

QUARTERLY REPORT
FOR THE PERIOD ENDING 30 SEPTEMBER 2008

HIGHLIGHTS

- All remaining regulatory approvals for the construction stage obtained from the relevant WA government departments
- Signed a Letter of Intent (LOI) with a fifth customer for product from the Lynas Advanced Materials Plant, hence 70% of Phase I and 25% of Phase II of the total capacity from the plant now spoken for.
- Supply contracts for sulphuric acid, hydrochloric acid, caustic soda, soda ash, hydrated lime and magnesium oxide finalised
- Awarded the contract for the construction of the Concentration Plant for the Mount Weld Rare Earths project to Abesque Engineering & Construction (AEC) of Western Australia

CORPORATE

This quarter has been marked by severe volatility in the financial markets which has negatively impacted on the LYC share price. The drop in price has been largely a function of significant hedge fund selling as they seek liquidity around the world.

The fundamentals of the business remain unchanged. Our key objective is to commission the Advanced Materials Plant by the fourth quarter of 2009 using funding currently available to the company.

The current funding sources include the closing cash balance as of 30 September 2008 of \$102.9 million, the USD 105 million senior facility agreement with Bayerische Hypo- und Vereinsbank AG, the USD 95 million convertible note facility which is currently sitting in a USD denominated account and the net interest received on the cash position.

The convertible note funds will be released from the escrow account upon satisfaction of the conditions precedent to access the HVB project finance facility. This process is now substantially complete.

The company continued with delivery of the project this quarter. A major milestone achieved was the award of the contract for the construction of the Concentration Plant for the Mount Weld Rare Earths project to Abesque Engineering & Construction (AEC) of Western Australia. This contract is in total \$25.8 million, which will enable the entire WA capital works to be completed within the budget and schedule previously announced to the market.

Andrew Arnold has been appointed as the new General Counsel and Company Secretary of Lynas. Andrew joins the company following a very successful career as a lawyer culminating in a long period as a partner at Deacons. In his role at Deacons, Andrew has been overseeing the legal work of Lynas for many years. As a consequence of Andrew joining Lynas, Ivo Polovineo will be retiring from his part time role as Company Secretary of Lynas. The Directors wish to personally thank Ivo for all his support.

ENGINEERING AND CONSTRUCTION UPDATE

Significant progress was achieved on Engineering, Procurement and Construction Management (EPCM) work during the quarter.

CONCENTRATION PLANT AT MOUNT WELD

Downer EDI has been awarded the contract to complete bulk earth works for the Concentration Plant. This includes the preparation of hardstands for the processing facility as well as the construction of the Tailings Storage Facility (TSF) and Evaporation Pond. Downer EDI has mobilised to site and hardstand works are currently underway. These works are scheduled for completion in early November. Construction of the TSF and Evaporation Pond will then commence.



A second round of tenders for the construction of the Concentration Plant was held with two preferred contractors requested to submit proposals. Following a thorough review process Abesque Engineering & Construction (AEC) has been awarded the contract. AEC is scheduled to commence site establishment works at the end of October. Contract details are within budget and on schedule.

Engineering design has progressed over the last quarter and is now nearing completion. 'Approved for Construction' drawings have been issued to AEC for civil, structural, mechanical and piping disciplines, hence enabling the commencement of procurement and fabrication activities.

Procurement activities have continued through this quarter with expediting activities increased to manage contracted deliverables in accordance with the AEC contract. The delivery of long lead time items will commence during the next quarter.

Kalgoorlie Power Systems (KPS) has been awarded a 'Build Own Operate' (BOO) contract for the construction and operation of a power station to provide power during commissioning activities and operations.

Osmoflow has been awarded a 'Build Own Operate Transfer' (BOOT) contract for supply, installation and operation of a Reverse Osmosis Plant which will provide treated water to the Concentration Plant during commissioning activities and operations.

RCR Energy Systems has been awarded a 'Supply and Install' contract for a steam generation facility at the Concentration Plant.

ADVANCED MATERIALS PLANT IN MALAYSIA

Engineering progress for the Advanced Materials Plant has progressed with engineering now at 72% complete (versus a planned 87%). Civil engineering design is on the critical path with 'Approved for Construction' drawings now being issued to site as works progress.

Site works are preceding with piling works now 60% complete. Concreting works in non-processing areas have also commenced. The negotiation of contracts for concreting within the processing areas and the construction of pre-engineered buildings are nearing completion with discussions with preferred contractors well advanced.

As with the Concentration Plant, some items within the procurement schedule for the Advanced Materials Plant are on or close to the critical path. In appreciation of this, the Project Team has enlisted additional expediting resources to ensure that procurement activities continue in accordance with the project schedule. To date these resources are proving successful at ensuring all procurement related deliverables are being received in accordance with the project schedule.

OPERATIONAL UPDATE

MOUNT WELD OPERATIONS

Following the successful completion of the first mining campaign, the Western Australian operations team has been making preparations for the construction and operations stage of the Concentration Plant at Mount Weld. The remaining regulatory approvals for the construction stage have been obtained from the relevant Western Australian government departments, including the Environmental Management Plan, a minor amendment to the previously approved location of the TSF and Evaporation Pond, and the Project Management Plan.

Prior to the completion of the Concentration Plant, the Rare Earths ore stockpiled on the run of mine (ROM) pad will be screened to enable direct feed to the Concentration Plant ball mill. To achieve this, a screening and blending contract is under development for an initial 100,000 tonnes of ore, which will be sufficient for the first year of operation of the plant. The screened product will have a size distribution of less than 20mm diameter and a homogenous feed grade of 17% REO. It is anticipated that this contract will be awarded in the fourth quarter of this year.

EXPLORATION DRILLING

In addition to the current start-up plans, further exploration drilling activities are in the final planning stages for the Mount Weld Southern Zone, located immediately south of the current mine pit. As announced previously this zone contains Rare Earths resources with a higher distribution of heavier and higher value Rare Earths such as dysprosium, europium, terbium, and yttrium. These heavier Rare Earths will complement the lighter Rare Earths from the existing open pit at Mount Weld, enabling Lynas to supply Rare Earths across a greater range of customer requirements. This drilling programme will be completed in the fourth quarter and is intended to provide grade control information and detailed interface data for further mine planning for both the current Central Zone and the Southern Zone.

MALAYSIA OPERATIONS

Recruitment activities have continued in Malaysia and a number of key leadership positions within the operational team have now been filled. The recruitment and training plans for the balance of the positions in Malaysia are now completed and relationships have been established with a number of allied businesses that facilitate the skills formation for the operating staff.

A wide range of community engagements have also progressed within the Gebeng neighbouring processing plants and with the local government authorities, municipal bodies and utility providers.

SUPPLY CHAIN UPDATE

The concentration and separation of Rare Earths is a chemically intensive process that requires large volumes of organic and inorganic chemicals. Wherever possible and where economically competitive, local vendors in the host country have been selected to supply these chemicals. This is consistent with the Lynas values of contributing to the communities in which we operate.

During the last quarter, supply contracts for sulphuric acid, hydrochloric acid, caustic soda, soda ash, hydrated lime and magnesium oxide have been finalised. Pricing terms for the high volume reagents have transparent pricing mechanisms built in that allow for improving input costs to be passed through to Lynas, with competitive pricing terms ensuring that fair market rates for key inputs will be achieved throughout the life of the contracts.

Contracts for minor chemicals are now being finalised and are expected to be awarded in the next quarter.

LOGISTICS PROGRESS

Significant progress was made in the distribution plan for concentrate from Mount Weld to Gebeng over the last quarter. Containers of concentrate will be trucked to Fremantle port for shipment to Malaysia. The road transport vendor has been selected after a competitive and transparent 'Request for Proposal' process that examined rail and road transport as well as blended solutions. Lynas selected road transport as the final solution allowing both a very competitive cost base for the distribution as well as increased flexibility in terms of logistics timing.

The freight forwarding relationship for concentrate shipping management for both Australia and Malaysia has also been awarded in the last quarter. A competitive review process resulted in Lynas awarding this contract to a company that has offices in both Malaysia and Australia with integrated distribution management systems. It is expected that this relationship will result in increased transparency in the supply chain for concentrate, which will allow lower inventory levels to be achieved when beneficiation and separation processes become operational.

The achievement of these milestones now leaves the shipping contract to be awarded. The shipping contract will be awarded via the freight forwarder in the first quarter of 2009.

GLOBAL MARKET ACTIVITY

COMMERCIAL DISCUSSIONS

The company's fifth customer commitment for product from the company's Malaysian Advanced Materials Plant was signed this quarter in the form of a Letter of Intent (LOI). The customer is a major Rare Earths consumer who intends to purchase significant tonnages from Phase I as well as additional volume from the planned Phase II expansion.

The LOI is for a long term multiple-year contract commencing from Phase I of the Advanced Materials Plant, which has a planned annual capacity of 10,500 tonnes REO, plus additional volume from the planned Phase II, which shall increase the annual plant capacity to 21,000 tonnes REO. The LOI covers a minimum tonnage of REO to be purchased and includes the potential to expand this volume upon mutual agreement of both parties. Following execution of the LOI which sets out the intended key commercial terms, the parties are now preparing a binding supply contract which will set out all the detailed terms and conditions of supply.

With this LOI now signed, 70% of the Phase I and in addition 25% of the expanded Phase II Advanced Materials Plant total capacity is spoken for, which based on current market prices should amount to sales revenue of US\$490 million for the first five years of operations.



The company continues to be actively engaged with potential customers in Europe, Japan and the USA, and anticipates further customers announcements in the near future.

RARE EARTHS PRICES

The Mount Weld composition average quarterly price decreased this quarter to USD 14.12/kg REO, a decrease of 7% from last quarter. With lanthanum oxide and cerium oxide increasing over the quarter by 5% and 10% respectively, the Rare Earths which led to the decrease in the Mount Weld composition average quarterly price were predominately neodymium oxide and praseodymium oxide; both of which decreased by 16%.

At the Metal Pages Minor Metals and Rare Earths conference in Hong Kong in September a number of issues were highlighted which may contribute to this price softness:

- A release of neodymium oxide and praseodymium oxide stockpiles in the Baotou region of China.
- Continued grey mining in the southern Chinese provinces. This is mining outside the official mining quota and is characterised as unsustainable from a resource, environmental and legislative perspective.
- Chinese magnet domestic market demand has slowed which reportedly reflects a decrease in demand from the low value segment of the Rare Earths magnet market due to the previous price increases taking effect.

Rare Earths Prices FOB China (US\$/kg)				
Rare Earths Oxide	Mt Weld Composition	Average Price Over Quarter		
		Q3 2007	Q2 2008	Q3 2008
Purity 99% min	% Rare Earth Oxide*			
Lanthanum Oxide	25.50%	4.09	8.83	9.25
Cerium Oxide	46.74%	3.80	4.38	4.80
Neodymium Oxide	18.50%	35.35	32.88	27.65
Praseodymium Oxide	5.32%	34.63	32.61	27.30
Samarium Oxide	2.27%	4.41	4.80	4.80
Dysprosium Oxide	0.12%	90.80	120.80	116.60
Europium Oxide	0.44%	370.40	491.00	490.00
Terbium Oxide	0.07%	604.60	740.00	716.20
Av. Mt Weld Composition		13.61	15.22	14.12

* 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.

It is worth noting that in an environment of collapsing commodity and minor metal prices, Rare Earth prices have remained relatively stable. 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 \$144.7 million of available cash and closed the quarter with a balance of \$102.90 million. The decrease in cash of \$41.8 million was as follows:

CASHFLOW		AUD M
OPENING CASH BALANCE 30 JUNE 2008		144.7
Interest and other income received	3.4	
Receipts from share issue and exercise of options	0.0	
TOTAL INCOME		3.4
Less		
Western Australia Concentration Plant	0.3	
Western Australia Mining	2.0	
Malaysian Advanced Materials Plant	16.2	
Contingency	0.0	
Malaysian Land	19.7	
Start Up Costs	0.0	
TOTAL CAPITAL EXPENDITURE	38.2	
Ongoing Operational and Financing Costs	7.0	
TOTAL OUTFLOW		45.2
Movement in cash		41.8
CLOSING CASH BALANCE 30 SEPTEMBER 2008		102.9

The total capital expenditure associated with the Rare Earths project from 1 July 2007 to 30 September 2008 is \$96.3 million. The allocation is shown below:

PROJECT CAPITAL EXPENDITURE	AUD M
Western Australia Concentration Plant	3.2
Western Australia Mining	20.9
Malaysian Advanced Materials Plant	43.3
Contingency	0.8
Malaysian Land	28.1
Start Up Costs	0.0
TOTAL CAPITAL EXPENDITURE	96.3

Note \$0.8 million of the project's \$30 million contingency has been consumed which represents payment for over budget items to date.

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
- Award contract for concreting within the processing areas at the Malaysian plant
- Award contract for construction of pre-engineered buildings at the Malaysian plant
- Sign further customer agreements

NOTE

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Rob Duncan and Brendan Shand, who are members of The Australasian Institute of Mining and Metallurgy.

Both Rob Duncan and Brendan Shand are employees of Lynas Corporation Limited.

Rob Duncan and Brendan Shand have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Rob Duncan and Brendan Shand consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.



Mount Weld Open Pit



Ore stockpiled on the ROM pad



Lynas-constructed stormwater detention pond overlooking piling rigs at work on the Lynas site