

QUARTERLY REPORT
FOR THE PERIOD ENDING 30 JUNE 2012

HIGHLIGHTS

- The Lynas Advanced Materials Plant (LAMP) Phase 1 construction project in Malaysia was completed Lost Time Injury (LTI) free. The project involved a total of 8,690,000 hours worked without an LTI. Subsequent to the end of the reporting period Lynas Malaysia remains LTI free.
- On 18 June 2012, Lynas announced that the Ministry of Science, Technology and Innovation (MOSTI) Minister, Datuk Seri Panglima Dr. Maximus Johnity Ongkili dismissed the appeal that was lodged under Section 32 of the Atomic Energy Licensing Act in relation to the decision of the Malaysian Atomic Energy Licensing Board (AELB) to approve the issuance of a Temporary Operating Licence (TOL) for the LAMP.
- Lynas also welcomes the findings of the Malaysian Parliamentary Select Committee (PSC) report on the LAMP which recommended that the TOL be issued for the LAMP. The report noted that Lynas has complied with the standards and laws of Malaysia, which are in line with international standards.
- Construction of Phase 1 of the LAMP was completed during the quarter and further progress was made on various pre-commissioning activities. Overall commissioning progress was 64% complete as at the end of the quarter. Construction of the Phase 2 expansion of the LAMP continued during the period and is on track for construction completion in early 2013.
- In Western Australia, the scoping study on the Duncan Deposit was completed during the quarter. The scoping study recommends proceeding to a detailed feasibility study on the project. Meanwhile, management elected to bring forward a period of routine maintenance on the Mount Weld Concentration Plant ahead of the start-up of the LAMP. The re-start of the Plant will be synchronised in accordance with the requirements of the LAMP.

CORPORATE

During the quarter significant progress was made by the relevant Malaysian authorities on the regulatory review of the Lynas Advanced Materials Plant (LAMP). In particular, Lynas was pleased to announce on 18 June 2012 that the Ministry of Science, Technology and Innovation (MOSTI) Minister, Datuk Seri Panglima Dr. Maximus Johnity Ongkili dismissed the appeal that was lodged under Section 32 of the Atomic Energy Licensing Act in relation to the decision of the Malaysian Atomic Energy Licensing Board (AELB) to approve the issuance of a Temporary Operating Licence (TOL) for the LAMP. Dr. Ongkili confirmed that “there was no strong justification nor scientific or technical basis for him to set aside the decision of the Board”. In announcing his dismissal of the Section 32 appeal, Dr. Ongkili recommended two additional conditions associated with the TOL. These are discussed later in this report. Lynas submitted its plans to satisfy these conditions in late June.

Lynas also welcomes the findings of the Malaysian Parliamentary Select Committee (PSC) report on the LAMP which recommended that the TOL be issued for the LAMP. The report noted that Lynas has complied with the standards and laws of Malaysia, which are in line with international standards. In other areas, Lynas announce that on 12 April the High Court of Malaya at Kuala Lumpur denied an application for leave to apply for a judicial review of the AELB’s decision to approve the granting of a TOL for the LAMP. Both Lynas and the Malaysian Government opposed the application. Lynas understands that the individuals who initiated the unsuccessful 12 April judicial review proceedings will appeal the court’s decision in that matter.

Construction of Phase 1 of the LAMP was completed during the quarter and further progress was made on various pre-commissioning activities. Overall commissioning progress was 64% complete as at the end of the quarter. The Company’s operational preparedness program, Ready For Start Up (RFSU), is 97% complete and the balance of pending projects are not critical for plant start-up.

Ahead of the start-up of the LAMP, Lynas elected to bring forward a period of routine maintenance on the Mount Weld Concentration Plant in Western Australia. Since it was commissioned in May 2011, the Plant has been performing ahead of expectations with REO grades in line with, and REO recoveries ahead of targets. The downtime has also been used for identifying areas of continuous improvements as well as preparing the Phase 2 mobilisation on site. Management expects to realise operating cost savings from the temporary shutdown of the Plant. The re-start of the Plant will be synchronised in accordance with the requirements of the LAMP.

Also in Western Australia, management was pleased to report the outcomes of the scoping study on the Duncan Deposit during the quarter. The scoping study recommends proceeding to a detailed feasibility study on the project. The Duncan Deposit is a light rare earths deposit enriched with heavy rare earths and the project represents one potential way in which Lynas could broaden its product offering to customers. Further details are discussed later in this report.

Subsequent to the end of the period, Lynas also announced the successful settlement of the defamation proceedings against the online news portal, Free Malaysia Today (FMT). As part of the settlement, FMT published an apology to Lynas on the homepage of its website in relation to the articles it had previously published which claimed the Lynas plant may be unsafe. Lynas has also commenced defamation proceedings against a group of local residents known as Save Malaysia Stop Lynas (SMSL). Lynas’ application for an interim injunction against SMSL was heard by the

High Court in Kuala Lumpur on 26 July 2012. The court decided to wait until all of the evidence has been heard at the upcoming defamation trial, and accordingly an interim injunction was not granted on 26 July 2012. Lynas is now finalising its evidence for the upcoming defamation trial. In addition, Lynas is proposing to issue defamation proceedings against an online news portal known as Malaysia Chronicle unless a satisfactory apology is received.

ANNUAL GENERAL MEETING

The 2012 Annual General Meeting of Lynas shareholders is due to be held on Friday 19 October, 2012. A notice of meeting will be issued closer to that date.

ENGINEERING AND CONSTRUCTION UPDATE

LYNAS ADVANCED MATERIALS PLANT IN MALAYSIA

The LampsOn Project continues to achieve excellent HSE performance with overall recorded project hours to 30 June 2012 of 8.69 million hours Lost Time Injury (LTI) free.

Construction

In Malaysia, construction of Phase 1 of the LAMP was completed during the quarter. Advanced completion of the pre-commissioning test packs (99% complete) has enabled 77 out of 85 systems to be handed over for commissioning. Site construction workforce at the end of June stood at 289 completing miscellaneous site works and providing support for commissioning activities.

Gas Cleaning System for the Rotary Kilns



Rotary Kilns



Primary Leaching



Secondary Leaching



Overview of Extraction areas



Upstream Extraction



Post Treatment



Calcination



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

LAMPS Up in Western Australia

The overall cumulative progress of the LAMPS Up Project in WA up to the end of June 2012 was 25%. Engineering activities are 62% complete and the Project remains on schedule and within budget. The Project remains Lost Time Injury free. Total headcount on the Project as at the end of June 2012 was 30.

LAMPS Up in Malaysia

The overall project's cumulative progress achieved up to the end of June 2012 was 72%. Engineering activities were 98% complete. The managing contractor, Toyo-Thai Corporation, has opened up more work fronts as the momentum of site work increases. Total headcount of people on site at the end of June 2012 increased to about 1,357 and after 798,455 hours at site, the Project remains Lost Time Injury free.

Phase 2 expansion: Foundations of both rotary kilns



Phase 2 expansion: Extraction areas



Phase 2 expansion: Calcination and Post Treatment areas



OPERATIONAL UPDATE

WESTERN AUSTRALIA OPERATIONS

In May 2012, the Company appointed Kam Leung as General Manager, Western Australia reporting to Eric Noyrez, President and Chief Operating Officer. Kam joins Lynas from Iluka Resources after holding a number of positions in broad operational areas at companies including Mt Isa Mines and BHP Billiton. Kam holds a Bachelor Engineering (Chemical) and a PhD (Metallurgical Engineering) from the University of Queensland.

Due to sufficient stockpiles of concentrate being produced ahead of the start-up of the LAMP, management elected to bring forward a period of routine maintenance on the Mount Weld Concentration Plant in Western Australia. At the end of the quarter, more than 13,000 dry tonnes of concentrate containing more than 4,800 tonnes of REO were bagged ready for export. Since it was commissioned in May 2011, the Concentration Plant has been performing ahead of management's expectations with REO grades in line with, and REO recoveries ahead of targets. The downtime has also been used for identifying areas of continuous improvements as well as preparing the Phase 2 mobilisation on site. Management expects to realise operating cost savings from the temporary shutdown of the Plant. The re-start of the Plant will be synchronised in accordance with the requirements of the LAMP.

THE DUNCAN DEPOSIT

On 14 June 2012, Lynas announced it had completed a scoping study in respect of the Duncan Deposit. The scoping study recommends proceeding to a detailed feasibility study on the project.

Lynas considered various alternative processing methods as part of the scoping study. Rare Earth ores from different deposits may require different forms of processing. The detailed feasibility study will focus on direct chemical beneficiation with demonstration at pilot scale. Preliminary bench top test-work conducted for the scoping study achieved a recovery of approximately 84% for non-cerium rare earths to mixed rare earth chloride by direct chemical treatment of the ore.

The next steps will include more detailed evaluation of potential locations for processing, and other work that will allow a detailed feasibility study to be prepared.

The detailed feasibility study will relate to a project with the following estimated parameters. The following are preliminary figures derived from the scoping study and are subject to change. They assume no economic recovery of cerium due to possible technical and market restrictions:

Capital cost estimate for the proposed Duncan processing plant: approximately \$600 million.

Cash cost of production: approximately \$40 per kilogram of REO. (This cost is significantly higher than the equivalent cost for the CLD because the proposed Duncan process involves direct chemical beneficiation.)

Production: approximately 13,000 tonnes per annum of REO, excluding cerium.

Modelled throughput: approximately 500,000 tonnes per annum.



Weighted average basket sales price of production: approximately US\$67 per kilogram of REO, assuming today's domestic China prices, including VAT, noting that this does not include any value for cerium. This estimated price is based on the prices published by Asian Metal online at www.asianmetal.com.

It is estimated that the Duncan Deposit will be approximately a 4 year development project.

MALAYSIA OPERATIONS

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Lynas also welcomes the findings of the Parliamentary Select Committee (PSC) report on the LAMP which recommended that the TOL be issued for the LAMP. The report noted that Lynas has complied with the standards and laws of Malaysia, which are in line with international standards. In other areas, Lynas was pleased to announce that on 12 April the High Court of Malaya denied an application for leave to apply for a judicial review of the AELB to approve the granting of a TOL for the LAMP. Both Lynas and the Malaysian Government opposed the application.

In announcing his dismissal of the Section 32 appeal, Dr. Ongkili recommended two additional conditions associated with the TOL. The additional conditions are as follows:

- 1) Lynas must submit to the Board a method to immobilise radioactive elements in the residue to be disposed in the event excessive residue is stored in the Residue Storage Facility (RSF). The method is to trap radioactive elements from being released into the environment. The immobilisation method is to be approved by the Board and would be made part of the licence conditions; and
- 2) With regard to the radioactive residue disposal facility, Lynas must submit an Emergency Response Plan (ERP) to control the release of dust from the residue into the air and the environment. The Emergency Response Plan has to be endorsed by the Board. The Plan is necessary in the event the water sprinkler system fails. The response plan should include a contingency measure to provide an alternative water source on standby at all times. The endorsed ERP will be made part of the licence conditions.

Lynas submitted its plans to satisfy these conditions in late June.

21 public briefings involving more than 740 people were held during the quarter. Briefings involved university faculty staff and students, members of the Malaysian Academy of Science, government officers and concerned citizens. Lynas has engaged in a large public consultation program, communicating directly with more than 12,000 local residents, community leaders, villagers and their families since July 2011. We are now engaging in a conversation with the Malaysian community that will continue for the life of the plant.

The company's operational preparedness program, Ready For Start Up (RFSU), was more than 97% complete at the end of the quarter. The balance of pending projects are not critical for plant start-up. Overall commissioning progress was 64% complete as at the end of June.

MALAWI OPERATIONS

As announced to the ASX on 13 June 2012, Lynas is currently assessing a recent decision by the Malawi High Court that may affect its proposed Kangankunde Rare Earths (KGK) resource development in Malawi. Lynas intends to appeal the recent court decision. However, in light of the decision, Lynas continues to be committed to the project but has minimised current expenditure pending further information about the legal situation. Lynas has received a letter from the Malawi authorities reaffirming their desire to address the issues of concern to Lynas.

SUSTAINABILITY

The LAMP construction project in Malaysia remains Lost Time Injury (LTI) free as at 30 June 2012.

Financial year 2011/12 company-wide safety performance results were:

- Lost time injury frequency rate (LTIFR) of 0.6
- Alternative duty injury frequency rate (ADIFR) of 1.1, and
- Total recordable injury frequency rate (TRIFR) of 5.7

Our operations continue to proactively report hazards and "near miss" incidents with our 2011/12 company-wide incident/hazard reporting ratio being 8.7 reports per month for every 100 employees/contractors engaged by Lynas. The above statistics include employees and contractors engaged by Lynas in Malaysia, Malawi and Australia.

During the quarter, the Malaysian operations team took accountability for site safety and environment inductions and site security for the LAMP. The site medical centre was also successfully handed over to Lynas from the LAMPS On construction team. 13 solar powered CCTV cameras were installed at the LAMP during April 2012.

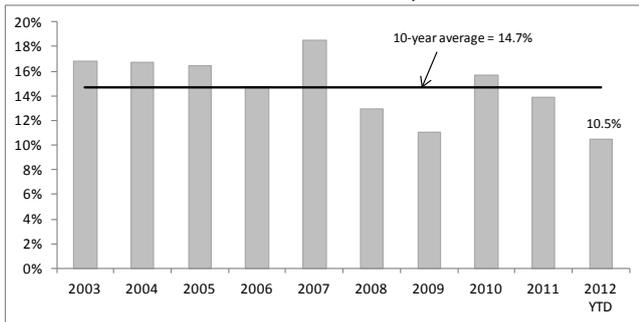
Lynas Malaysia was officially accepted as a member of Gebeng Emergency Mutual Aid (GEMA), a voluntary crisis management organisation, set up from an alliance between Government agencies and private manufacturers in Gebeng.

GLOBAL MARKET ACTIVITY

INDUSTRY NEWS

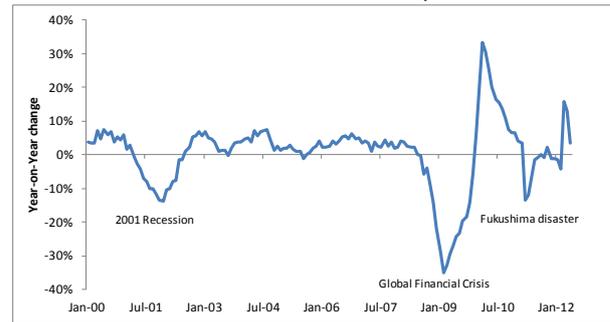
Macroeconomic conditions in China, the world's largest rare earths-consuming country, remain relatively subdued. In particular, Chinese industrial production in 2012 is averaging only 10.5% growth, well below the average growth rate of 14.7% p.a. over the past ten years.

CHINA INDUSTRIAL PRODUCTION, 2003-2012



Source: National Bureau of Statistics of China

JAPAN INDUSTRIAL PRODUCTION, 2000-2012



Source: METI

The world's largest export market for rare earths, Japan, has also experienced an easing of manufacturing conditions recently driven by weaker demand in the transport equipment, chemicals and general machinery sectors. However, the Ministry of Economy, Trade and Industry's survey of future industrial production growth shows a 2.7% increase in June followed by a 2.4% increase in July. A number of rare earths-consuming industries are expected to contribute to this growth, especially the electronic parts and devices, electrical machinery and information and communication electronics equipment sectors.

This subdued macroeconomic backdrop has led many rare earths-consuming companies to manage their operations on reduced inventories. In addition, consumers continue to work through inventories accumulated during the industry crisis in 2010-11. Consistent with this trend, industry publication, *Ruidow Monthly*, notes that China exported 3,046 tonnes of rare earth ores, metals and compounds in the first four months of 2012, down 43% from the same period last year. A recovery in global manufacturing activity and cyclical inventory re-stocking are expected to lead to increased demand for rare earths, however, the timing of this recovery remains uncertain.

In June 2012, the Information Office of the State Council of China released the country's first White Paper on the nation's rare earths industry. The White Paper titled "*Situation and Policies of China's Rare Earths Industry*" states that "synchronised administrative measures" will be taken to "implement stricter standards for ecological protection and protective exploitation policies concerning rare earths resources". The Chinese government states that it is targeting "a unified, standardised and highly efficient administrative system" for the industry and a "healthy development pattern featuring rational mining, orderly production, efficient utilisation, advanced technology and intensive development". The White Paper also noted that for a long period of time "the price of rare earth products has remained low and failed to reflect their value, the scarcity of the resources has not been appropriately represented, and the damage to the ecological environment has not been properly compensated for".



RARE EARTHS PRICES

Compared with the prior quarter, the average Mount Weld “basket price” decreased by 32% during Q2 2012 to US\$63.00/kg on a China FOB basis. The “basket price” also declined by 10% to US\$37.74/kg on a China domestic basis. Prices on both and domestic and FOB China basis are down significantly from the same time last year as prices stabilise after a period of high price volatility.

Rare Earths Prices FOB China (US\$/kg)				
Rare Earths Oxide	Mt Weld Composition	Average Price Over Quarter		
		Q2 2011	Q1 2012	Q2 2012
Purity 99% min	% Rare Earth Oxide*			
Lanthanum Oxide	25.50%	135.02	42.31	24.64
Cerium Oxide	46.74%	138.29	37.92	24.79
Neodymium Oxide	18.50%	256.15	177.31	122.14
Praseodymium Oxide	5.32%	220.08	163.08	122.86
Samarium Oxide	2.27%	125.60	73.85	82.86
Dysprosium Oxide	0.12%	921.20	1366.15	1085.71
Europium Oxide	0.44%	1830.00	3623.08	2412.86
Terbium Oxide	0.07%	1659.20	2658.46	2074.29
Av. Mt Weld Composition		173.20	92.20	63.00

* 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. The table below shows the equivalent prices on a China domestic price basis.

Rare Earths Prices China Domestic (US\$/kg)				
Rare Earths Oxide	Mt Weld Composition	Average Price Over Quarter		
		Q2 2011	Q1 2012	Q2 2012
Purity 99% min	% Rare Earth Oxide*			
Lanthanum Oxide	25.50%	21.65	15.13	12.61
Cerium Oxide	46.74%	28.07	15.99	12.80
Neodymium Oxide	18.50%	162.57	90.80	88.10
Praseodymium Oxide	5.32%	119.31	79.33	82.04
Samarium Oxide	2.27%	13.50	12.69	12.08
Dysprosium Oxide	0.12%	1062.21	776.79	717.70
Europium Oxide	0.44%	2391.16	1598.80	1266.10
Terbium Oxide	0.07%	2011.38	1257.07	1037.79
Av. Mt Weld Composition		69.38	41.98	37.74

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

COMMERCIAL DISCUSSIONS

While there were no additional customer contracts executed in the second quarter of 2012, the Company continues to be engaged in a number of additional negotiations with key customers in Europe, Japan and the USA concerning potential supply agreements.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 30 June 2012 is set out below.

CASH FLOW	A\$M
OPENING CASH BALANCE 1 APRIL 2012	303.5
INFLOWS	
Interest income	1.3
Proceeds from Exercised Options	0.5
TOTAL INFLOW OF FUNDS IN THE QUARTER	1.8
OUTFLOWS	
Mt Weld Concentration Plant – Phase 1	-
Malaysian Advanced Materials Plant – Phase 1	(31.9)
Mt Weld Concentration Plant – Phase 2	(5.5)
Malaysian Advanced Materials Plant – Phase 2	(37.4)
Investments/ Security deposits/ Other capital expenditure	(3.7)
Interest expense and other costs of finance	(1.5)
Ongoing operational, production and administration costs	(18.2)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	(98.2)
Exchange rate adjustment	(1.7)
CLOSING CASH BALANCES 30 JUNE 2012	205.4
Summary of Cash Balance	
Cash on Hand and at Call (incl. Term Deposits)	124.3
Funds for Phase 2 Construction (Restricted Cash)	81.1
CLOSING CASH BALANCES 30 JUNE 2012	205.4

*During the year, the Parent Company changed its functional currency from A\$ to US\$ following the issuance of the Mt Kellett convertible bonds.

Total cash at the end of June of \$205.4m was represented by unrestricted cash of \$124.3m plus restricted cash of \$81.1m which is available only to fund capital expenditure associated with the Phase 2 expansion of the Concentration Plant at Mt Weld and the LAMP. Interest income received in the quarter from unrestricted and restricted cash balances totalled \$1.3m.

FOREX

The currency composition of unrestricted cash was A\$36.2m, US\$69.6m and MYR63.9m, while the currency composition of the restricted cash was A\$26.9m, US\$54.9m and MYR0.5m. This quarter the Australian dollar depreciated by 2.2% against the US\$ and appreciated by 2.0% against the Ringgit resulting in a \$7.0m exchange rate adjustment for the quarter.

EXPENDITURE ON PHASE 1 OF THE RARE EARTHS PROJECT

The following summary sets out the forecast future capital expenditure spend for Phase 1.

ESTIMATED CONSTRUCTION & OTHER CAPITAL COSTS	FORECAST TOTAL COST A\$M	SPEND TO 30 JUNE '12 A\$M	FUTURE SPEND A\$M
Mount Weld Concentration Plant	75.4	75.4	0.0
Advanced Materials Plant, Malaysia	353.2	308.4	44.8
Engineering & Project Management Cost	160.9	159.2	1.7
Other Capex including Land at Gebeng to Dec '11	61.9	61.9	0.0
Contingency	1.4	0.0	1.4
TOTAL	652.8	604.9	47.9

During the quarter, the forecast final cost at the LAMP increased by \$4.0m due to additional claims from subcontractors and additional project management costs. These additional costs have been included in our current cash forecast.

EXPENDITURE ON PHASE 2 OF THE RARE EARTHS PROJECT

There is no change to the estimated capital cost or timing of the Phase 2 expansion which will be funded from the remaining Restricted Cash of \$81.1m. Expenditure to 30 June 2012 at Mt Weld was \$12.9m and at the LAMP was \$152.2m.

OTHER CAPITAL EXPENDITURE

In addition to capital expenditure for Phase 1 and Phase 2, the Company has plans to spend a further \$12.4m before the end of this calendar year (31 December 2012) on capital expenditure required to sustain ongoing operations.

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.