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QUARTERLY REPORT

FOR THE PERIOD ENDING 30 SEPTEMBER 2010

HIGHLIGHTS

- Engineering and construction of the Concentration Plant in Western Australia and the Lynas Advanced Materials Plant (LAMP) in Malaysia remains on time and within budget as at 30 September 2010; with the first feed to kiln at the LAMP on target for the third quarter of 2011.
- Lynas signs a new supply agreement with a major Japanese Rare Earths consumer. The contract price is the China Freight On Board (FOB) market price for the product at the time of delivery.
- Chinese Rare Earths export quota for 2010 appears to be exhausted. China expresses concern of their own resource base, saying medium to heavy Rare Earths will last 15 to 20 years at current production rates.
- Tightening supply and strong demand has led to Rare Earths prices rising rapidly. The average quarterly price for the Mount Weld Rare Earths distribution increased by 110% over the quarter to US$34.06/kg REO as at 30 September 2010. The price has reached US$59.77/kg REO as at 25 October 2010.
- The 144 projects identified under our Ready For Start-Up (RFSU) programme are all underway and stand at approximately just under 50% completion and all required projects expected to be completed on time.

CORPORATE

The Rare Earths market has been front and centre in world politics and world media this quarter. The 40% drop in total export quota for 2010 compared to 2009, announced last quarter, put significant pressure on supply chains outside of China and consequently prices have jumped sharply.

In early September the fragility of global Rare Earth supply chains were highlighted with reports of China barring export to Japan in retaliation for the arrest of a Chinese fisherman in an incident in the South China Sea. This was denied by Chinese officials, however in practice it appears that shipments of material from China were held up in Chinese Customs. The public policy position of China was clarified by Prime Minister Wen Jiabao when he said to European political leaders that China had not banned any exports of industrial minerals for political purposes and that China did not intend to stop exports in the future. “It is necessary to exercise management and control over the rare earth industry, but there won’t be any embargo,’’ he said. ‘‘What we pursue is to satisfy not only domestic demand but also the global demand for rare earth. We should not only stand from the present, but should also look forward to the future.’’

The position of the Chinese policy was further clarified by China's State Council saying it will seek to consolidate businesses that supply Rare Earths. China plans to let major state companies absorb the small and mid-size businesses which have sprung up in the main production areas for Rare Earths, with the aim of reducing a field of 90 companies to approximately 20. This consolidation is viewed as required to allow the capital investment necessary in the industry in particular for environmental protection as environmental standards and enforcement of these standards are tightened in China within the Rare Earths industry.

This situation followed the decision earlier this year to reduce export quota by 40% to help address China’s fragile Rare Earths resource situation and associated environmental concerns. According to Chinese Customs, 28,500 tonnes of Rare Earths had been exported as at the end of August this year, out of a total quota allowance of 30,500 tonnes for 2010 leaving little material available for export until a new quota allocation expected in January. Lynas also understands that the "grey" market, (illegal smuggling of Rare Earths) which historically accounted for approximately 20,000 tonnes of exports, has also been significantly reduced and is now practically non-existent.

It is likely the Chinese government will continue its reduction of export quotas. Lynas anticipates a 5 to 10 percent reduction next year, and this policy should continue over the next few years until the Chinese Government achieves its strategy of restructuring the Chinese Rare Earths industry, addressing environmental issues and preserving its resources for the long term.

It is likely the market outside of China will be materially short of Rare Earths for 2011 even if export quota remains at the 2010 level. The magnet industry in particular is likely to be short of raw materials as it is growing rapidly both in China and outside China. High volume elements such as cerium and lanthanum will be in short supply outside China as a consequence of the quota policy which is generally used mainly on the higher value Rare Earths. It may be possible that some industries outside China may have to temporarily suspend their operations in 2011 unless they can source non-Chinese Rare Earths in time.

Customer interest has increased further since the export quota reduction and during the quarter the Company announced the signing of a new supply agreement with a major Japanese Rare Earths consumer for the supply of Mount Weld Rare Earths to be produced at the LAMP. The contract will be for product supplied from the 11,000 tonnes of Rare Earth Oxide (REO) per annum in Phase 1 production at the LAMP. The contract price is the China FOB market price for the product at the time of delivery, plus delivery costs from FOB Kuantan to Japan. The company continues to persue active contract negotiations with a number of parties.

Lynas will provide the first new source of supply of Rare Earths outside of China when the Advanced Materials Plant in Kuantan, Malaysia comes into production in the third quarter of next year. Engineering and construction at the Concentration Plant in Western Australia and the LAMP remains on time and within budget as at 30 September 2010; with the first feed to kiln at the LAMP on target for the third quarter of 2011. We believe this timeframe puts us well ahead of our competitors and will help Lynas secure strong and long-lasting customer relationships.

Rare Earths prices rose sharply across the quarter, the average quarterly price for the Mount Weld Rare Earths distribution, on a FOB China basis, increased over 110% across the quarter to US$34.06/kg REO. Prices continue to increase, and as at 25 October 2010 the average price for the Mount Weld Rare Earths composition was US$59.77/kg.

ANNUAL GENERAL MEETING

The 2010 Annual General Meeting of Lynas shareholders will be held at 10am on Wednesday 24 November 2010 at the Sydney Harbour Marriott.

ENGINEERING AND CONSTRUCTION UPDATE

CONCENTRATION PLANT IN WESTERN AUSTRALIA

The focus in the quarter was completion of civil works, erection of structural steel and commencement of the installation of services, buildings and equipment. Flotation cells that arrived this quarter were delayed by approximately eight weeks. The team is currently working to ensure that these delays have minimal impact on the overall Mount Weld schedule. Lynas can confirm these delays will have no impact to the first feed to kilns date in Malaysia.

The remaining works are on schedule. These include the diesel generation power house, water reverse osmosis plant, concentrate thickening and filtration plant, along with the reagent and concentrate handling facilities. Progress of the Tails Storage Facility (TSF) and Evaporation Pond (EP) earthworks also remain within the scheduled plan.

During the quarter, the onsite labour force increased from 52 to 88, in line with the increased construction activity at Mount Weld. The site has remained lost-time-injury free.

Installation of the Ball Mill at the Mount Weld Concentration Plant

Concentrate Thickening and Bagging Area

ADVANCED MATERIALS PLANT IN MALAYSIA

The construction stage of the Lynas Advanced Materials Plant exceeded 500,000 contractor man hours this quarter. This is in addition to 300,000 Engineering man hours, 40,000 Procurement man hours and 280,000 Project Management hours.

Engineering and Procurement

Engineering progressed during the quarter and the LampsOn alliance team between UGL and Lynas reported engineering as 95% completed and is scheduled to be fully completed during the next quarter. The two key focus areas that remain in engineering are:

1. Expediting the structural steelwork drawing to the shop detailing and fabrication processes.
2. Expediting the procurement of the piping bulk materials through to delivery on site.

Contracting and procurement activities are in full swing with tenders being called for the main construction contracts and outstanding equipment supply. The focus of remaining procurement is on bulk materials for piping, valves, telecommunications and security packages. Preassembly of the kilns has commenced in a fabrication yard close to site and the process of awarding the mechanical and structural steel installation packages has commenced. The contracting strategy on site has been refined to increase the ability to influence and manage a larger number of smaller contractors, which will allow the project to optimise the delivery schedule.

Construction

Multiple work fronts are currently open and progressing on site. Significant progress was made in pile cutting with 100% of piles cut. The main activity continues to be installation of concrete and steel bar reinforcement. In addition the process water pond has been built and the contractor for the Gas Treatment has mobilised and commenced installation during the quarter. Site manning has exceeded 700 people during the month of September and site man hours have almost doubled over the last two months.

Kilns stored ready for final assembly in Kuantan

OPERATIONAL UPDATE

WESTERN AUSTRALIA OPERATIONS

During the quarter, the number of permanent operations staff increased from 18 to 22. Recruitment of operations staff remains on plan, with continued good response to advertised opportunities, despite the tightening conditions in the West Australian labour market. Good progress has been made in our staff training and readiness to operate the plant, with all RFSU activities tracking well against schedule. Detailed planning for plant commissioning and start up has also now occurred.

A site visit was undertaken by crushing contractors who tendered for the work of crushing the first 12 months of ore feed. The selected contractor is expected to commence crushing operations at Mount Weld during the next quarter.

MALAYSIA OPERATIONS

The RFSU projects continued to be the main focus with the overall completion of the RFSU programme at the end of September 2010 standing at 55%, ahead of schedule. These RFSU projects include:

- Commissioning Plan & Schedule
- Commissioning Procedure
- Functional Description Review
- Pre-loading Plan & activities
- Standard Operating Procedures
- Production Training Material Development
- Control System Graphics Development
- Manual Valve Numbering
- Job Safety Analysis

The total Lynas Malaysia headcount as of the end of this quarter is 49.

Lynas Malaysia received the official approval from PETRONAS to proceed with the construction of the permanent utilities crossing under a PETRONAS owned railway. The utilities involved are natural gas, water, electricity and telecommunications.

Works on the permanent access road started at the end of July 2010. 700 meters of the 1.8-kilometer road has been excavated and 200 meters has been filled with sand. The road is expected to be operational by early next year and final completion is targeted for August 2011.

Work has commenced on the Water Treatment Plant (WTP), and as announced last quarter, the contract was awarded to Ranhill Water Technologies Sdn Bhd (RWT). The WTP is on schedule to complete in time for start-up operations. RWT will operate and maintain the WTP on behalf of Lynas.

The development of Synthetic Material Products progressed in this quarter. Samples of synthetic gypsum produced from the desulphurisation of the flue gases in the LAMP and magnesium-rich synthetic gypsum produced from the neutralisation of acid in the LAMP have been prepared by University Malaysia Pahang (UMP). Potential customers have been provided with these samples for analysis. A sample of the iron phosphogypsum produced from the leached Rare Earths concentrate is currently under preparation and due for delivery next quarter.

SUPPLY CHAIN UPDATE

Supply Chain activity in the areas of chemical input, supply chain management, concentrate logistics, and material handling continued this quarter.

Work also continued in the area of chemical inputs sourcing. Lynas is ensuring that there is a back up supplier available so as to ensure that ongoing supply of major inputs is not disrupted. This involves risk mitigation for first fill and start-up chemical replenishment, should unforeseen supply interruptions occur and result in the disruption of supply from a preferred vendor.

Supply Chain management activity saw the development of the necessary tools to conduct Sales and Operations Planning once production has begun. The toolkit will allow optimisation of sales and production management to ensure the most profitable production and sales plans. The tool will enable quarterly and monthly sales and production plans to be generated thus enabling supply chain reliability and variance management.

The freight forwarding contract for concentrate movement between Laverton and Fremantle in Western Australia was finalised and signed during the quarter. This contract completes the logistics contracts for the concentrate.

GLOBAL MARKET ACTIVITY

INDUSTRY NEWS

As discussed earlier in this Quarterly Report, the Rare Earths industry has been the centre of much political and media attention since the announcement of the 40% cut in Rare Earths export quota in 2010 compared to 2009 by the Ministry of Commerce of the People's Republic of China.

The view of Lynas is that the export quota will continue to be reduced in the coming years. The Chinese Ministry of Commerce recently stated the medium to heavy Rare Earths reserves in China may last 15 to 20 years at the current rate of production, possibly requiring imports. The drive for sustainable development of the known Rare Earths resources in China is likely to cause production in China to decrease, or at best to be offset by marginal increases in well managed resources. Given the growth rate of production in China and the fragility of the current supply sources in China, it cannot be ruled out that China may need to rely on imports in the future for these minerals, instead of supplying the world.

RARE EARTHS PRICES

The reduction in export quotas caused prices to sharply rise across the quarter. The average quarterly price for the generic composite of Rare Earths, equivalent to the Rare Earths distribution for the Central Lanthanide Deposit at Mount Weld, on a FOB China basis increased by more than 110% over the quarter to US$34.06/kg REO.

As at 25 October 2010 the average price for the Mount Weld Rare Earths composition was US$59.77/kg. The high volume, lower value products continued to increase substantially, with both lanthanum oxide and cerium oxide prices rising to US$50.00/kg.

Rare Earths Prices FOB China (US$/kg)				
Rare Earths Oxide	**Mt Weld Composition**	**Average Price Over Quarter**		
Purity 99% min	% Rare Earth Oxide*	**Q3 2009**	**Q2 2010**	**Q3 2010**
Lanthanum Oxide	25.50%	5.75	7.49	23.67
Cerium Oxide	46.74%	3.92	6.42	23.05
Neodymium Oxide	18.50%	14.50	33.20	55.81
Praseodymium Oxide	5.32%	14.50	33.07	54.37
Samarium Oxide	2.27%	4.80	3.40	14.40
Dysprosium Oxide	0.12%	110.90	200.50	281.54
Europium Oxide	0.44%	491.50	529.80	585.31
Terbium Oxide	0.07%	360.00	538.50	593.38
Av. Mt Weld Composition		**9.41**	**16.02**	**34.06**
* 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, www.lynascorp.com, under "What Are Rare Earths?" then "What are their prices?".

COMMERCIAL DISCUSSIONS

Lynas completed marketing trips to Japan during this quarter. The response to Lynas coming online in 2011, the first new project outside of China to be delivering Rare Earths globally, continues to be very positive.

During the quarter the Company announced the signing of a new supply agreement with a major Japanese Rare Earths consumer for the supply of Mount Weld Rare Earths to be produced at the LAMP. The contract will be for product supplied from the 11,000 tonnes of REO per annum in Phase 1 production. The contract price is the China FOB market price for the product at the time of delivery, plus delivery costs from FOB Kuantan to Japan. The company anticipates further contract announcements over coming months with potential customers in Europe, Japan and the USA.

FINANCE

CASH FLOW		A$M
OPENING CASH BALANCE 30 JUNE 2010		**405.2**
Add		
Interest and other income received	2.9	
Options converted to Equity	0.5	
TOTAL INFLOW		**3.4**
Deduct		
Western Australia Concentration Plant	(11.2)	
Malaysian Advanced Materials Plant	(19.3)	
Investments / Security deposits / Other capital expenditure	(2.5)	
Ongoing operating and financing costs	(9.1)	
TOTAL OUTFLOW		**(42.1)**
Exchange rate adjustment		**(19.9)**
CLOSING CASH BALANCE 30 SEPTEMBER 2010		**346.6**

This quarter saw significant movement in exchange rates between the Australian Dollar and the Malaysian Ringgit and US Dollar (USD). Relative to the Australian Dollar, the Ringgit declined by 7.56% and the USD by 13.24% during the quarter, resulting in an overall negative forex adjustment to our consolidated cash position of $19.9M.

Interest Income once again remained strong in the quarter with receipts totalling $2.9 million. Capital Expenditure on the Concentration and Advanced Material plants totalled $30.5 million. Lynas cash holdings as at 30 September totalled $346.6M comprising $107.17 million, US$ 45.48 million and MYR 577.04 million.

In the next quarter ending December 2010, we anticipate operating and capital expenditure to be approximately $9.4 million and $63.7 million respectively.

Forecast final capital expenditure costs and production ramp-up costs through to first production for both plants remain within estimates (including contingencies) as previously reported.

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.