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## QUARTERLY REPORT

### FOR THE PERIOD ENDING 30 JUNE 2011

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#### HIGHLIGHTS

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- Commencement of Concentration Plant operations with commissioning and ramp-up progressing well. REO grade of concentrate in line with, and percentage REO recovery significantly above, ramp-up schedule targets.
- Confirmation by the independent panel of international experts from the IAEA that the Lynas Advanced Materials Plant ("LAMP") in Kuantan, Malaysia, once completed later this year, is expected to be safe and fully compliant with international standards.
- Announcement by the Malaysian Government to implement recommendations within the IAEA report, providing a conclusive path towards regulatory approvals for the pre-operational licence.
- Issuance of Letter of Award for Engineering, Procurement, Construction and Commissioning Assistance of the Phase 2 expansion to 22,000t REO of the LAMP.
- Signing of a Letter of Intent with Siemens to establish a joint venture company for the sustainable production of neodymium based Rare Earths magnets.
- Completion of Mount Weld latest drilling campaign with encouraging initial assay results.
- Release of the second half 2011 China export quota, resulting in 30,184 tonnes for 2011. The total export quota remains well below the demand for Rare Earths outside of China.
- Increasing average quarterly price for the Mount Weld Rare Earths distribution, on Free On Board (FOB) China basis, to US\$173.20/kg REO, an increase of 86%. The domestic Rare Earths Chinese price increased by 200% across the quarter to US\$69.38/kg REO.
- Increasing prices continue post quarter end. As at 25 July 2011, the average price for the Mount Weld Rare Earths composition was US\$227.52/kg on a FOB China basis and US\$98.16/kg REO on a domestic Chinese price basis.

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## CORPORATE

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This quarter has marked an exceptional milestone for the Company, the successful commissioning and operational commencement of the Concentration Plant at Mount Weld. Rare Earths concentrate is now being produced at our Mount Weld facility in accordance with REO grade and recovery design specifications. Rare Earths concentrate is the first step in our production process. The Lynas Advanced Materials Plant construction continues to progress, and subject to receipt of the pre-operational licence, first production from the LAMP scheduled to occur by the end of 2011.

### IAEA INDEPENDENT EXPERT REVIEW

In response to community requests, the Malaysian Minister of International Trade and Industry appointed an independent panel of international experts to conduct a review of the health, safety and environmental aspects of the Lynas Advanced Materials Plant (LAMP). The expert panel comprised eminent representatives of the International Atomic Energy Agency (IAEA), an internationally recognised body with the necessary expertise to undertake such an assignment.

After a visit to Malaysia in early June, the IAEA submitted its completed report to the Malaysian Government on 30 June 2011. The IAEA report confirmed that the Lynas Advanced Materials Plant in Kuantan, Malaysia once completed later this year, is expected to be safe and fully compliant with international standards.

The pre-operational licence for the LAMP remains subject to regulatory approvals; however there is a conclusive path forward following the release of the IAEA independent report and the Malaysian Government's clear announcement of implementing recommendations within the report. Over the past few months our employees, especially those in Kuantan, have performed under considerable pressure, and the Lynas Board is most grateful for their support.

The full IAEA report can be accessed on the IAEA's website. A number of quotes from the report put in context the health, safety and environmental aspects of the LAMP:

- Many of the mineral concentrates processed in other countries under similar arrangements are considerably more radioactive than those to be processed in the Lynas project.
- The team concluded that sufficient information is available on the safety assessment method, models, scientific data and site-specific data for making an adequate evaluation of the potential short and long term radiological impacts on humans and the environment.
- **The safety assessment process, as documented in the material made available to the review team, was found to be consistent with international standards and no instances of non-compliance with the standards were identified.**
- **The review team was not able to identify any non-compliance with international radiation safety standards.**
- **Malaysian laws and regulations regarding radiation safety are in good conformity with the IAEA Standards, in some cases, the Malaysian regulations are even more strict.**
- The Lynas Radiation Protection Plan was found to be in accordance with the Atomic Energy Licensing Board (AELB) guidelines.
- The rare earths concentrate, at a combined activity concentration of 6 Bq/g, is not subject to regulations and may be transported internationally as an ordinary non-hazardous material from a radiation safety point of view. In accordance with international standards, they pose such a low radiation hazard during transport that there is no net benefit in regulating them.

- The management of the process residues within Malaysia is in line with mineral processing practices worldwide.
- The review team was encouraged by the approach shown by Lynas towards the management of solid residues in that it is actively investigating safe ways of recycling and reusing the residues in order to minimise the amount of radioactive waste that would need to be disposed of. This approach is a good example of Principle 7 (Protection of Present and Future Generations) of the Fundamental Safety principles (IAEA Safety Standards Series No. SF-1).
- It can be concluded that workers and members of the public will be adequately protected such that there will be no discernable radiological health effects attributable to the operation of the facility.

The IAEA report made a number of recommendations. Some of these recommendations relate to Lynas actions, whilst others relate to Malaysian Government or Regulatory body actions. The table below outlines each recommendation and also highlights those recommendations required to be fulfilled prior to Lynas receiving the pre-operational licence. Receipt of the pre-operational licence will enable Lynas to start and operate the LAMP to nameplate capacity. Prior to Lynas being awarded the pre-operational licence, recommendations 1, 2 and 10 need to be complied with. The required plans and an updated Radiation Impact Assessment (RIA) were submitted on 18 July 2011, and the Company plans to submit the Safety Case to the AELB in August 2011.

IAEA Recommendation	Lynas Actions	Government Actions	Required for Pre-Op. Licence
1 <ul style="list-style-type: none"> <li>• Lynas to submit, before the start of operations, a plan setting out its intended approach to the long term waste management, in particular management of the water leach purification (WLP) solids after closure of the plant, together with a safety case in support of such a plan. The RIA plan should be updated accordingly.</li> </ul>	<ul style="list-style-type: none"> <li>• Plan submitted to AELB on 18 July 2011</li> <li>• Safety case work underway, planned to be submitted with updated RIA to AELB in August 2011</li> </ul>		<ul style="list-style-type: none"> <li>• Yes</li> </ul>
2 <ul style="list-style-type: none"> <li>• Lynas to submit, before the start of operations, a plan for managing the waste from the decommissioning and dismantling of the plant at the end of its life. The RIA and decommissioning plan should be updated accordingly.</li> </ul>	<ul style="list-style-type: none"> <li>• Plan and updated RIA submitted to AELB on 18 July 2011</li> </ul>		<ul style="list-style-type: none"> <li>• Yes</li> </ul>
3 <ul style="list-style-type: none"> <li>• The results of exposure monitoring and environmental monitoring once the plant is in operation be used to obtain more reliable assessments of doses to workers and members of the public, and the RIA updated accordingly. The AELB should also require that dose reduction measures be implemented where appropriate in accordance with the international principle of optimization of radiation protection.</li> </ul>	<ul style="list-style-type: none"> <li>• Year 1 operational results of radiological monitoring be used for next RIA revision</li> <li>• Implement, where appropriate, any new dose reduction measures</li> <li>• Condition for operational licence</li> </ul>		<ul style="list-style-type: none"> <li>• No</li> <li>• Plant in operation to collect data</li> </ul>
4 <ul style="list-style-type: none"> <li>• The AELB should develop criteria that will allow the flue gas desulphurization (FGD) and neutralization underflow (NUF) residues to be declared non-radioactive for the purposes of regulation, so that they can be removed from the site and, if necessary in terms of environmental regulation, controlled as scheduled waste.</li> </ul>		<ul style="list-style-type: none"> <li>• AELB will develop the criteria within 3 months post pre-operational licence</li> </ul>	<ul style="list-style-type: none"> <li>• No</li> <li>• Data to be collected from production residue</li> </ul>

5	<ul style="list-style-type: none"> <li>The AELB should implement a mechanism for establishing a fund for covering the cost of the long term management of waste including decommissioning and remediation. The AELB should require Lynas to make the necessary financial provision. The financial provision should be regularly monitored and managed in a transparent manner.</li> </ul>	<ul style="list-style-type: none"> <li>Make financial provision for the cost of the long term management of residue including decommissioning and remediation</li> </ul>	<ul style="list-style-type: none"> <li>A mechanism for funding has been provided for in Act 304</li> <li>Board of AELB to decide at its next meeting</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>
6	<ul style="list-style-type: none"> <li>For regulating the Lynas project, the Malaysian Government should ensure that the AELB has sufficient human, financial and technical resources, competence and independence.</li> </ul>		<ul style="list-style-type: none"> <li>The Government has approved the resources required by AELB</li> </ul>	<ul style="list-style-type: none"> <li>Implemented</li> </ul>
7	<ul style="list-style-type: none"> <li>The AELB and the relevant Ministries should establish a programme for regularly and timely updating the Regulations in accordance with the most recent international standards. In particular, regulations pertinent to NORM [Naturally Occurring Radioactive Material] activities relevant to the proposed rare earths processing facility should be considered to be updated.</li> </ul>		<ul style="list-style-type: none"> <li>The Government will adopt in total guidance/regulation pertinent to NORM activities as in accordance to international standards.</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>
8	<ul style="list-style-type: none"> <li>The AELB should enhance the understanding, transparency and visibility of its regulatory actions in the eyes of the public, particularly those actions related to inspection and enforcement of the proposed rare earths processing facility.</li> </ul>		<ul style="list-style-type: none"> <li>AELB has stationed competent officers on-site at the LAMP</li> </ul>	<ul style="list-style-type: none"> <li>Implemented</li> </ul>
9	<ul style="list-style-type: none"> <li>The AELB should intensify its activities regarding public information and public involvement.</li> </ul>		<ul style="list-style-type: none"> <li>The Government via AELB will make all related documents from Lynas publicly available</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>
10	<ul style="list-style-type: none"> <li>Lynas, as the party responsible for the safety of the proposed rare earths processing facility, should be urged to intensify its communication with interested and affected parties in order to demonstrate how it will ensure the radiological safety of the public and the environment.</li> </ul>	<ul style="list-style-type: none"> <li>Intensify Lynas communication with interested and affected parties</li> </ul>		<ul style="list-style-type: none"> <li>Yes</li> <li>Activity already underway</li> </ul>
11	<ul style="list-style-type: none"> <li>Government of Malaysia should prepare an action plan.</li> </ul>		<ul style="list-style-type: none"> <li>A Monitoring Committee comprising of MITI &amp; MOSTI has been set up to monitor progress of IAEA recommendation schedule</li> </ul>	<ul style="list-style-type: none"> <li>1<sup>st</sup> meeting held on 14<sup>th</sup> July</li> </ul>

Lynas has heard the community leaders and understands the Company should do more for the Kuantan community. Indeed the IAEA report notes the “Lack of information has caused members of the public to conduct their own searches for information, leading to misunderstanding and misperceptions as well as to unnecessary fears for public health and safety”. The Lynas Board recognises not enough was done to engage with the community subsequent to the information

forums conducted in Kuala Lumpur and Kuantan in 2009 to counter the misperceptions circulating within the community and the Company is now addressing this. As suggested by the community leaders we intend to increase our commitment to community engagement and to engage in a long term dialogue with the community that will continue for the life of our plant.

In addition to the IAEA recommendations, the AELB and Lynas have agreed to complete a baseline health study for the Balok community in Gebeng. The baseline health study, as well as the normal practice monitoring of the Lynas operational work force, may be used by the local community in the future to reaffirm the Lynas Advanced Materials Plant shall not affect the health of the employees or their community.

## **SIEMENS MAGNET JOINT VENTURE**

Shortly after the end of the quarter the Company announced the signing of a Letter of Intent (LOI) with Siemens Drive Technologies Division, the world's leading supplier of entire drive trains with electrical and mechanical components, to establish a Joint Venture (JV) company for the sustainable production of neodymium based Rare Earths magnets.

The JV will be led by Siemens with the planned shareholding of the JV to be 55% Siemens and 45% Lynas. Lynas anticipates that it will provide raw materials, predominantly a combined neodymium/praseodymium metal, through a long term supply contract. The JV magnets will serve Siemens' production requirements for energy-efficient applications, mainly for wind-turbine generators.

Lynas is pleased to be able to provide the necessary ingredients of a stable, economically secure and environmentally sound supply chain which is required to enable this market to grow to its full potential. In light of the uncertain availability of China sourced magnets, Siemens and Lynas are working towards incorporation of the JV by the end of 2011 with initial production targeted for 2013, enabling the JV company to provide a secure, long-term and sustainable supply chain for the growth of this new end market application.

## **MSCI**

MSCI, a leading global provider of investment decision support tools to clients, ranging from large pension plans to boutique hedge funds, included Lynas as an addition to their MSCI Australia Index in the changes of constituents for the MSCI Global Standard Indices, announced on 16 May 2011, and effective as of the close of 31 May 2011. The inclusion of Lynas in this index is a significant step in increasing our exposure to large investment funds and broadening the number of investments funds who may invest in Lynas, especially those funds who restrict their investments to companies in the MSCI Indices.

## **FORGE TRANSACTION TERMINATION**

Extensive engagement with the Company's major shareholders to seek feedback on the Forge proposal regarding development of the Crown and Swan Deposits revealed a strong desire for Lynas to focus on its core strategy of delivering its Rare Earth project in Western Australia and Malaysia at this time. As a consequence, the unified view of the Lynas Board was that it is not the appropriate time to be focussing on the Crown and Swan Deposits. Lynas consulted with Forge to negotiate a termination of the transaction agreements. The Board of Forge agreed to do so and each party released each other from liabilities and obligations under the transaction agreements.



## ANNUAL GENERAL MEETING

The 2011 Annual General Meeting of Lynas shareholders will be held at 10am (Sydney time) on Wednesday 30 November 2011 at the Barnet Long Room, Customs House, 31 Alfred Street, Sydney. A notice of meeting will be issued closer to that date.

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## ENGINEERING AND CONSTRUCTION UPDATE

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### LYNAS ADVANCED MATERIALS PLANT IN MALAYSIA

As of the end of June 2011, the LAMP construction project team achieved 3,402,416 contractor man-hours of works on-site Lost Time Injury (LTI) free.

#### Procurement

As at the end of the quarter the total number of equipment procurement packages stood at 146, with 144 packages awarded. The final packages, fire hydrant hoses and office building furniture, shall be awarded during the September quarter.

#### Construction

As at the end of the quarter civil work on site is close to completion with approximately 1200m<sup>3</sup> of concrete to pour, out of a total of over 40,000m<sup>3</sup>. All fibre-reinforced tanks are now installed and structural steel erection is also nearing completion. Mechanical, piping and electrical contractors have ramped up considerably on site and building fit-out is progressing well. The overall site construction progress at the end of June was over 60% complete.

#### Leaching, Up and Downstream Separation, and Product Finishing Workshops at LAMP



The main activities across the quarter included;

- Completion of structural steel buildings, and the contractor is now concentrating on installing roof sheeting and wall cladding;
- Completion of the main pipe racks, now handed over to electrical and piping contractors;
- Installation of all fibre-reinforced tanks. The contractor is completing the joining of the mixer and settler tanks in both the upstream and downstream extraction buildings. The hydro testing and final cleaning before handover is ongoing and progressing as planned;
- Completion of hydro testing of all the carbon steel and stainless steel tanks, and external painting is ongoing with internal rubber and fibre-glass lining commenced;
- The refractory contractor is continuing to install bricks in kiln A and plans to be complete in July. The back-lash and gearbox alignment checks were carried out and a 24-hour trial rotation of kiln B was successfully completed;
- A contractor is progressively applying various acid proof products in all process areas. All areas requiring protection have been identified and are scheduled to be completed in July.
- The electrical installation contractor has access to all the main pipe racks and has installed a considerable amount of cable ladders and trays. Work is progressing within the various substations and control rooms along with final installation of HV underground cabling.
- The mechanical contractor increased their manning levels and had access to over 80% of the process buildings during the quarter. Their focus is on installation of pumps, conveyors, agitators and centrifuge installations. They are also involved in the installation of piping throughout the racks and process areas.

### Post Treatment Workshop: Precipitation Tanks and Centrifuges



## Calcination Workshop: Tunnel Furnaces



A workshop to identify potential gaps between the LAMPS On construction schedule and the Lynas commissioning schedule requirements was held during the quarter. The workshop was focused towards the identification of any key issues, and for the combined team to address those issues and develop action plans.

### **LAMPS UP - PHASE 2 EXPANSION TO 22,000T REO**

#### **LAMPS Up in Western Australia**

The detailed feasibility study for the planned expansion of the Concentration Plant to double its capacity is now complete and the Invitation To Bid document for an Engineering, Procurement, Construction (EPC) contract for the expansion of the Concentration Plant at Mount Weld is expected to be issued to interested bidders next quarter. Work for the required regulatory approvals associated with the plant expansion continued during the quarter.

#### **LAMPS Up in Malaysia**

Following the Engineering, Procurement, Construction and Commissioning Assistance Contract (EPCC) tender process discussed last quarter, the Company was pleased to announce on 13 July 2011 that its wholly owned subsidiary Lynas Malaysia Sdn Bhd has signed a Letter of Award with Toyo-Thai Corporation Public Company Limited ("TTCL") for the EPCC contract of the Phase 2

expansion of the LAMP. The Letter of Award is for a fixed price lump sum, in the amount of between US\$180 million – US\$210 million. The Phase 2 expansion will increase the LAMP capacity to a total of 22,000t REO per annum of separated Rare Earths products.

## **MALAWI UPDATE**

Following the finalisation of the purchase last quarter, work has commenced on the Kangankunde Project in Malawi. The site has been cleared and the on-site accommodation has been repaired and refurbished, and an office in Blantyre has been established. Satellite photography and mapping was carried out over the concession area and environmental baseline data has been collected.

An extensive drill program has been planned, aimed at not only confirming the existing resource estimate but also to investigate the potential of expanding the resource, both along strike and at depth.

The historical technical work has been consolidated and reviewed. A sample of the ore has been collected and dispatched to the Malawi Department of Mines laboratory in Lilongwe for preliminary testing and production of bulk concentrate samples to allow the undertaking of cracking and solvent extraction test work. In addition, a metallurgical test work program to confirm the viability of the previously defined concentration flow sheet has been finalised to be carried out by Mintek in South Africa.

The proposed work for the next quarter includes completion of the roads for drill access to the site, commencement of the 6000 meter drilling programme, reopening of the old adit under the deposit to allow sample collection and mapping, as well as refurbishment of the onsite office and construction of a workshop.

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## **OPERATIONAL UPDATE**

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### **WESTERN AUSTRALIA OPERATIONS**

During the quarter, the Western Australia Department of Mines and Petroleum, and the Western Australia Department of Environment and Conservation issued their licences for Lynas to operate the Mount Weld Concentration Plant following the completion of all construction-related works.

The first crushed ore was fed to the ball mill of the Concentration Plant on 14 May 2011. During the first few weeks of commissioning on ore, the plant operations team dealt with typical teething problems associated with any new concentration plant, with no major issues coming to light.

As at the end of the quarter, the plant achieved above scheduled recoveries at planned throughput rates which were approximately 50% of nameplate capacity, for four consecutive shifts.

Post quarter-end, throughput rates have continued to ramp-up, meeting or exceeding planned recoveries, with concentrate grade in line with the ramp-up schedule. As at 20 July 2011 the Concentration Plant had achieved a Final Concentrate Grade of 36% REO and a Recovery of 68.7%, on a month-to-date basis, for Rare Earths through the concentration process, which



compares to a target Final Concentrate Grade of 36% REO and a Recovery of 45% for this point in the planned ramp-up schedule.

All major systems are operating, and the Concentration Plant operations team is confident that the plant will ramp-up to nameplate throughput on schedule, which shall be synchronised with ramp-up of the Lynas Advanced Materials Plant in Malaysia, whilst continuing to achieve planned grades and recoveries.

## **On Site Exploration**

During the June quarter an extension drilling program was completed on the western side of the Central Lanthanide Deposit and the current open pit at Mount Weld. A total of 154 holes and 9,561 metres were drilled to delineate the REO resource in this area to at least an Indicated status, and to carry mining studies to include the western side of the Central Lanthanide Deposit into the mine planning process.

The sampling programme of the drill holes will be completed during July. Some early assay results have been received for the southern-most holes. The results are encouraging; all holes to date have had intersections above 2.5% REO with better intersections including 60m @ 12.36% REO, 43.5m @ 11.3%REO, 44m @ 10.3%REO, and 67m @ 9.07% REO. Within these intervals are a number of shorter intervals above 15% REO.

The full update and interpretation of the drill programme results should be available in the December quarter. See the appendix for the detailed results to date.

## **MALAYSIA OPERATIONS**

Over the quarter the Lynas Malaysia Operations staff numbers increased from 80 to 167 people as at the end of June 2011.

The Ready For Start Up (RFSU) programme continued during the quarter with work progressing on commissioning procedures, Standard Operating Procedures, and maintenance procedures. Acceptance testing of various equipment continues, for example Low Voltage switch gear site acceptance and Process Control System factory acceptance testing was completed during the quarter.

The Lynas Malaysia Operations team is supporting the LAMPS On construction team with managing the installation of utilities, and this work is progressing well. The natural gas pipeline and metering station is complete and ready. The electrical substation building has been handed over to TNB, the national electricity supplier, and installation and testing their equipment is ongoing, with power connection expected by end of July 2011. The underground water piping along our fence line is complete, and the metering station, railway and road crossing are scheduled to be complete by the end of July 2011. Overall progress of the subcontracted Ranhill water treatment plant is on schedule, with civil and structural work at 89% complete and earthworks for the construction of the surge lagoon and clear wells at 50% complete.

During the quarter the Lynas Malaysia Operations team was heavily involved with preparations for the IAEA review and associated authority approvals work. The team has also participated in a number of community briefings which have taken place over the quarter.

## SUSTAINABILITY

The Mount Weld concentration plant has maintained its zero lost time injury (LTI) safety record whilst transitioning into its operational phase. A number of minor injuries, hazards and near miss incidents were reported confirming a mature safety culture on site and providing the team with opportunities to learn lessons and prevent the occurrence of similar incidents.

The International Atomic Energy Agency (IAEA) report was released on 30 June 2011 confirming the LAMP, once completed later this year, is expected to be safe and fully compliant with international standards. During the quarter the LAMPS On construction project team achieved 3 million hours lost time injury free for the project. The engineering design and construction execution of the LAMP continues to be implemented in accordance with all appropriate international standards and practices, suitable for the LAMP's specific location, to facilitate a safe and viable operation.

The Balok Ivory Tower programme, an academic programme sponsored by Lynas for 100 local Malaysian school children, continued as scheduled during the quarter.

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## GLOBAL MARKET ACTIVITY

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### INDUSTRY NEWS

Consolidation of the Chinese Rare Earths industry gathered pace this quarter, an important industry trend which should see groups with sufficient size make investments in capital equipment to improve the environmental performance of the industry in China as well as decrease illegal mining. On 19 May 2011 the State Council, China's cabinet, issued a guideline stating that China aims to streamline its Rare Earths industry within one to two years. Following this statement the Chinese Ministry of Industry and Information Technology (MIIT) held a national industry meeting on 13 June 2011 to discuss plans for the industrial restructuring and consolidation. According to Miao Wei, Minister of the MIIT, China will create a Rare Earths industrial landscape dominated by large industrial enterprises, as an effective way to improve the management of the Rare Earths industry.

The country will allow its top Rare Earths producers to lead the restructuring and consolidation in the sector. MIIT said the Inner Mongolia Baotou Steel Rare-Earth (Group) Hi-Tech Co.,Ltd, will be the only Rare Earths producer in the region and will handle all mining, processing and trading in Inner Mongolia, the 35 other companies would be restructured or closed down by the end of June 2011.

In addition there is an overall target to put approximately 80% of the country's southern Rare Earths market in the hands of its leading three miners, according to the MIIT. So far, China Minmetals' Rare Earths arm already owns a combined annual smelting and separating capacity of 14,000 tonnes, the largest in South China, however, Minmetals itself reportedly does not own any Rare Earths mining rights in the country.

Another state-owned commodity company, the Aluminum Corp. of China (Chinalco), has set up a Rare Earths unit in eastern China's Jiangsu province, and has been playing a leading role in



reorganizing the local Rare Earths sector in Jiangsu with the support from the provincial government. Chinalco Rare Earths (Jiangsu) Co. has consolidated five local Rare Earths separating plants, which had been granted Rare Earths production quotas, and one trading company. In addition, it is reported Chinalco is in close partnership with south China's Guangdong province for local Rare Earths mining and production.

Jiangxi Copper signed an agreement with Sichuan Mining Investment Group to jointly invest RMB1 billion for the country's second-largest Rare Earths deposit in the third producing region.

## EXPORT QUOTAS

On 15 July 2011 the Ministry of Commerce of the People's Republic of China released 15,738 tonnes of approved Rare Earths export quota for the second half of 2011. The total export quota for 2011 is therefore 30,184 tonnes for both local and foreign owned companies. This is slightly lower than the total quota for 2010 of 30,259 tonnes.

However in May this year the Ministry of Commerce and General Administration of Customs jointly issued a notice stating, from 20 May 2011 onwards, ferrous alloys containing Rare Earths elements greater than 10% by weight of the total content shall be included into the Rare Earths export quota license management system.

Examples of ferrous alloys now under the quota system are ferro-dysprosium alloys and ferro-terbium alloys. Industry sources estimate that ferrous alloys with Rare Earths greater than 10% by weight would account for at least 2,000 tonnes of exports. Note that the customs code used appears to exclude magnet alloys at this time.

The addition of ferrous alloys means the quota is actually being tightened because more products will compete for limited allowances. Therefore Lynas estimates the net result of the total 2011 export quota released, when taking into account the new material requiring export quota is, at a minimum, a 7% reduction compared to 2010.

The total export quota available remains well below the demand for Rare Earths outside of China, and is likely to result in continued shortages of available Rare Earths.

A World Trade Organisation (WTO) panel ruled earlier this month that China had breached international trade rules by restricting exports of magnesium, manganese, silicon carbide and silicon metal. However, Chen Deming, Minister of Commerce, recently said that he was not concerned about possible WTO challenges to Beijing's policy on Rare Earths.

## RARE EARTHS PRICES

Rare Earths supply constraints continue to impact Rare Earths prices both outside and inside China. The average quarterly price for the Mount Weld Rare Earths distribution, on Free on Board (FOB) China basis, increased to US\$173.20/kg REO, an increase of over 86%. The domestic Rare Earths Chinese price increased across the quarter to US\$69.38/kg REO, a 200% increase.

Prices continue to increase post quarter end and as at 25 July 2011, the average price for the Mount Weld Rare Earths composition was US\$227.52/kg on a FOB China basis. The domestic Rare Earths Chinese price for the Mount Weld Rare Earths distribution as at 25 July 2011 is US\$98.16/kg REO. This price is essentially the FOB price less the export quota

cost, less the export taxes and less the VAT. The domestic price itself is influenced by the domestic production quota, which is currently reducing supply of Rare Earths inside China.

Rare Earths Prices FOB China (US\$/kg)				
Rare Earths Oxide	Mt Weld Composition % Rare Earth Oxide*	Average Price Over Quarter		
		Q2 2010	Q1 2011	Q2 2011
Purity 99% min				
Lanthanum Oxide	25.50%	7.49	75.87	135.02
Cerium Oxide	46.74%	6.42	77.52	138.29
Neodymium Oxide	18.50%	33.20	130.23	256.15
Praseodymium Oxide	5.32%	33.07	119.65	220.08
Samarium Oxide	2.27%	3.40	72.75	125.60
Dysprosium Oxide	0.12%	200.50	412.92	921.20
Europium Oxide	0.44%	529.80	719.15	1830.00
Terbium Oxide	0.07%	538.50	717.62	1659.20
<b>Av. Mt Weld Composition</b>		<b>16.02</b>	<b>92.84</b>	<b>173.20</b>
* 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 Lanthanide Deposit at Mount Weld, on a Freight On Board (FOB) China basis. Weekly updates of these prices can be found on the Lynas website, lynascorp.com, under "What Are Rare Earths?" then "What are their prices?".

## COMMERCIAL DISCUSSIONS

The Siemens Lynas Joint Venture, discussed in the Corporate Section of the Quarterly Report, is a significant commercial relationship for Lynas. This announcement highlights the industry confidence in the Lynas value propositions and product offering to the market. The Company continues to be engaged in a number of additional negotiations with other key customers concerning potential supply agreements.

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## FINANCE

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### CAPITAL RAISING

The equity raising announced on 30 March comprising a \$55 million fully underwritten Institutional Share Placement together with a \$20 million fully underwritten Share Purchase Plan was successfully completed in early May.

The Sojitz - Japan Oil, Gas and Metals National Corporation (JOGMEC) transaction was also announced last quarter, and in May Lynas received the US\$250 million (A\$235.55 million) in a combined debt and equity funding package from a special purpose company established by Sojitz and JOGMEC.

## CASH POSITION

A summarised cash flow for the quarter ended 30 June 2011 is set out below.

CASH FLOW	A\$M
<b>OPENING CASH BALANCE 31 MARCH 2011</b>	<b>204.7</b>
<b>INFLOWS</b>	
Interest and other income received	1.3
Exercised Options	1.6
Net proceeds from Equity raising	96.4
Proceeds from Sojitz / JOGMEC borrowings	212.4
<b>TOTAL INFLOW OF FUNDS IN THE QUARTER</b>	<b>311.7</b>
<b>OUTFLOWS</b>	
Mount Weld Concentration Plant	(9.0)
Lynas Advanced Materials Plant, Malaysia	(44.4)
Investments/ Security deposits/ Other capital expenditure	(0.3)
Interest and other costs of finance	(3.2)
Ongoing operational costs	(12.9)
<b>TOTAL OUTFLOW OF FUNDS IN THE QUARTER</b>	<b>(69.8)</b>
<b>Exchange rate adjustment</b>	<b>(12.6)</b>
<b>CLOSING CASH BALANCE 30 JUNE 2011</b>	<b>434.0</b>
<b>SUMMARY OF CASH BALANCE</b>	
Cash on Hand and at Call	31.2
Term Deposits	167.3
Funds for construction of Phase 2	235.5
<b>CLOSING CASH BALANCE 30 JUNE 2011</b>	<b>434.0</b>

The total cash balance of \$434 million at the end of June 2011 is made up of A\$126 million, US\$239 million and MYR264 million. Interest income received totalled \$1.3 million with an interest receivable of approximately \$1.2 million at year end. The quarter once again saw the Australian Dollar continue to strengthen against the US Dollar and the Malaysian Ringgit (2.8% and 3.3% respectively), resulting in a \$12.6 million adverse exchange rate adjustment.

## PROJECT EXPENDITURE

The following summary sets out:

- Forecast Expenditure for:
  - The Mount Weld Concentration Plant and for the Lynas Advanced Materials Plant
  - The remaining capex contingency for the Lynas Advanced Materials Plant
  - Other capex until 31 December 2011

- Forecast Ramp up and Operating Costs
  - For the production ramp up and operating costs for the Mount Weld Concentration Plant, the Lynas Advanced Materials Plant and finance, administration and corporate overheads until 31 December 2011.

ESTIMATED CONSTRUCTION & OTHER CAPITAL COSTS	FORECAST TOTAL SPEND A\$M	SPEND TO 30 JUNE 2011 A\$M	FUTURE SPEND A\$M
Mount Weld Concentration Plant	76.8	69.0	7.8
Lynas Advanced Materials Plant, Malaysia	267.8	149.8	118.0
Engineering & Project Management Cost	148.5	127.4	21.1
Other Capex including Land at Gebeng	63.0	54.2	8.8
Contingency	13.4	-	13.4
<b>TOTAL</b>	<b>\$569.5</b>	<b>\$400.4</b>	<b>\$169.1</b>

ESTIMATED PRODUCTION RAMP-UP COSTS UNTIL 31 DECEMBER 2011	A\$M
Mount Weld Concentration Plant	17.1
Lynas Advanced Materials Plant, Malaysia	36.6
Finance, Admin, Marketing, Technical & Corporate Overheads	14.9
<b>TOTAL</b>	<b>\$68.6</b>
<b>TOTAL ESTIMATED CASH REQUIREMENT TO 31 DECEMBER 2011</b>	<b>\$237.7</b>

ESTIMATED CASH REQUIREMENT TO 31 DECEMBER 2011	
Cash on Hand 30 June 2011 (excluding Phase 2 Funding)	198.5
Working Capital to 31 December 2011	39.2
<b>TOTAL</b>	<b>\$237.7</b>

Changes since capital and ramp-up operational costs were last reported, as at 31 January 2011, are:

- For Capital Expenditure (\$ millions)
  - Provision for increased costs for the Mount Weld Concentration Plant 6.0
  - Increased costs at the Lynas Advanced Materials Plant 30.5
  - Engineering & Project Management Cost increases 9.7
  - Reduction in Contingency and reduced Other Capex (17.5)
  - Total increased Capital Costs net of reduction in contingency 28.7
- For Ramp up and Operating Expenditure (\$ millions)
  - To pre-load LAMP to facilitate earlier sales invoicing 16.0

A provision has been made for an increase in the capital costs for the Concentration Plant at Mount Weld due to extension of time claims from contractors for delays associated with adverse weather conditions and late delivery of some equipment packages, and other smaller projected capital cost increases.

The total capital cost has increased for the Lynas Advanced Materials Plant in Malaysia due to increased costs on several equipment packages and contracts. As discussed in the Corporate section of the Quarterly Report there is now a conclusive path forward following the release of the IAEA independent report and the Malaysian Government's clear announcement of implementing recommendations within the report. Lynas anticipates completion of the required submissions to the AELB in August 2011. The AELB will then take a period of time to complete an assessment of compliance. Subject to a normal compliance process the Company expects first production from the LAMP by the end of 2011.

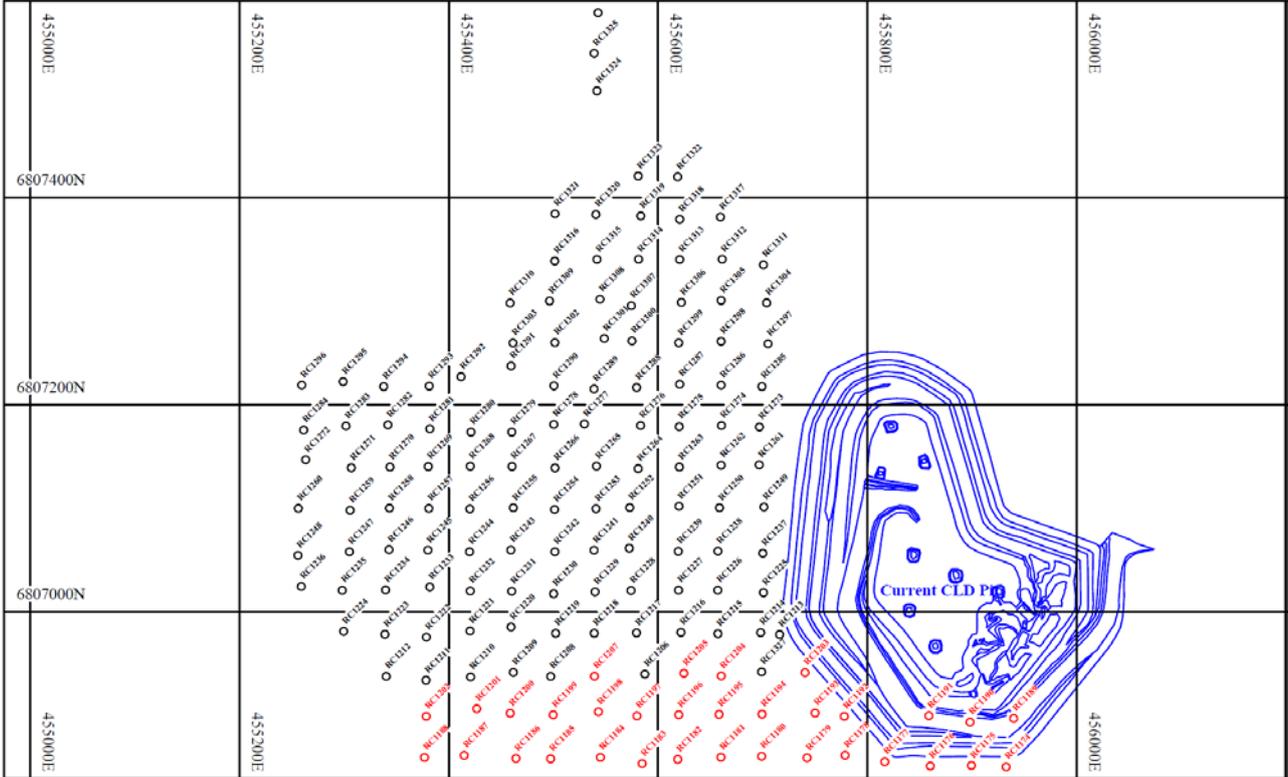
Following a decision to pre-load the production batteries with Rare Earths elements, in order to accelerate production of finished product, materials have been purchased on the open market during the quarter at a cost of approximately \$16 million.

The Company has received a letter of support and an indicative term sheet from a well known international financial institution to provide a working capital debt facility to cover the Company's working capital requirements through to positive cash flow from sales. Other well known financial institutions have also expressed an interest in providing similar debt facilities. The total amount available to the Company under the debt facility will be in the order of \$100 million, to ensure that the Company's working capital requirements are covered through to positive cash flow from sales. This will be a standby debt facility, and the Company may not necessarily need to drawdown the full amount of the facility. The Company expects to finalise the terms of this debt facility during the quarter ending 30 September 2011. The new debt facility will replace the OCBC working capital facility which will not proceed.

**APPENDIX**  
**JUNE QUARTER DRILLING RESULTS RECEIVED TO DATE, 27 OF 154 HOLES**

Hole ID	From	To	Metres	Av. REO%	Intervals
RC1174	24	32	8	4.25	8m @ 4.25%
RC1175	24	32	8	6.52	8m @ 6.52%
RC1176	26	42	16	4.90	16m @ 4.9%
RC1177	36	58	22	4.90	22m @ 4.9%
RC1178	44	76	32	6.07	32m @ 6.07%
RC1179	38	68	30	6.70	30m @ 6.7%
RC1180	36	60	24	6.73	24m @ 6.73%
RC1181	36	64	28	5.28	28m @ 5.28%
RC1182	33	50	17	7.68	17m @ 7.68%
RC1183	38	56	18	6.33	18m @ 6.33%
RC1184	42	50	8	4.29	8m @ 4.29%
RC1185	46	51.5	5.5	4.23	5.5m @ 4.23%
RC1186	42	64.5	22.5	9.87	22.5m @ 9.87%
RC1187	40	60	20	4.07	20m @ 4.07%
RC1188	38	58	20	5.26	20m @ 5.26%
RC1189	4	20	16	10.74	16m @ 10.74%
RC1190	2	28.7	26.7	10.46	26.7m @ 10.46%
RC1191	4	22	18	8.53	18m @ 8.53%
RC1192	50	92	42	9.07	42m @ 9.07%
RC1193	50	117	67	9.07	67m @ 9.07%
RC1194	42	69	27	12.26	27m @ 12.26%
RC1195	37	97	60	12.36	60m @ 12.36%
RC1196	38	82	44	10.29	44m @ 10.29%
RC1197	40	69	29	10.51	29m @ 10.51%
RC1198	44	64	20	9.15	20m @ 9.15%
RC1199	42	65	23	11.07	23m @ 11.07%
RC1200	42	62.5	20.5	9.57	20.5m @ 9.57%
RC1201	38	48.5	10.5	8.24	10.5m @ 8.24%
RC1202	32	44.5	12.5	7.34	12.5m @ 7.34%
RC1203	46	89.5	43.5	11.34	43.5m @ 11.34%
RC1204	42	70	28	5.89	28m @ 5.89%
RC1205	42	92.8	50.8	7.70	50.8m @ 7.7%
RC1207	44	66.8	22.8	11.84	22.8m @ 11.84%

**LOCATION OF 154 HOLES COMPLETED IN JUNE QUARTER DRILLING WITH  
LOCATION OF 27 HOLES RESULTS RECEIVED TO DATE SHOWN IN RED**



**COMPETENT PERSON'S STATEMENT**

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Brendan Shand, who is a member of The Australasian Institute of Mining and Metallurgy. Brendan Shand is an employee of Lynas Corporation Limited. Brendan Shand has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Brendan Shand consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*