 2005 $
13. PROPERTY, PLANT AND EQUIPMENT				
Land				
At cost	667,162	-	-	-
	667,162	-	-	-
Leasehold Improvements				
At cost	131,064	131,064	131,064	131,064
Accumulated amortisation	(77,068)	(37,555)	(77,068)	(37,555)
	53,996	93,509	53,996	93,509
Furniture & Fittings				
At cost	497,287	448,966	475,499	448,966
Accumulated depreciation	(315,253)	(234,377)	(315,253)	(234,377)
	182,034	214,589	160,246	214,589
Total property, plant and equipment	903,192	308,098	214,242	308,098

	Consolidated 2006 $	Consolidated 2005 $	Lynas Corporation Limited 2006 $	Lynas Corporation Limited 2005 $
13. 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.				
Land				
Carrying amount at beginning	-	-	-	-
Additions	667,162	-	-	-
	667,162	-	-	-
Leasehold improvements				
Carrying amount at beginning	93,509	94,548	93,509	94,548
Additions	-	26,011	-	26,011
Disposal/written off	(15,352)	-	(15,352)	-
Depreciation expense	(24,161)	(27,050)	(24,161)	(27,050)
	53,996	93,509	53,996	93,509
Furniture & Fittings				
Carrying amount at beginning	214,589	272,219	214,589	272,219
Additions	48,321	40,939	26,533	40,939
Disposals	-	(3,054)	-	(3,054)
Depreciation expense	(80,876)	(95,515)	(80,876)	(95,515)
	182,034	214,589	160,246	214,589
Property, plant and equipment	903,192	308,098	214,242	308,098
14. 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	8,000,000	15,766,074	530,823	530,823
Expenditure incurred during the year	9,119,788	-	-	-
Reduction in carrying value	-	(7,766,074)	-	-
	17,119,788	8,000,000	530,823	530,823

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.

The recoverable value estimation is based on fair value less costs to sell as determined by management taking into consideration future prospectivity of the mining areas that the deferred exploration and development costs are attached to.

		Consolidated		Lynas Corporation Limited	
		2006 $	2005 $	2006 $	2005 $
15. TRADE AND OTHER PAYABLES (CURRENT)					
Trade creditors	(i)	308,261	129,282	308,261	129,282
Other creditors	(ii)	227,024	131,816	222,650	131,816
Accrual for payment to Ashton	(iii)	5,727,200	-	5,727,200	-
		6,262,485	261,098	6,258,111	261,098

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

(iii) This amount was repaid after 30 June 2006 – refer details in note 25

	Consolidated		Lynas Corporation Limited	
	2006 $	2005 $	2006 $	2005 $
16. INTEREST BEARING LIABILITIES - Unsecured				
(a) Current				
Convertible notes – 100 notes at $50,000 each	4,916,306	-	4,916,306	-
Accrued interest	31,176	179,071	31,176	179,071
	4,947,482	179,071	4,947,482	179,071
(a) Non-current				
Convertible notes – 100 notes at $50,000 each	-	5,000,000	-	5,000,000
	-	5,000,000	-	5,000,000

Unsecured Borrowings

Terms and conditions relating to the above financial instruments

In November 2003 the Company issued a total of 200 unsecured Convertible Notes of $50,000 each. The Convertible Notes have a 3-year term and 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.

In previous years 100 unsecured convertible notes of $50,000 each (plus accumulated interest) were exercised for a total value of $5,000,000 in equity. Accordingly at 30 June 2006 only the 100 Convertible Notes remain outstanding. Subsequent to balance date these were repaid (refer note 27).

	Consolidated		Lynas Corporation Limited	
	2006 $	2005 $	2006 $	2005 $
17. PROVISIONS (CURRENT)				
Employee benefits (refer note 23)	212,457	159,829	212,457	159,829
Restoration, rehabilitation and closure (refer note 18)	15,500	44,322	15,500	44,322
	227,957	204,151	227,957	204,151
18. PROVISIONS (NON-CURRENT)				
Long service leave	110,335	172,018	110,335	172,018
Restoration, rehabilitation and closure	110,000	180,247	110,000	180,247
	220,335	352,265	220,335	352,265

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.

	Consolidated		Lynas Corporation Limited	
	2006 $	2005 $	2006 $	2005 $
Movements in provision for restoration, rehabilitation and closure				
Carrying amount at beginning	224,569	253,818	224,569	253,818
Reduction in provision	(96,970)	(11,524)	(96,970)	(11,524)
Amounts utilised during the year	(2,099)	(17,725)	(2,099)	(17,725)
Carrying amount at end	125,500	224,569	125,500	224,569
19. ISSUED CAPITAL				
Issued and paid up capital				
Ordinary shares fully paid	53,840,034	51,713,869	53,840,034	51,713,869
	53,840,034	51,713,869	53,840,034	51,713,869

	2006	2006	2005	2005
Movements in shares on issue	**Number of shares**	**$**	**Number of shares**	**$**
Beginning of the financial year	232,261,595	51,713,869	212,528,225	48,563,869
Issued during the year				
issue of shares pursuant to exercise of convertible notes			18,333,370	2,750,000
issue of shares pursuant to option conversion	3,763,329	754,165	1,400,000	400,000
allotment of new shares*	9,800,000	1,372,000	-	-
End of the financial year	245,824,924	53,840,034	232,261,595	51,713,869

*On 17 January 2006 the company issued 9,800,000 shares at $0.14 each raising a total of $1,372,000

19. ISSUED CAPITAL (continued)

Additional share capital

Subsequent to year end the shareholders have approved a placement totalling $40 million. See note 27 for further details.

Share Options	At 30 June 2005	Issued	Exercised	At 30 June 2006	Exercise Price	Expiry
Incentive Plan options	7,730,000	-	(30,000)	7,700,000	$0.25	November 2006
Unlisted options	4,266,656	-	(1,333,330)	2,933,326	$0.20	December 2006
Unlisted options	3,000,000	-	(2,000,000)	1,000,000	$0.20	November 2006
Incentive plan options	300,000	-	-	300,000	$0.30	November 2007
Unlisted options	7,500,000	-	-	7,500,000	$0.30	November 2007
Unlisted options	8,133,313	-	(399,999)	7,733,314	$0.20	December 2007
Incentive Plan options	1,270,000	-	-	1,270,000	$0.30	June 2008
Unlisted options	-	9,800,000	-	9,800,000	$0.17	January 2009
	32,199,969	9,800,000	(3,763,329)	38,236,640		

At the end of the financial year there were 100 convertible notes outstanding. If these notes were fully exercised there would be up to an additional 26,315,789 options over ordinary shares on issue.

Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Options

Option holders do not have the right to receive dividends nor are they entitled to vote at a meeting of the company.

	Consolidated		Lynas Corporation Limited	
	2006 $	2005 $	2006 $	2005 $
20. RESERVES				
Share-based payments reserve	88,714	59,726	88,714	59,726
Foreign currency translation reserve	127,440	-	-	-
	216,154	59,726	88,714	59,726

Share based payments reserve:

The share based payments reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

Foreign currency translation reserve:

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

Notes to Financial Statements

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	Consolidated		Lynas Corporation Limited	
	2006	2005	2006	2005
	$	$	$	$
21. STATEMENT OF CASH FLOWS				
(a) Reconciliation of the net loss after tax to the net cash flows from operations				
Net loss	(4,502,061)	(14,176,363)	(4,472,619)	(14,182,263)
Non-Cash items				
Depreciation and Amortisation of non-current assets	105,037	122,565	105,037	122,565
Net (profit)/loss on disposal of property, plant and equipment	14,882	(756)	14,882	(756)
Diminution in investment in subsidiaries	-	-	-	119,147
Reduction in carrying value of asset	-	7,766,074	-	-
Provision for doubtful debts – subsidiary	-	-	-	7,766,074
Devaluation of investment	-	1,143,192	-	1,143,192
Share based employee remuneration	28,988	29,863	28,988	29,863
Changes in assets and liabilities				
(Increase)/decrease in other assets	(580,472)	(16,883)	(501,158)	(16,883)
(Decrease)/increase in trade and other creditors	294,680	(540,617)	162,872	(502,843)
(Decrease)/increase in interest bearing liabilities	-	121,628	-	121,628
(Decrease)/increase in employee entitlements	52,628	(60,593)	52,628	(60,593)
(Decrease)/increase in rehabilitation provision	(28,822)	(29,249)	(28,822)	(29,249)
Net cash flow from operating activities	(4,615,140)	(5,641,139)	(4,638,192)	(5,490,118)
(b) Reconciliation of cash				
Cash balance comprises:				
• Cash and cash equivalents	7,185,572	7,240,438	6,190,937	7,240,424
(c) Financing facilities available				
At reporting date, the following financing facilities had been negotiated and were available:				
Total facilities				
• Convertible note facility	5,000,000	5,000,000	5,000,000	5,000,000
Facilities used at reporting date				
• Convertible note facility	5,000,000	5,000,000	5,000,000	5,000,000
Facilities unused at reporting date	-	-	-	-
(d) Significant non-cash transactions				
Conversion of convertible notes to ordinary shares	-	2,750,000	-	2,750,000
Accrual for payment to Ashton	5,727,200	-	5,727,200	-

Notes to Financial Statements

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	Consolidated		Lynas Corporation Limited	
	2006 $	2005 $	2006 $	2005 $
22. EXPENDITURE COMMITMENTS				
(a) Exploration commitments				
• not later than one year	235,679	215,156	235,679	215,156
• later than one year and not later than five years	150,000	130,153	150,000	130,153
• later than five years	40,000	39,848	40,000	39,848
	425,679	385,157	425,679	385,157
(b) Lease commitments				
• not later than one year	280,556	280,556	280,556	280,556
• later than one year and not later than five years	522,295	802,851	522,295	802,851
	802,851	1,083,407	802,851	1,083,407
The above commitments relate to a lease for office premises with an expiry date of 28 February 2009				
23. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS				
Employee Benefits				
The aggregate employee benefit liability is comprised of:				
Accrued wages, salaries and on-costs	46,754	69,416	45,876	69,416
Accrued annual leave	111,879	159,829	111,879	159,829
Provision for long service leave	210,913	172,018	210,913	172,018
	369,546	401,263	368,668	401,263

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 employee's wages and salaries are legally enforceable in Australia.

Notes to Financial Statements

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24. SHARE BASED PAYMENTS

Employee Option Plan

An employee option plan has been established whereby Lynas Corporation 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.

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

	2006	2005
	Number of options	Number of options
Balance at beginning of year	9,300,000	9,675,000
• adjustments		25,000
• exercised or lapsed	(30,000)	(400,000)
Balance at end of year	9,270,000	9,300,000
Exercisable at end of year	7,700,000	7,730,000

Options held at the beginning of the reporting period:

The following table summarises information about options held by employees as at 1 July 2005:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price
7,730,000	30 November 2001	3 years to 30 November 2004	30 November 2006	$0.25
300,000	26 November 2002	3 years to 26 November 2005	26 November 2007	$0.30
1,270,000	30 June 2003	3 years to 30 June 2006	30 June 2008	$0.30
9,300,000				

Options granted during the reporting period:

There were no options granted during the reporting period pursuant to the employee option plan

Options exercised during the reporting period:

The following table summarises information about options exercised by employees during the year ended 30 June 2006:

Number of options	Grant date	Exercise date	Expiry date	Exercise price	Proceeds from shares issues	Number of shares issued	Issue date	Market value at date of issue
30,000	30 Nov 2001	14 Apr 2006	30 Nov 2006	$0.25	7,500	30,000	18 Apr 2006	11,700

Options held as at the end of the reporting period:

The following table summarises information about options held by the employee as at 30 June 2006:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price
7,700,000	30 November 2001	30 November 2004	30 November 2006	$0.25
300,000	26 November 2002	26 November 2005	26 November 2007	$0.30
1,270,000	30 June 2003	30 June 2006	30 June 2008	$0.30
9,270,000				

25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

General

The company had entered into guarantees, contracts, maintenance bonds and warranties in the normal course of business, including performance bond guarantees arranged with a bank totalling $164,000 (2005 - $164,000).

Mt Weld Project – Ashton Contingent Debt and Royalty

During the year the company has negotiated and executed a new agreement in relation to the contingent debt and royalty to Ashton Mining (WA) Pty Limited (Ashton) in relation to the Mt Weld project.

The terms of the restructure under the Agreement are that Lynas assumes an obligation to pay Ashton an amount equivalent to the Contingent Debt in a schedule of payments over the next three years: $3 million on signing of the agreement, $1 million by December 2006, $1 million by December 2007 and a final payment of approximately $3.6 million (subject to CPI indexation on the outstanding amount) by December 2008. Any outstanding balance is, in addition, subject to early repayment within 15 business days of the occurrence of certain events specified in the Agreement, key amongst which are the following:

a) a capital raising occurs for the development of the Mt Weld tenements;

b) mining commences on the Mt Weld tenements; or

c) an event of default occurs.

In return for Lynas agreeing to and complying with this payment schedule, Ashton has suspended its claw back rights and the royalty obligations. These rights will terminate completely on payment of the final instalment referred to above.

The $3 million on execution of this agreement has been paid. The remaining payments of $5,727,200 have been included in current liabilities based on the capital raising referred to in Note 27. The amounts have been capitalised in Exploration, Evaluation and Development costs in the Balance Sheet.

On 4 August 2006 shareholder approval for the capital raising referred to above was obtained and part of the funds raised has been used to fully satisfy this agreement.

	Consolidated	
	2006 $	2005 $
26. EARNINGS PER SHARE		
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net loss	(4,502,061)	(14,176,363)
Earnings used in calculating basic and diluted earnings per share	(4,502,061)	(14,176,363)
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share:	237,394,818	227,831,077
Effect of dilutive securities:		
The number of options and convertible notes which are potential ordinary shares that are not dilutive and hence not used in the valuation of the diluted earnings per share	64,552,429	32,144,969
Adjusted weighted average number of ordinary used in calculating diluted earnings per share	237,394,818	227,831,077
Basic loss per share (cents per share)	(1.86)	(6.22)
Diluted loss per share (cents per share)	(1.86)	(6.22)

26. EARNINGS PER SHARE (continued)

Conversions, calls, subscriptions or issues after 30 June 2006

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.

Information concerning the classification of securities

Options

Options granted to employees under the Lynas Corporation Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to options are set out in notes 24.

Convertible notes

Convertible notes are considered to be potential ordinary shares shares and have been included in the determination of diluted earnings per share from their date of issue. The convertible notes have not been included in the determination of basic earnings per share. Details relating to options are set out in notes 16.

27. SUBSEQUENT EVENTS

(a) Following approval by shareholders on 4 August 2006 the company completed a capital raising totalling $75 million on 11 August 2006.

The capital raising comprised a $40 million share placement at $0.31 per share and a $35 million convertible notes issue. The commercial terms of the convertible notes include:

- Five year term
- 8.25% coupon interest paid quarterly in arrears
- 40 cent conversion price to Lynas fully paid ordinary shares

(b) Following completion of the capital raising stated above:

- The residual liability owing to Ashton was fully repaid on 15 August 2006. The final amount paid to Ashton at completion was $5,727,200 - refer to note 15.
- The outstanding 100 convertible notes were redeemed at their face value of $5,000,000 on 21 August 2006 – refer note 16

	Consolidated		Lynas Corporation Limited	
	2006 $	2005 $	2006 $	2005 $
28. AUDITORS REMUNERATION				
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	51,000	50,950	51,000	50,950
• tax relates services		46,864		46,864
• transaction advice		19,573		19,573
• accounting assistance	-	3,636	-	3,636
	51,000	121,023	51,000	121,023

29. KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors and Other Key Management Personnel

(i) Directors

N Curtis	Executive Chairman
D Davidson	Director (non-executive) – resigned 18 August 2005, re-appointed 8 December 2005
J Klein	Director (non-executive)
P Newton	Director (non-executive) – resigned 8 December 2005
M Okeby	Director (non-executive) – resigned 8 December 2005

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(ii) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year.

M Vaisey	General Manager – Operations & Technical Services
M James	General Manager – Corporate and Business Development
H Wang	Vice President – China Operations
I Polovineo	Company Secretary

Key management personnel compensation

	Consolidated		Lynas Corporation Limited	
	2006	2005	2006	2005
	$	$	$	$
Short-term employee benefits	970,570	1,142,869	970,570	1,142,869
Post-employment benefits	60,312	96,951	60,312	96,951
Share based payments	43,834	44,334	43,834	44,334
	1,074,716	1,284,154	1,074,716	1,284,154

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in section B of the remuneration report on pages 10 and 11.

Equity instrument disclosures relating to key management personnel

(a) Remuneration Options: Granted and vested during the year

Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options together with the terms and conditions of the options, can be found in section D of the remuneration report on pages 11 and 12.

(b) 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.

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) Option holdings of key management personnel (consolidated)

2006

Name	Balance at beginning of period	Granted as Remuneration	Options Exercised	Net Change over	Balance at end of period	Vested at 30 June 2006
Directors						
N Curtis	2,000,000	-	-	-	2,000,000	2,000,000
J Klein	-	-	-	-	-	-
D Davidson	300,000	-	-	-	300,000	-
P Newton	-	-	-	-	-	-
M Okeby	-	-	-	-	-	-
Other key personnel						
M James	500,000	-	-	-	500,000	500,000
M Vaisey	500,000	-	-	-	500,000	500,000
H Wang	1,500,000	-	-	-	1,500,000	1,500,000
I Polovineo	250,000	-	-	-	250,000	250,000

No options are vested and unexercisable at the end of the year.

2005

Name	Balance at beginning of period	Granted as Remuneration	Options Exercised	Net Change over	Balance at end of period	Vested at 30 June 2005
Directors						
B Davidson	300,000	-	-	-	300,000	300,000
N Curtis	2,000,000	-	-	-	2,000,000	2,000,000
J Klein	-	-	-	-	-	-
D Davidson	300,000	-	-	-	300,000	-
H Wang	1,500,000	-	-	-	1,500,000	1,500,000
Other key personnel						
M James	500,000	-	-	-	500,000	500,000
M Vaisey	500,000	-	-	-	500,000	500,000
I Polovineo	250,000	-	-	-	250,000	250,000

(d) Shareholdings of key management personnel (consolidated)

2006

Name	Balance at beginning of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of period
Directors				
N Curtis	15,564,192	-	5,092,286	20,656,478
J Klein	1,080,580	-	500,000	1,580,580
D Davidson	635,000	-	-	635,000
Other key personnel				
M James	390,000	-	181,643	571,643
M Vaisey	-	-	250,000	250,000
H Wang	800,000	-	400,000	1,200,000
I Polovineo	-	-	-	-

29. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Shareholdings of key management personnel (consolidated)

2005

Name	Balance at beginning of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of period
Directors		-	-	758,000
B Davidson	758,000			
N Curtis	15,564,192	-	-	15,564,192
H Wang	800,000	-	-	800,000
D Davidson	635,000	-	-	635,000
Other key personnel				
M James	390,000	-	-	390,000
M Vaisey	-	-	-	-
I Polovineo	-	-	-	-

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the group would have adopted if dealing with third parties at arms length.

(e) Loans to key management personnel

There are no loans to specified directors or specified executives.

(f) Other transactions and balances with key management personnel

Administrative services amounting to $40,000 were provided by Sino Gold Limited to Lynas Corporation Limited at rates based on arms-length transactions. This includes payments for the services of I Polovineo as Company Secretary. Sino Gold Limited is a company of which Mr Klein is a director and Mr Curtis was a director until November 2005.

The balance owing on items detailed above reflected in the current liabilities at year end is $12,484 (2005 $5,270).

30. 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 made in the ordinary course of business and are unsecured and interest free with no fixed term of repayment.

As at 30 June 2006 the total amount owing by wholly-owned subsidiaries to the Parent Company was $23,090,076 (2005: $12,309,774). This amount is at call and interest free and is not expected to be repaid during the next twelve months. (Refer: note 11).

31. SEGMENT INFORMATION

Segment products and locations

The group's primary segment reporting format is business segments.

The group's main concentration has been on the Rare Earths resource at Mt Weld near Laverton in Western Australia.

The group's predominant geographical segment is in Australia. Although the group has some administrative business activities in China this geographical area is not considered significant and is therefore not reportable.

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.

Notes to Financial Statements

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31. SEGMENT INFORMATION (continued)

Segment accounting policies

Business Segments	Rare Earths		Niobium/Tantalum		Gold		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
Total segment revenue	5,652	-	-	-	-	-	5,652	-
Non-segment revenues								
Interest revenue							621,162	516,070
Net gain on disposal of property, plant and equipment							-	755
Unallocated revenue – rent and outsourcing							152,890	95,290
Total consolidated revenue							779,704	612,115
Results								
Segment result	(3,963,278)	(13,717,606)	(16,829)	(118,339)	-	-	(3,980,107)	(13,835,945)
Non-segment expense								
Interest							(507,773)	(340,418)
Unallocated expenses								
Consolidated entity loss from ordinary activities before income tax expense							(4,502,061)	(14,176,363)
Income tax expense							-	-
Net loss							(4,502,061)	(14,176,363)
Assets								
Segment assets	23,743,453	20,029,793	2,229,170	2,229,170	-	-	25,972,623	22,258,963
Total assets							25,972,623	22,258,963
Liabilities								
Segment liabilities	11,658,259	5,772,016	-	-	-	224,569	11,658,259	5,996,585
Non-segment liabilities							-	-
Total liabilities							11,658,259	5,996,585
Other segment information:								
Acquisition of property, plant and equipment, deferred exploration and development costs and other non-current assets	9,119,788	63,895	-	-	-	-	9,119,788	63,895
Depreciation	105,037	122,565	-	-	-	-	105,037	122,565
Amortisation of borrowing costs	-	-	-	-	-	-	-	-
Revaluation of shares in listed company	-	-	-	-	-	-	-	1,143,192

Notes to Financial Statements

30 JUNE 2006

32. FINANCIAL INSTRUMENTS

(a) Interest rate risk

CONSOLIDATED - 2006

Financial assets:

Category	Interest Bearing (Floating Rate) $	Non Interest Bearing $	Total carrying amount as per the balance sheet $	Weighted average effective interest rate
Cash	6,922,689	262,883	7,185,572	5%
Security bonds	164,000	-	164,000	5%
Total financial assets	7,086,689	1,181,738	7,349,572	

Financial liabilities:

Category	Interest bearing (fixed rate) $	Non interest Bearing $	Total carrying amount as per the balance sheet $	Weighted average effective interest rate
Trade creditors and other payables	-	6,262,485	6,262,485	-
Convertible note	4,947,482	-	4,947,482	5.7%
Total financial liabilities	4,947,482	6,262,485	11,209,967	

CONSOLIDATED - 2005

Financial assets:

Category	Interest Bearing (Floating Rate) $	Non Interest Bearing $	Total carrying amount as per the balance sheet $	Weighted average effective interest rate
Cash	7,240,438		7,240,438	5.1%
Other financial assets		6,546,427	6,546,427	-
Security bonds	164,000	-	164,000	5.1%
Total financial assets	7,404,438	6,546,427	13,950,865	

Financial liabilities:

Category	Interest bearing (fixed rate) $	Non interest Bearing $	Total carrying amount as per the balance sheet $	Weighted average effective interest rate
Trade creditors and other payables	-	216,255	216,255	-
Convertible note	5,179,071	-	5,179,071	5.7%
Total financial liabilities	5,179,071	216,255	5,395,326	

Notes to Financial Statements

30 JUNE 2006

32. FINANCIAL INSTRUMENTS (continued)

(a) Interest rate risk

PARENT – 2006

Financial assets:

Category	Interest Bearing (Floating Rate) $	Non Interest Bearing $	Total carrying amount as per the balance sheet $	Weighted average effective interest rate
Cash	6,003,834	187,103	6,190,937	5%
Related party receivables	-	15,324,002	15,324,002	-
Security bonds	164,000	-	164,000	5%
Total financial assets	6,167,834	15,511,105	21,678,399	

Financial liabilities:

Category	Interest bearing (fixed rate) $	Non interest Bearing $	Total carrying amount as per the balance sheet $	Weighted average effective interest rate
Trade creditors and other payables	-	6,262,111	6,262,111	-
Convertible note	4,947,482	-	4,947,482	5.7%
Total financial liabilities	4,947,482	6,262,111	11,209,593	

PARENT – 2005

Financial assets:

Category	Interest Bearing (Floating Rate) $	Non Interest Bearing $	Total carrying amount as per the balance sheet $	Weighted average effective interest rate
Cash	7,240,438	-	7,240,438	5.1%
Other financial assets	-	6,546,427	6,546,427	-
Related party receivables	-	4,543,700	4,543,700	-
Security bonds	164,000	-	164,000	5.1%
Total financial assets	7,404,438	11,090,127	18,494,565	

Financial liabilities:

Category	Interest bearing (fixed rate) $	Non interest Bearing $	Total carrying amount as per the balance sheet $	Weighted average effective interest rate
Trade creditors and other payables	-	216,255	216,255	-
Convertible note	5,179,071	-	5,179,071	5.7%
Total financial liabilities	5,179,071	216,255	5,395,326	

(b) Net fair value

The carrying amounts of all financial assets and liabilities approximate the net fair values at balance date.

(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 balance sheet 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.

Directors' Declaration

30 JUNE 2006

In accordance with a resolution of the directors of the company, we state that:

In the opinion of the directors:

1 (a) the financial statements and notes of the company and the consolidated entity and the additional disclosures included in the Directors' Report designated as audited are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2006 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.

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 259A of the Corporations Act 2001 for the financial period ended 30 June 2006.

On behalf of the Board

N Curtis
Executive Chairman

J Klein
Director

Sydney
12 September 2006

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Independent audit report to members of Lynas Corporation Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, 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 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report", sections A and B designated as audited on pages 8 to 11 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

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. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion 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 and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. 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 and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

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 the remuneration disclosures; 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 and the remuneration disclosures. 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 the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Audit opinion
In our opinion:

1. 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 2006 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.

2. the remuneration disclosures that are contained in sections A and B on pages 8 to 11 designated as audited of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.

Ernst & Young

Ernst & Young

M Elliott

Michael Elliott
Partner
Sydney
12 September 2006

Additional ASX Information

30 JUNE 2006

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 22 September 2006.

(a) Distribution of ordinary shares

The number of shareholders, by size of holding, of ordinary shares are:

	Ordinary shares	
	Number of holders	**Number of shares**
1 - 1,000	491	266,120
1,001 - 5,000	796	2,298,613
5,001 - 10,000	532	4,465,864
10,001 - 100,000	1,098	41,244,474
100,001 and over	232	327,832,111
Total on Register	**3,149**	**376,107,182**
Total Overseas Holders	127	12,367,378
The number of shareholders holding less than a marketable parcel of shares are:	628	444,180

(b) Distribution of options

The number of holders, by size of holding, in each class of unlisted options are:

	$0.25/$0.30 11/10/07	**$0.20 31/12/06**	**$0.20 31/12/07**	**$0.17 16/01/09**	**$0.17 11/08/09**	**Various Directors & Employees**
1 - 1,000						
1,001 - 5,000						
5,001 - 10,000						
10,001 - 100,000		2			1	5
100,001 and over	1	1	6	1	2	13
Total	**1**	**3**	**6**	**1**	**3**	**18**

Additional ASX Information

30 JUNE 2006

(c) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

	Listed ordinary shares	
	Number of shares	Percentage of ordinary shares
WESTPAC CUSTODIAN NOMINEE	84,595,881	22.49
HSBC CUSTODY NOMINEES	58,064,516	15.44
J P MORGAN NOMINEES AUSTRALIA	27,869,861	7.41
ANZ NOMINEES LIMITED	23,565,634	6.27
MR NICHOLAS ANTHONY CURTIS	11,460,192	3.05
STANDARD BANK LONDON LIMITED	7,628,450	2.03
NYCO PTY LIMITED	6,440,000	1.71
SURPION PTY LTD	5,500,000	1.46
WILKES HOLDINGS PTY LTD	5,356,286	1.42
COLBERN FIDUCIARY NOMINEES PTY LTD	5,116,175	1.36
CMIEC (AUSTRALIA) PTY LTD	5,000,000	1.33
CITICORP NOMINEES PTY LIMITED	4,867,100	1.29
ALIANA PTY LTD	4,600,000	1.22
NATIONAL NOMINEES LIMITED	2,908,127	0.77
CS FOURTH NOMINEES PTY LTD	2,903,661	0.77
MR ANTONY JOHN MAGNUS	2,689,470	0.72
ALL-STATES FINANCE PTY LTD	2,250,014	0.60
ROSENFIELD NOMINEES PTY LTD	2,166,675	0.58
WESTERN BRIDGE PTY LTD	1,530,000	0.41
MR CARLOS OSKAR DAVID BUHRE	1,100,000	0.29
Total	**265,612,042**	**70.62**

(d) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of shares
Ospraie Management LLC and its affiliates	65,218,129
The Goldman Sachs Group Inc	58,064,516
JP Morgan Chase & Co. and its affiliates	27,257,710
Nicholas Anthony Curtis	23,656,478

(e) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

(f) Schedule of interests in mining tenements

Location	Tenement	Percentage held
Mt Weld Rare Earths Project		
Mt Weld	M38/58	100
	M38/59	100
	M38/326	100

Glossary

Carbonatite	Mt Weld carbonatite; a circular, 3 kilometre diameter, pipe-like, intrusive igneous complex composed dominantly of calcium carbonate with lesser components of silicates, iron oxide and calcium phosphate.
Catalytic Converter	A device otherwise known as a 'Cat' fitted in the exhaust system of vehicles to reduce the emission of harmful gases to the atmosphere. Rare Earths are crucial to the catalytic activity and thermal stability of the Cat. A Cat consists of a ceramic structure coated with a mixture of rare earths and a precious metal such as platinum.
Central Lanthanide Deposit (CLD)	High grade deposit of Rare Earths overlying the centre of the Mt Weld carbonatite.
Cracking	A process where Rare Earths concentrate is reacted with sulfuric acid at high temperature which 'cracks' the minerals thus making the Rare Earths amenable to chemical processing. This process also referred to as sulfuric acid bake (SAB).
Crown Polymetallic Resource	A sector of the Mt Weld carbonatite that is enriched with a group of valuable metals including niobium, tantalum, zirconium, titanium and Rare Earths.
Inorganic filler	An iron oxide material produced in the Rare Earths concentration process that has application as a filler in cement.
Intermediate Rare Earth Products	Includes a range of products which contain one or several Rare Earth elements in a semi purified form. The chemical form of the intermediate products is usually a chloride, carbonate or oxide.
JORC Code	The Australasian Code for Reporting of Mineral Resources and Ore Reserves (the 'JORC Code' of 'the Code') which sets out minimum standards, recommendations and guidelines for Public Reporting of exploration results, Mineral Resources and Ore Reserves in Australasia.
Lanthanides	Collective name for the 14 naturally occurring lanthanide elements from lanthanum (atomic number 57) to lutetium (atomic number 71).
Metallurgical	Pertaining to the metallurgy of an ore, which is the ability to extract minerals or metals of interest from a rock.
Mineral Reserve	Ore Reserves are those portions of Mineral Resources which, after the application of all mining factors, result in an estimated tonnage and grade which, in the opinion of the competent Person or Persons making the estimates, can be the basis of a viable project after taking account of all relevant metallurgical, economic, marketing, legal, environmental, social and governmental factors. Ore Reserves are inclusive of diluting material which will be mined in conjunction with the Ore Reserves and delivered to the treatment plant or equivalent.
Mineral Resource	The term "Mineral Resource" covers mineralisation which has been identified and estimated through exploration and sampling and within which Ore Reserves may be defined by the consideration and application of technical, economic, legal, environmental, social and governmental factors.
Mischmetal	A pyrophoric alloy made from a mixture of Rare Earths metals.
Neo Magnet	A Rare Earth permanent magnet that is either manufactured by polymer bonding of neodymium iron boron metal where the magnet shape can be easily formed by injection or compression moulding (bonded magnet), or where high temperature sintering is used to form the magnet (sintered magnet).
Rare Earths	Name commonly used for the 15 naturally occurring lanthanide elements from lanthanum (atomic number 57) to lutetium (atomic number 71) plus yttrium (atomic number 39).
Rare Earths - Heavy	Collective name for the lanthanide elements from europium (atomic number 63) to lutetium (atomic number 71).
Rare Earths - Light	Collective name for the lanthanide elements from lanthanum (atomic number 57) to samarium (atomic number 62).
Rare Earths Concentration Process	For the Mt Weld ore this is a process of physical beneficiation in which the ore is ground and passed through an oxide flotation process to concentrate the rare earth bearing minerals and reject the iron oxide minerals.
Rare Earths Direct® or RED	Lynas' trademark representing the value propositions of the RED Model.
RED Model	Lynas' new "mine-to-market" approach to the supply chain of the Rare Earths industry.
REO	Acronym for Rare Earths oxides which is the common form for expressing the rare earth composition of materials other than metals.
Separation	A process of solvent extraction (or liquid-liquid extraction) that is employed to separate the Rare Earths from impurities and to separate the Rare Earths into groups of rare earth elements and individual elements.
Upstream Project	The Lynas Rare Earths project comprised of the Mt Weld mine and the integrated processing operation, comprised of the concentrator and cracking-separation plants.

Corporate Information

ABN 27 009 066 648

Directors
Nicholas Curtis (Executive Chairman)
Jacob Klein
David Davidson

Company Secretary
Ivo Polovineo

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