

QUARTERLY REPORT

FOR THE PERIOD ENDING 30 JUNE 2009

HIGHLIGHTS

- The introduction of China Nonferrous Metal Mining (Group) Co., Ltd (CNMC) as a proposed new majority shareholder.
- The announcement of a full funding solution for the Lynas Rare Earths project whereby CNMC shall arrange provision of a total of US\$366 million through a mixture of equity and debt.
- Effective project suspension completed with good ongoing support from customers, equipment vendors, construction contractors and suppliers.
- Receipt of the Export Permit for Mount Weld concentrates from the Australian Federal Department of Resources, Energy and Tourism.
- Receipt of the Transport Management Plan approval from the Western Australian Department of Environment and Conservation.

CORPORATE

The introduction of a proposed new majority shareholder and the announcement of a full funding solution for the Lynas Rare Earths project were the highlights of the second quarter of 2009. This proposed new shareholding affirms the attractive economics of the project.

Following a rapid due diligence process Lynas and China Nonferrous Metal Mining (Group) Co., Ltd (CNMC) signed a binding Heads of Agreement whereby CNMC shall arrange equity and debt totalling approximately US\$366 million for the Lynas Rare Earths project.

The transaction is subject to Australian and Chinese regulatory approvals as well as Lynas shareholders' approval at a special meeting, for which an independent expert report is substantially complete. Upon receipt of these approvals the funding solution shall comprise of:

1. Equity of A\$252 million by CNMC subscribing for 700 million new ordinary shares in Lynas at A\$0.36 per share.
2. Debt provided to Lynas by a Chinese bank which shall be secured by both a CNMC corporate guarantee and the assets of Lynas. This debt component shall be provided in two stages:
 - i. A senior loan to bring the total capital provision to approximately US\$286,000,000 for the first phase of the Lynas Rare Earths project at 10,500 tonnes per annum Rare Earths Oxide (REO) (approximately US\$104 million at AUD/USD exchange rate of 0.68).
 - ii. At the request of the Lynas Board, a further guarantee to support an increase of the senior loan to cover the capital required for the second phase (increasing capacity of the plant to 21,000tpa REO, currently estimated at US\$80 million).

The equity placement price represents a premium of 52.5% above the volume weighted average price of Lynas shares for the 30 trading day period prior to the date the binding Heads of Agreement was signed. Upon completion CNMC will be the majority shareholder with 51.66% of the shares on issue.

CNMC is an international mining company focused on nonferrous metals with resource projects both in China and overseas. CNMC's activities in resource projects include exploration, design, construction, mining and refining, with representative offices and operations in more than 20 countries and regions. CNMC operates under the direct administration of State-owned Assets Supervision and Administration Commission of China.

CNMC fully supports the development of our existing business model and the Lynas Board is delighted to have attracted such a strong shareholder which can provide opportunities for further growth of the company. Importantly the parties are not negotiating any off-take of Rare Earths as a term of the CNMC investment.

Once this funding is in place the Company will lift the suspension on the project and complete construction and commissioning of both the Concentration Plant in Western Australia and the Advanced Materials Plant in Malaysia, allowing the company to deliver against our existing



customer contracts in North America, Japan and the European Union – our business model remains unchanged.

Mr Nicholas Curtis is to remain as Executive Chairman and the Lynas Board shall be expanded by four to include Directors appointed by CNMC. On completion of the CNMC transaction the Lynas Board will consist of eight Directors with the Chairman having a deciding casting vote. The current executive management team shall remain in place.

ENGINEERING AND CONSTRUCTION UPDATE

As reported last quarter, all engineering and construction works for both the Concentration Plant at Mount Weld and the Advanced Materials Plant in Malaysia have been suspended. This quarter's efforts have focused on maintaining all existing relationships to ensure that following the receipt of full funding, works will recommence quickly and efficiently. This has involved detailed discussions with all vendors and contractors with whom commitments have been made, and agreements have been reached with respect to costs payable for progress to date, responsibility for storage and maintenance and other relevant matters.

Maintenance works are being carried out at the sites on an as-required basis. Below is a summary of the status of works at suspension.

CONCENTRATION PLANT AT MOUNT WELD

ENGINEERING AND PROCUREMENT

For our Australian plant the majority of civil, structural and mechanical engineering works have been completed and issued as "Approved for Construction". Piping, electrical and instrumentation engineering have been completed to a point that enables the completion of engineering and drafting to be achieved at a minimal cost upon reactivation.

Work has continued with several procurement packages where the equipment manufacture was close to completion at project suspension, these are now complete and have been either delivered to Lynas' storage facility or held at the vendors' works. Where vendor packages were not close to completion they have been suspended at a logical point to ensure minimal rework and maximum integrity and protection of work completed to-date. There have been no package cancellations associated with suspension.

CONSTRUCTION

The following construction activities have been completed prior to suspension:

- ROM Bin/Mill Feed Conveyor: Civil and concrete works have been completed
- Grinding Circuit: Civil and concrete works have been completed
- Flotation Building: Civil and concrete works are approximately 60% complete with the area made safe and with drainage installed to protect the areas after demobilization
- Concentrate Thickening: Steel reinforcement has been delivered to site for storage
- Off-site Fabrication: The first batch of tanks and conveyor trestles and trusses have been fabricated and delivered to Lynas' storage facility

ADVANCED MATERIALS PLANT IN MALAYSIA

ENGINEERING AND PROCUREMENT

Most engineering disciplines neared “Approved for Construction” at project suspension. During suspension all efforts have been made to clearly identify any outstanding issues in all disciplines with the aim that all engineering and design works are able to be completed as soon as possible after funding is secured.

Lynas has suspended the manufacture of approximately 60 equipment packages where manufacture is not yet complete, with significant efforts to ensure that all equipment packages are in a position for completion upon refinancing with minimal re-work and suspension costs.

CONSTRUCTION

At suspension piling activities on site were approximately 90% complete with Hexagon Tower commencing concrete supply and installation for the project.

All major roads are in place and the site stormwater drainage systems are complete. Foundations for the main electrical substation and site administration buildings are complete with the erection of the steelwork for the administration building nearing completion.

OPERATIONAL UPDATE

MOUNT WELD OPERATIONS

Mount Weld operations remain under care and maintenance following suspension in the previous quarter. The mine site has been subject to routine inspections and compliance management for all monitoring and environmental obligations. There has been ongoing contact with existing vendors and contractors to ensure that all contractual relationships are maintained. This will ensure that the re-start of the project is simplified and can be easily activated once finance is approved.

MALAYSIA OPERATIONS

The Gebeng Advanced Materials Plant site has now been placed under care and maintenance and the Malaysia operations staff have progressed pre-start planning works including development of operations manuals, operator training planning, and laboratory equipment and manning studies.

Community engagement has occurred this quarter to discuss the project in more detail including the suspension. Positive sessions with the political parties and media at both federal and state level have been completed and this programme will continue with the local community.

The Advanced Materials Plant uses a number of chemicals within the process and contracts have been established with a number of chemical suppliers. All current suppliers have been visited and all contractual relationships managed to ensure that the agreed supply contracts are intact and are consistent with Lynas’ expectations for a smooth re-start.

SUPPLY CHAIN UPDATE

As a result of the CNMC funding announcement, all vendors and contractors have been contacted regarding the suspension timing. These suppliers continue to show support for Lynas' position and terms have been negotiated to minimise cash outlay pending a restart.

The permitting and approvals activity associated with supply chain, noted last quarter, have been successful. Lynas received the following supply chain related approvals during the quarter:

1. Export Permit for Mount Weld concentrate from the Australian Federal Department of Resources, Energy and Tourism. The export approval is for 5 years commencing 1 September 2009 and ending 31 December 2013 and allows for 360,000 tonnes of Rare Earths concentrate to be exported. The duration of the approval limited to 5 years is a standard condition and Lynas will reapply prior to 31 December 2013 to allow continued operations.
2. Transport Management Plan approval from the Western Australian Department of Environment and Conservation.

This completes the regulatory requirements to transport the company's concentrate from Mount Weld to Malaysia.

GLOBAL MARKET ACTIVITY

COMMERCIAL DISCUSSIONS

Meetings and conference calls were held this quarter with prospective customers including those who have signed customer agreements with the Company, to inform them of the proposed introduction of a new majority shareholder that will result in a full funding solution. Lynas reaffirmed with the customer base that the marketing strategy of the Company shall not change with the introduction of CNMC as a majority shareholder.

None of the customer agreements contain change of control provisions and the customer base has expressed continued support for the company and intent to purchase Lynas product. Once the funds have been received and a schedule is in place for commencement of production from the Advanced Materials Plant in Malaysia, the contracts which require revision due to the suspension can then be amended.

RARE EARTHS PRICES

This quarter has seen Rare Earths prices start to rise again in China, mainly dysprosium and europium. However, although the international consumers of Rare Earths are experiencing an increase in utilisation of their plant capacity, it is apparent that inventories continue to be absorbed as opposed to an increase in purchasing by these consumers of Rare Earths. This has resulted in FOB China prices remaining flat. Lynas continues to expect purchasing by international consumers of Rare Earths to resume by the end of 2009, which in turn should affect FOB pricing.

Rare Earths Prices FOB China (US\$/kg)					
Rare Earths Oxide	Mt Weld Composition	Average Price Over Quarter			
		Purity 99% min	% Rare Earth Oxide*	Q2 2008	Q1 2009
Lanthanum Oxide	25.50%		8.83	7.28	6.05
Cerium Oxide	46.74%		4.38	4.58	4.60
Neodymium Oxide	18.50%		32.88	14.50	14.58
Praseodymium Oxide	5.32%		32.61	14.50	14.50
Samarium Oxide	2.27%		4.80	4.75	4.80
Dysprosium Oxide	0.12%		120.80	96.46	108.60
Europium Oxide	0.44%		491.00	448.85	465.40
Terbium Oxide	0.07%		740.00	370.77	360.00
Av. Mt Weld Composition			15.22	9.91	9.70

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

The table above 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. 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?".

FINANCE

The company opened the quarter with \$40.9 million of available cash and closed the quarter with a balance of \$16.7 million. The decrease in cash of \$24.2 million was as follows:

CASHFLOW		AUD M
OPENING CASH BALANCE 31 MARCH 2009		40.9
Interest and other income received	0.3	
TOTAL INFLOW		0.3
Less		
Western Australia Concentration Plant	4.5	
Malaysian Advanced Materials Plant	14.6	
Start Up Costs	1.4	
TOTAL CAPITAL EXPENDITURE	20.5	
Ongoing Operational and Financing Costs	4.0	
TOTAL OUTFLOW		24.5
Movement in cash		24.2
CLOSING CASH BALANCE 30 JUNE 2009		16.7

As noted in the 1 May 2009 announcement regarding the introduction of CNMC, CNMC offered to assist Lynas to obtain a US\$15,000,000 working capital facility which would be replaced by the funds received upon completion of the proposed CNMC transaction. There were unforeseen costs and complexities with this proposed temporary bank facility and therefore it has not been arranged. Depending upon the timeframe of receipt of the funding from CNMC, which remains subject to government approvals, additional funding for working capital may not be required.

The total capital expenditure associated with the Rare Earths project from 1 July 2007 to 30 June 2009 is \$175.1million. The allocation is shown below:

PROJECT CAPITAL EXPENDITURE	AUD M
Western Australia Concentration Plant	24.1
Western Australia Mining	19.5
Malaysian Advanced Materials Plant	90.3
Malaysian Land	28.1
Start Up Costs	13.1
TOTAL CAPITAL EXPENDITURE	175.1