

QUARTERLY REPORT

FOR THE PERIOD ENDING 30 SEPTEMBER 2009

HIGHLIGHTS

- Termination of proposed equity and debt investment by China Nonferrous Metal Mining (Group) Co., Ltd as a result of additional undertakings sought by the Australian Foreign Investment Review Board (“FIRB”).
- Capital raising of approximately \$450 million through a 1-for-1 non-renounceable pro-rata entitlement offer to Australian and New Zealand shareholders as well as an institutional placement, all fully underwritten by JP Morgan.
- Recommencement of the Rare Earths Project with the engagement of United Group Limited (UGL) as the Engineering Contractor for the remainder of the Project, post quarter-end.
- Signing of a formal sale agreement to acquire all of the rights of CSBP Limited (CSBP) in relation to the mining leases located at Mount Weld, Western Australia, to facilitate the potential development of the Crown Polymetallic Resource.

CORPORATE

Throughout the quarter the Company released updates concerning the proposed equity investment by China Nonferrous Metal Mining (Group) Co., Ltd (“CNMC”) that was announced on 1 May 2009, culminating in the announcement on 24 September 2009 advising that CNMC terminated its proposed investment as a result of additional undertakings sought by the Australian Foreign Investment Review Board (“FIRB”).

The additional undertakings sought by the FIRB included reducing the proposed percentage ownership to be held by CNMC to below 50% and reducing the number of Board director positions to be held by CNMC to less than half of the Board. These were in addition to undertakings already agreed between Lynas and CNMC during the quarter aimed at ensuring independent Directors’ control for marketing all Rare Earths products.

As a result of the withdrawal of the proposed CNMC equity and debt investment, the Company announced on 29 September a fully underwritten issue of new fully paid ordinary shares in Lynas to raise \$450 million less expenses. As at the end of the quarter the institutional component of the entitlement offer and the institutional placements had been successfully completed. A total of approximately \$280 million had been committed by institutional investors, consisting of:

- \$125 million from the institutional component of the 1-for-1 non-renounceable pro-rata entitlement offer;
- \$88 million from the unconditional placement of the new shares; and
- \$67 million from the conditional placement of new shares.

The institutional entitlement offer, unconditional placement and conditional placement were heavily oversubscribed with strong demand from new and existing Australian and international institutional investors.

In addition, the retail component of the entitlement offer will raise approximately \$170 million and is fully underwritten by J.P. Morgan. This retail component closed on 23 October 2009 and was very well supported by shareholders with valid applications for approximately 77% of the shares available under the Retail Entitlement Offer received from eligible Retail Shareholders.

Proceeds of the capital raising will be used to fund the completion of Phase 1 of the Lynas Rare Earths Project, enabling the company to lift the suspension of the Project and complete construction and commissioning of both the Concentration Plant in Western Australia and the Advanced Materials Plant in Malaysia. Lynas is committed to growth and the current expectation is that the Company will move forward with the development of Phase 2 of the Rare Earths Project as soon as possible after the completion of Phase 1.

During the quarter the Company also signed a formal sale agreement to acquire all of the rights of CSBP Limited (CSBP) in relation to the mining leases located at Mount Weld, Western Australia. These rights relate to the apatite at Mount Weld which can be used in the production of phosphatic fertiliser or phosphoric acid. Upon completion of this transaction, Lynas shall be the registered



holder of all relevant tenements at Mount Weld and has the rights to all minerals within these tenements. It is anticipated this transaction will simplify the legal ownership of the tenements and mineral rights at Mount Weld. This, in turn will facilitate the potential development of both the Crown Polymetallic Resource and additional Rare Earths resources at Mount Weld by eliminating third party negotiations regarding the potential development of future resources which contain both apatite and other minerals.

Mount Weld is known to host apatite mineralisation. This mineralisation contains JORC Code compliant Indicated Resources of 60.4Mt @ 19.2% P₂O₅ (10% P₂O₅ cut-off), and pilot plant demonstrations have shown that a concentrate suitable for phosphate fertilizer manufacture could be produced from this resource.

ENGINEERING AND CONSTRUCTION UPDATE

CONCENTRATION PLANT AT MOUNT WELD

During this quarter all engineering and construction contracts remained in suspension.

Following the announcement of the capital raising, discussions have commenced with existing contractors regarding the reactivation of works.

ADVANCED MATERIALS PLANT IN MALAYSIA

During the last quarter, engineering and construction works have remained in suspension with efforts concentrated on maintaining relationships with existing and potential future vendors.

Due to the project suspension Ranhill WorleyParsons (RWP) demobilised all engineering, procurement and construction project resources and re-allocated them to other projects. Consequently RWP are unable to remobilise the same team to complete engineering.

Lynas undertook a high level review of the status of engineering during this quarter. This review was undertaken by a consortium headed by Mintrex and included Abesque Engineering (AEC), BEC Engineering (BEC) and United Group Limited (UGL). The objective was to review the current status of engineering, to identify any risks, and recommend the best way to completion.

A key recommendation of this review was that all engineering disciplines should be consolidated into a single 3-Dimensional (3-D) model. Consolidating the entire plant design within a 3-D model enables drawings to be issued directly from the model to a fabricator, thereby removing the need to go through an additional shop drawing phase. This will not only save time but also decrease the risk of error. In addition any structural or equipment clashes can be identified and rectified within a 3-D model prior to fabrication or construction on site where such issues can have significant time and cost impacts.

Lynas requested various parties to submit proposals to complete the remaining engineering works. Following a review of the proposals received, Lynas announced, post quarter-end, the engagement of United Group Limited (UGL) as the Engineering Contractor for the remainder of the Project in respect to the Malaysian plant. The engineering and construction contractor for the

Mount Weld Concentration Plant remains Abesque Engineering. RWP and other parties will continue to provide selected services to the project.

OPERATIONAL UPDATE

MOUNT WELD OPERATIONS

The Mount Weld site remained under care and maintenance. The mine has been subject to routine inspections and regulatory compliance management has continued for all environmental obligations. Contact with existing vendors and service providers have been ongoing to ensure the smooth recommencement of the project. Good progress has also been made in the remediation of drill-hole sites from the last exploration drilling programme, as previously reported.

At the beginning of the quarter, the Lynas Environmental Management Programme for the Mount Weld Operation received approval from the Department of Environment and Conservation. This updated version of the Environmental Management Programme included a Transport Management Plan for the movement of concentrate by road from Mount Weld to a West Australian port, and the subsequent export to Malaysia by ship.

MALAYSIA OPERATIONS

The first draft of the Malaysian Advanced Materials Plant Operating Manual for the commissioning and start-up procedures has been completed and is under review. In addition the training plans, scheduled for implementation from 2010 have also been completed and are under review.

Following the submission of a 12-month pre-operational monitoring report, the Atomic Energy Licensing Board (AELB) approved a 2-year renewal of the current Siting & Construction License for the Advanced Materials Plant. Earlier this quarter, Lynas Senior Chemist, Mr Tee Kai Ming was certified by AELB as the company's Radiation Protection Officer.

A research project commenced this quarter for the commercial use of a by-product residue produced from the Advanced Materials Plant. Laboratory formulation work was conducted to produce medium weight synthetic aggregate. This aggregate was produced from mixing the by-product residue which is an iron-phosphate-gypsum material, Dolocrete, Portland cement and water. The aggregate was then subjected to a series of tests to assess mechanical and geotechnical properties as well as environmental impacts. Additional laboratory formulation work is being developed with Entech Australia and Universiti Malaysia Pahang with the objective to produce 40MPa concrete using synthetic fine aggregate.

SUPPLY CHAIN UPDATE

A review of chemical and supply chain costs associated with various production models was completed in the past quarter. This activity was conducted to complete the necessary cash flow forecast requirements for the Company. The review confirmed the forecast cash cost for production of US\$5.65 ± 10% is still valid and that prices have stabilised in line with global supply chains having made the necessary adjustments resulting from the global financial crisis.

GLOBAL MARKET ACTIVITY

COMMERCIAL DISCUSSIONS

A European customer trip was undertaken during the quarter to maintain relationships and to understand the impact of how the global slow down in manufacturing had affected our customers in the different application markets for Rare Earths. Overall the markets are recovering from the lows of the first half of 2009 and more confidence has been expressed looking forward.

The applications directly related to energy efficiency and environmental protection are growing strongly, partly reflecting the positive side of the Global Financial Crisis where government stimulus around the world has ensured the importance of 'green technologies' is emphasised. Strong support has also been shown for the automotive industry but with the caveat that fuel efficiency of vehicles must markedly improve.

One application which has been historically well supported in Europe is power generation by wind turbines. Driven by the desire to increase zero emission power generation, the installation of wind turbines is growing strongly. Importantly there is an emerging technology trend to switch to gearless direct-drive wind turbines which use neodymium magnets. The average consumption of Rare Earths per wind turbine is approximately half a tonne on a Rare Earths Oxide (REO) basis. Given the projected growth rate of new turbines plus the replacement of existing older machines, this could translate into 3,000 to 5,000 tonnes of additional neodymium and praseodymium oxide demand within the next five years.

RARE EARTHS PRICES

Rare Earths prices remained flat this quarter as many industries continue to have inventory on hand and in order to preserve cash have yet to re-enter the market. The lack of sales from China has led to an excess of Export Quota available on the market. As the following year's Export Quota allocation is usually based on the previous year's Export Quota usage, the cost of Export Quota at present is effectively zero as traders and production companies seek to use as much 2009 quota as possible before it expires. In comparison, Export Quota cost approximately US\$2,000 per tonne in mid-2008.

Interestingly there was a report in China, quoting a government official, recognising that one third of the Rare Earths exports from China in 2008, which equates to 20,000 tonnes out of the 60,000 tonnes of exports, were exported outside of the Export Quota system. The report stated that recommendations to tighten the regulation and related measures to reduce this smuggling have been submitted in the "The Development Plan for Rare Earth Industry (2009-2015)" and "The

Development Policies for Rare Earth Industry” white papers submitted to the Chinese Government State Council for consideration. Such actions are likely to further reduce the Rare Earths available outside of China and will likely increase the cost of legal Export Quota for Rare Earths in 2010 and beyond.

Rare Earths Prices FOB China (US\$/kg)				
Rare Earths Oxide	Mt Weld Composition % Rare Earth Oxide*	Average Price Over Quarter		
		Q3 2008	Q2 2009	Q3 2009
Purity 99% min				
Lanthanum Oxide	25.50%	9.25	6.05	5.75
Cerium Oxide	46.74%	4.80	4.60	3.92
Neodymium Oxide	18.50%	27.65	14.58	14.50
Praseodymium Oxide	5.32%	27.30	14.50	14.50
Samarium Oxide	2.27%	4.80	4.80	4.80
Dysprosium Oxide	0.12%	116.60	108.60	110.90
Europium Oxide	0.44%	490.00	465.40	491.50
Terbium Oxide	0.07%	716.20	360.00	360.00
Av. Mt Weld Composition		14.12	9.70	9.41
* 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 consolidated cash movement during the last quarter was in line with expectations and is set out below:

CASHFLOW		AUD M
OPENING CASH BALANCE 1 JULY 2009		16.7
Interest and other income received	0.1	
TOTAL INCOME		0.1
Less		
Western Australia Concentration Plant	0.2	
Malaysian Advanced Materials Plant	6.0	
Start Up Costs	1.4	
Ongoing Operational and Financing Costs	2.1	
TOTAL EXPENDITURE		9.7
CLOSING CASH BALANCE 30 SEPTEMBER 2009		7.1

FUTURE FUNDING

As noted earlier in this report, Lynas recently launched a fully underwritten issue of new fully paid ordinary shares raising A\$450 million less expenses. This will be used to fund the completion of Phase 1 of the Rare Earths Project thus enabling the company to lift the suspension and complete construction and commissioning of both the Concentration Plant in Western Australia and the Advanced Materials Plant in Malaysia. After fees and expenses the net amount raised will be approximately A\$431.0 million. The first tranche of these new funds was received on 12th October totalling \$204.2 million with the balance expected by 11th November 2009.

FUTURE EXPENDITURE

The tables below set out the proposed use of cash on hand just prior to the equity raising plus the gross proceeds of the new share issue through to June 2011.

SOURCES AND USES		<u>AUD M</u>
Sources		
Cash balances at date of equity raising		4.1
Proceeds from Capital Raising net of fees		431.0
TOTAL		435.1
Uses		
Construction and other capital costs – Phase 1		314.5
Working capital and production ramp-up costs – Phase 1		120.6
TOTAL		435.1

PHASE 1 CAPITAL AND OPERATING COSTS				<u>AUD M</u>
Construction & Other Capital Costs	Total Spend	Past Spend	Future Spend	
Western Australia Concentration Plant	59.5	13.6	45.9	
Malaysian Advanced Materials Plant	233.5	40.9	192.6	
Engineering & Project Management Costs	100.0	69.7	30.3	
Other Capex including Land at Gebeng	74.1	54.4	19.7	
Contingency (approximately 9%)	26.1	0.0	26.1	
TOTAL¹	493.1	178.6	314.5	
Working Capital & Production Ramp-up Costs			Future Spend	
Western Australia			42.9	
Gebeng, Malaysia			52.2	
Finance, Admin, Marketing, Technical & Corporate Overheads (incl. suspension costs)			25.5	
TOTAL			120.6	
Total Future Spend to June 2011				435.1

FOREX MANAGEMENT

The forecast future spend comprises expenditure in several foreign currencies, primarily Australian Dollars (32%), Malaysian Ringgit (53%), US Dollars (13%) and Renminbi (2%). Taking advantage of the strong Australian Dollar, Lynas is converting the proceeds from the current capital raising into the anticipated amounts to be spent in various foreign currencies. This will minimise exchange rate exposure arising from the capital expenditure on the project.

¹ Totals may not add up to sum of individual line items due to rounding