
QUARTERLY REPORT

FOR THE PERIOD ENDING 30 JUNE 2008

HIGHLIGHTS

- Completed the first Mount Weld Rare Earths mining campaign lost-time-injury free, on budget and ahead of schedule.
- 773,300 tonnes of ore with an average grade of 15.4% REO on stockpiles of different grades and mineralogy. Reconciliation of mined ore versus exploration model shows a 9% increase in tonnes of REO actually mined.
- Department of Environment and Conservation (DEC) of the Western Australia Government issued the Works Approval for the construction of the Concentration Plant for the Mount Weld Rare Earths project.
- Engineering and construction progress for Malaysian Advanced Materials Plant on schedule for October 2009 start-up.
- Completion of a 75 million ordinary share placement at an issue price of \$1.26 per share to raise a total of \$94.5 million.
- The total Rare Earths export quota announced by the Chinese government for 2008 is 34,156 tonnes, which is an unforeseen decrease of 21.6% or 9,419 tonnes from the total export quota of 2007.
- A record Mount Weld composition average quarterly price of USD 15.22/kg REO was achieved this quarter, an increase of 11% from last quarter.

CORPORATE

The current quarter has been one of focused execution for the company. The first mining campaign has been completed at Mount Weld. The total Rare Earths tonnage mined was 109% ahead of the geological exploration model.

Detailed engineering for the Concentration Plant in Western Australia and the Advanced Materials Plant in Malaysia have both made substantial progress in the last quarter and are forecast to be completed in line with the scheduled completion date. Additional Lynas resource has recently been added to the procurement effort to facilitate the procurement process. On site in Malaysia the piling contract is proceeding on schedule.

The build of the operational capacity within the company has also advanced this quarter. Detailed organisation planning and recruitment of the balance of the Malaysia management team is now underway, as are detailed reviews on recruitment and training capacity within the host community for the full Malaysia operations team.

The Board visited the Gebeng Industrial Park in April and met with senior State and Federal Government officials, including the Chief Minister for the State of Pahang.

On the financing front the company completed a 75 million ordinary share placement to raise a total of \$94.5 million. The placement was lead managed by Morgan Stanley who noted there was a very high quality book of demand with 75 bids from domestic and international institutions. Existing investors supported the transaction and a number of new investors were introduced onto the register as part of the capital raising.

With the new equity raising Lynas believes there is sufficient capital available to fund the Rare Earths project through to start of production.

ENGINEERING AND CONSTRUCTION UPDATE

The Engineering, Procurement and Construction Management (EPCM) work is making good progress. Additional Lynas resource is being deployed into areas which are on the critical path according to the Ranhill WorleyParsons weekly reports, to assist in decision making processes or to provide additional data where required.

CONCENTRATION PLANT AT MOUNT WELD

Engineering progress for the Concentration Plant is at 63% completion (versus a planned 69%). Note that Process Engineering is 91% complete, Civil Engineering is ahead of schedule, and Mechanical, Piping and Electrical Engineering are slightly behind schedule. The company has located a resource within the Engineering office of WorleyParsons to assist in tackling high priority issues, the result being that none of the delays above are on the critical path for the Concentration Plant and the engineering is forecast to be completed on schedule.



The procurement schedule for the Concentration Plant has come under stress in the latter part of the quarter. Lynas and WorleyParsons have jointly reviewed the procurement strategy and proposed mitigation actions for equipment on the critical path of the project. A Lynas Project Supervisor role commenced this quarter, reporting to the Project Director, to assist in co-ordinating EPCM work and resolving related issues.

Site clearing and grubbing has been completed for the Concentration Plant. All tenders have been received for an early works package which consists of site preparation for commencement of building works, and final negotiations are underway with a preferred contractor for this early works package.

Two preferred contractors for the construction contract have been identified. As contractor schedules have indicated a construction period of eight months, as opposed to the initial plan of twelve months, it is anticipated this contract will not be awarded until September. Commencement of building works in October will enable commissioning of the plant to occur in accordance with previous announcements.

The Build Own and Operate (BOO) power supply contract was released for tender during the quarter and a preferred contractor has been identified. The water treatment plant contract was also released for tender during the quarter and all tenders have been received and subsequent evaluation and negotiations are ongoing.

ADVANCED MATERIALS PLANT IN MALAYSIA

Engineering progress for the Advanced Materials Plant is at 60% (versus a planned 66%). Process Engineering is ahead of schedule at 97% complete. Mechanical, Piping and Instruments are also ahead or on schedule, however Civil and Electrical engineering are behind schedule. Again the forecast shows the engineering to be completed on schedule. The piling contract is on schedule, which is to be followed by the commencement of concreting works.

Of the 32 identified construction-related contracts for the Advanced Materials Plant, 10 have been tendered and five awarded. A total of 132 equipment supply packages, out of a total of 185 packages, have been issued for tender and are in various stages of bidding and bid evaluation. 13 equipment supply packages have been awarded to date.

As with the Concentration Plant the certain items within the procurement schedule for the Advanced Materials Plant are on the critical path. The procurement cycle for the Advanced Materials Plant equipment has been revised and shortened in order to expedite the issuance of Purchase Orders and in addition specific equipment packages which are on the critical path are being focused on with additional procurement resource brought to bear by Lynas.

OPERATIONAL UPDATE

MOUNT WELD OPERATIONS

The first Mount Weld mining campaign was successfully concluded in May, and was completed lost-time-injury free, on budget and ahead of schedule. This campaign mined 773,300 tonnes of ore with an average grade of 15.4% REO. This ore is stockpiled on site according to the grade and mineralogy characteristics of the ore and the ROM (run of mine) pad is close to capacity. There are two types of ore based on mineralogy, a soft siltstone type ore known as "Cz" and a limonitic ore known as "Li". The Concentration Plant will initially process the Cz ore. There is 409,200 tonnes of Cz ore at an average grade of 18.0% REO, which is sufficient for the first two years of operation. During the campaign 2,039,000 bulk cubic metres of waste was also mined and placed onto waste stockpiles which are in the process of being rehabilitated with top soil.

A reconciliation of the ore on the ROM pad was conducted by Lynas geologists who are Competent Persons under the 2004 JORC Code, and independently audited by Helman & Schofield Pty Ltd. The reconciliation assessed the as-mined ore against the resources estimates from the exploration model and the grade control model, and confirmed the accuracy and confidence in the geological modelling. The actual tonnage of metal contained in the mined ore was 104% higher compared to the grade control model and 109% of the exploration model. This reflects both increased volumes and slightly higher density of the ore in the deposit than was predicted, and the homogenous and contiguous nature of the deposit.

The mining campaign ceased at a relative level of 375m, which was above the current water table. Dewatering of the central lanthanide zone is now planned to occur over the next 18 to 24 months to enable subsequent mining campaigns, and these dewatering facilities have been scoped and budgeted with initial dewatering bores installed.

Construction of all above ground surface water works were completed, including diversion channels, bunds and turkeys' nest dams.

The mining contractor, Downer EDI, has now demobilised and Lynas has taken ownership of the facilities at the Mount Weld mine site. The contribution and performance of Downer EDI during the mining campaign was a key factor in the success of the campaign.

After the end of the quarter, on 21 July 2008, the Department of Environment and Conservation (DEC) of the Western Australia Government issued the Works Approval for the Concentration Plant for the Mount Weld Rare Earths project. The Works Approval application was lodged after the approval of Environmental Impact Assessment and relates to the actual construction commencement of the Concentration Plant.

During the quarter agreement in principle was reached with Barrick's Granny Smith gold mine, located approximately six kilometres from Mount Weld, to use their camp to accommodate people in both construction and operations of Mount Weld facilities. This is of significant benefit to Lynas and has been approved by Laverton Town Council for a three year period. Other synergies with Barrick include using an old pit to store excess water from the Mount Weld dewatering program and agreement to examine future cost sharing or mutually beneficial programs.

MALAYSIA OPERATIONS

The focus within the Malaysia team has been the planning for the operational stage including detailed organisational planning and the recruitment of the balance of the Malaysia management team, which is now underway.

An assessment of local plant maintenance and site support services capacity has shown excellent infrastructure and availability of required services on the Eastern Corridor of Peninsular Malaysia. This has allowed a lean plant maintenance and engineering organisation to be designed as many services can be drawn from the host community. A review is currently underway of the host community recruitment and training capacity to allow skills formation plans to be completed for the plant operation.

In April, the Lynas Board visited Kuantan and the Gebeng III Industrial Park. A tour of the site was conducted and meetings took place with senior State and Federal Government officials, including Datuk Seri Adnan Yakob, the Chief Minister for the State of Pahang.

Community engagement forums continued in both Kuala Lumpur and Kuantan including the Port of Kuantan, local government authorities and neighbouring plants in the Gebeng area.

During the second quarter, additional staff joined Lynas Malaysia in both human resources and engineering functions. The Lynas Malaysia staff moved into a temporary leased office adjacent to the Gebeng III Industrial Park. This facility will be used over the next 12 months preceding the construction of the site Administration Building.

GLOBAL MARKET ACTIVITY

COMMERCIAL DISCUSSIONS

Commercial discussions with additional customers continued through out the quarter with two marketing trips to Japan and one to Europe. Whilst no additional contracts were signed in the quarter substantial progress was made on a number of customer negotiations in both regions. In addition the company anticipates increasing volumes with customers with whom contracts already exist. Further details are anticipated in the near term.

RARE EARTHS PRICES

A record Mount Weld composition average quarterly price of USD 15.22/kg REO was achieved this quarter, an increase of 11% from last quarter.

Lanthanum oxide continued its price run this quarter, up another 47% over the period. As discussed last quarter lanthanum is the main Rare Earths element used in Nickel Metal Hydride batteries (NiMH) for which demand in the hybrid vehicle is increasing strongly. It is interesting to note that Toyota and Honda have recently made announcements that indicate they have made the decision to go with NiMH battery technology for their mass produced hybrids (as opposed to Li-ion battery technology). Toyota announced a US\$650 million investment to increase its NiMH

manufacturing capacity three-fold to over 1 million NiMH units per year by 2010. Honda announced it will produce its new dedicated hybrid model with NiMH batteries, with sales targets of over 200,000 units per year combined with existing Honda hybrids resulting in total hybrids for Honda of approximately 500,000 units using NiMH batteries.

Rare Earths demand per NiMH battery for a hybrid vehicle is estimated at 12kg per vehicle, however it has been reported that the next generation will on average use 20kg per vehicle. This would equate to 30,000 tonnes of Rare Earths in the hybrid battery market per annum. When you consider all of these vehicles will also require approximately 1.5kg of Rare Earths for the neodymium magnets in their electric motors, it is clear the hybrid vehicle is a major growth driver for the Rare Earths market overall.

Most of the other Rare Earths also experienced price increases of approximately 10%. Whilst some other elements such as cerium have reported an increase in demand, these increases are likely to represent the adjustment in price associated with the increase in the export tariffs from 10% to 25% as discussed last quarter.

Rare Earths Prices FOB China (US\$/kg)				
Rare Earths Oxide	Mt Weld Composition	Average Price Over Quarter		
Purity 99% min	% Rare Earth Oxide*	Q4 2007	Q1 2008	Q2 2008
Lanthanum Oxide	25.50%	4.44	6.02	8.83
Cerium Oxide	46.74%	3.72	4.04	4.38
Neodymium Oxide	18.50%	29.81	31.69	32.88
Praseodymium Oxide	5.32%	28.14	29.29	32.61
Samarium Oxide	2.27%	4.40	4.86	4.80
Dysprosium Oxide	0.12%	91.30	110.00	120.80
Europium Oxide	0.44%	354.20	441.70	491.00
Terbium Oxide	0.07%	609.20	710.40	740.00
Av. Mt Weld Composition		12.21	13.68	15.22

* in final product form, other Rare Earths account for 1.04%

The table shows the average quarterly price for a 'standard' 99% purity of individual elements and for the generic composite of Rare Earths equivalent to the Rare Earths distribution for the Central Zone resource of the CLD Sector at Mount Weld, on a Freight On Board (FOB) China basis.

Since the end of the quarter market prices have stabilised and the Mount Weld composition price was USD 15.25/kg REO on 28 July 2008. Weekly updates of these prices can be found on the Lynas website, www.lynascorp.com, under "What Are Rare Earths?", then "What are their prices?".

EXPORT QUOTA UPDATE

After the end of the quarter the Ministry of Commerce of the People's Republic of China released the approved Rare Earths export quota for the second half of 2008. The resulting total Rare Earths export quota for 2008 was 20% lower than the export quota approved in 2007, which was unexpected from a market point of view.

Export quota on Rare Earths products was introduced by the Chinese government in 2003 to limit the export of China's strategic resource. The export quotas are released in two tranches – at the



start of the year and at mid year. The tonnage of quota has been decreasing by approximately 10% each year. In 2006, the tonnage dropped to 48,000 tonnes, and by 2007 the export tonnage declined to 43,574 tonnes.

The Rare Earths export quota granted by the Chinese government for the second half of 2008 is 11,376 tonnes, which is half the quota tonnage that had been granted for the first six months of this year, 22,780 tonnes. The total export quota for 2008 is therefore 34,156 tonnes in total which is an unforeseen decrease of 21.6% or 9,419 tonnes from the total export tonnage of 2007.

With China supplying 95% of Rare Earths to the world such regulatory constraints are adding to the current supply concerns. This reduction in export quota further raises questions about the sustainability of supply to products and applications which rely on Rare Earths, such as the hybrid vehicle and energy efficient light bulbs that are growing in significance in today's society. This is creating a level of ambiguity as to how the pricing of the Rare Earths outside of China will respond to this new development.

FINANCE

The company opened the quarter with \$73.40 million of available cash and closed the quarter with a balance of \$144.7 million. The increase in cash of \$71.3 million was as follows:

CASHFLOW		<u>AUD M</u>
OPENING CASH BALANCE 31 MARCH 2008		73.4
Interest and other income received	1.7	
Receipts from share issue and exercise of options	91.5	
TOTAL INCOME		93.2
Less		
Western Australia Concentration Plant	0.5	
Western Australia Mining	1.8	
Malaysian Advanced Materials Plant	12.0	
Contingency	0.0	
Malaysian Land	2.4	
Start Up Costs	0.0	
TOTAL CAPITAL EXPENDITURE	16.7	
Ongoing Operational and Financing Costs	5.2	
TOTAL OUTFLOW		21.9
Movement in cash		71.3
CLOSING CASH BALANCE 30 JUNE 2008		144.7

The total capital expenditure associated with the Rare Earths project from the 1 July 2007 to 30 June 2008 is \$58.1 million. The allocation is shown below:

PROJECT CAPITAL EXPENDITURE	AUD M
Western Australia Concentration Plant	2.9
Western Australia Mining	18.9
Malaysian Advanced Materials Plant	27.1
Contingency	0.8
Malaysian Land	8.4
Start Up Costs	0.0
TOTAL CAPITAL EXPENDITURE	58.1

Forecast expenditure at the end of this period was \$103.3 million. Of the \$45.2 million difference between actual and planned expenditure; \$22.6 million relates to final payment for the land which was paid after the quarter end; \$4.9 million relates to savings on the mining campaign; and the remainder relates to purchase orders not yet paid for. Note \$0.8 million of the project's \$30 million contingency has been consumed which represents payment for over budget items to date.

The company was pleased to announce on 18 April 2008 the completion of a 75 million ordinary share placement at an issue price of \$1.26 per share to raise a total of \$94.5 million.

During the quarter the company received convertible bond holder approval for the USD 105 million senior facility agreement with Bayerische Hypo- und Vereinsbank AG (HVB) in respect of the project facility announced on 27 July 2007. The parties are required to finalise a security trust deed and security documentation for the HVB facility and then drawdown will be subject to customary conditions.

Energy prices and chemical reagents have increased in cost of the last two quarter. With the high level of variable cash costs within the plant associated with energy (30%) and reagents (50%) a reforecast of the operational costs has been undertaken. It is anticipated that the January 2008 estimate of US\$5.50 ±10% / kg of final REO product has increased to US\$6.20 ±10% / kg of final REO product. This cost increase would have an industry wide impact.

TARGET MILESTONES FOR NEXT QUARTER

The company aims to complete the following target milestones during the next quarter:

- Completion of conditions precedent to access the HVB project finance facility and the release of the bond holder funds from escrow
- Early works package complete for the Concentration Plant at Mount Weld
- Award construction contract for the Concentration Plant at Mount Weld
- Finalise supply agreements with key chemical suppliers
- Sign further customer agreements



Mining pit on completion of first mining campaign at Mount Weld



Rare Earths ore stock piles on Mount Weld ROM pad



Piling on Lynas site at Gebeng Industrial Estate, Malaysia