

QUARTERLY REPORT
FOR THE PERIOD ENDING 30 SEPTEMBER 2012

HIGHLIGHTS

- During the period, the Malaysian Atomic Energy Licensing Board (AELB) issued the Temporary Operating Licence (TOL) for the Lynas Advanced Materials Plant (LAMP). The TOL was issued on 5 September 2012 and is valid for two years, subject to compliance with its terms. The AELB will monitor the LAMP's operations and adherence to prescribed safety standards, including the conditions attached to the TOL. Compliance with those standards will be the criteria for conversion of the TOL to a full operating licence during the next two years.
- On 21 September 2012, Lynas announced a significant upgrade of the Ore Reserves at Mount Weld. The Ore Reserves at the Central Lanthanide Deposit are now 9.7 million tonnes, at an average grade of 11.7% REO, for a total of 1.14 million tonnes for contained REO. This represents a 362% increase in Ore Reserves and a 260% increase in contained REO compared with the prior Ore Reserves contained in the 2005 Feasibility Study. The Ore Reserves represent more than 25 years mine life based on an expected production capacity of 22,000 tonnes per annum REO.
- Commissioning of Phase 1 of the LAMP continued during the period ahead of the start-up of operations. Phase 1 is ready for first feed to kiln pending a decision on the injunction application which is expected on 8 November 2012. Meanwhile, construction of the Phase 2 expansion was 69% complete as at the end of the quarter and is on time and on budget for construction completion in early 2013. Both Phase 1 and Phase 2 of the LAMP remain Lost Time Injury (LTI) free after more than 11 million hours worked.

CORPORATE

On 5 September 2012, Malaysia's Atomic Energy Licensing Board (AELB) issued the Temporary Operating Licence (TOL) for the Lynas Advanced Materials Plant (LAMP). The AELB will monitor the LAMP's operations and adherence to prescribed safety standards, including the conditions attached to the TOL. Compliance with those standards will be the criteria for conversion of the TOL to a full operating licence during the next two years.

Separate to the regulatory approval process, on 25 September 2012, the Kuantan High Court held that it would hear an application for an injunction in respect of Lynas' TOL. The Court also issued an interim order maintaining the status quo in respect of the TOL pending conclusion of that application. A decision on the application is expected on 8 November 2012. Until that time, the interim order remains in place. The interim order has the effect of suspending any new action under the TOL, including commencement of operations at the LAMP.

During the period, Lynas announced plans to invest in a range of programmes aimed at building an innovative approach to creating shared value in host communities. These programmes follow an earlier commitment to fund additional research and development by investing from revenues generated by the LAMP. These research and development activities will be aimed at supporting Malaysia's economic goals and will see the sponsorship of research activity within Malaysia.

Commissioning of Phase 1 of the LAMP continued during the period ahead of the start-up of operations. Meanwhile, construction of the Phase 2 expansion was 69% complete at the end of the quarter and is on time and on budget for construction completion in early 2013. Both Phase 1 and Phase 2 of the LAMP remain Lost Time Injury free after more than 11 million hours worked.

On 21 September 2012, Lynas announced a significant upgrade of the Ore Reserves at Mount Weld. The Ore Reserves at the Central Lanthanide Deposit are now 9.7 million tonnes, at an average grade of 11.7% REO, for a total of 1.14 million tonnes for contained REO. This represents a 362% increase in Ore Reserves and a 260% increase in contained REO compared with the prior Ore Reserves contained in the 2005 Feasibility Study. The Ore Reserves represent more than 25 years mine life based on an expected production capacity of 22,000 tonnes per annum REO.

Also in Western Australia, production at the Concentration Plant recommenced on a limited basis during the quarter chiefly to trial any modifications and repairs carried out during the three-month downtime period. As previously announced, the Plant was put on care and maintenance in May 2012 due to sufficient stockpiles of concentrate being produced ahead of the start-up of the LAMP.

In other areas, Lynas was pleased to announce on 10 September that the Malaysian Court of Appeal dismissed an appeal against the High Court of Malaya's decision not to grant leave to apply for judicial review of the decision of the AELB to approve the granting of the TOL for the LAMP. Both Lynas and the Malaysian Government successfully opposed the appeal. Lynas understands that the applicants intend to appeal to the Federal Court, being the highest Court in Malaysia.

ANNUAL GENERAL MEETING

The 2012 Annual General Meeting of Lynas shareholders will be held at 10am on Tuesday 20 November, 2012 at the Sydney Sofitel Wentworth Hotel. A notice of meeting was issued on 19 October 2012.

OPERATIONAL UPDATE

WESTERN AUSTRALIA OPERATIONS

Since commissioning in May 2011 the Concentration Plant has performed ahead of management's expectations with Final Concentrate Grade in line with, and REO recovery ahead of, internal targets. To date, the Plant has operated on two shifts only, and it is planned to change to continuous operations when it becomes necessary for output to increase in accordance with the requirements of the LAMP in Malaysia after it becomes operational. The Plant was temporarily shut down on 1 May 2012 due to sufficient stocks of REO concentrate having been produced. Activities during the shutdown include plant modifications, maintenance, system development and training. A number of short production trials were conducted during August and September to commission the modifications made during the shutdown. At the end of the quarter, 14,365 dry tonnes of concentrate containing 5,225 tonnes of REO were bagged ready for export.

In August 2012, Lynas Western Australia's integrated management system was externally audited by Bureau Veritas who have confirmed external certification to the following standards:

- OHSAS 18001:2007, Occupational Health and Safety Systems
- ISO 14001:2004, Environmental Systems
- ISO 9001:2008, Quality Management Systems

Upgrade of Mount Weld Ore Reserves

On 21 September 2012, Lynas announced a significant upgrade of the Ore Reserves at Mount Weld. The new Ore Reserves are based on a mining study that re-optimised the pit design using the updated Mineral Resources estimate that was announced to the ASX on 18 January 2012.

The new Ore Reserves at the Central Lanthanide Deposit (CLD), using a cut-off grades ranging from 4 to 7% depending on the type of ore, are 9.7 million tonnes at an average grade of 11.7% REO for a total of 1.14 million tonnes of contained REO.

TABLE 1: CLASSIFICATION OF ORE RESERVES FOR THE CENTRAL LANTHANIDE DEPOSIT

Ore Reserves Within Designed Pit Category	Million tonnes	REO (%) *	Contained REO ('000 tonnes)
Proved	4.9	12.7	622
Probable	4.1	10.0	410
Designed Pit Total	9.0	11.5	1,032
Ore Reserves On Stockpiles Category			
Proved	0.7	15.2	106
Probable	0.0	0.0	0
Stockpiles Total	0.7	15.2	106
Total Ore Reserves Category			
Proved	5.6	13.0	728
Probable	4.1	10.0	410
Total	9.7	11.7	1,138

* REO (%) includes all the lanthanide elements plus Yttrium

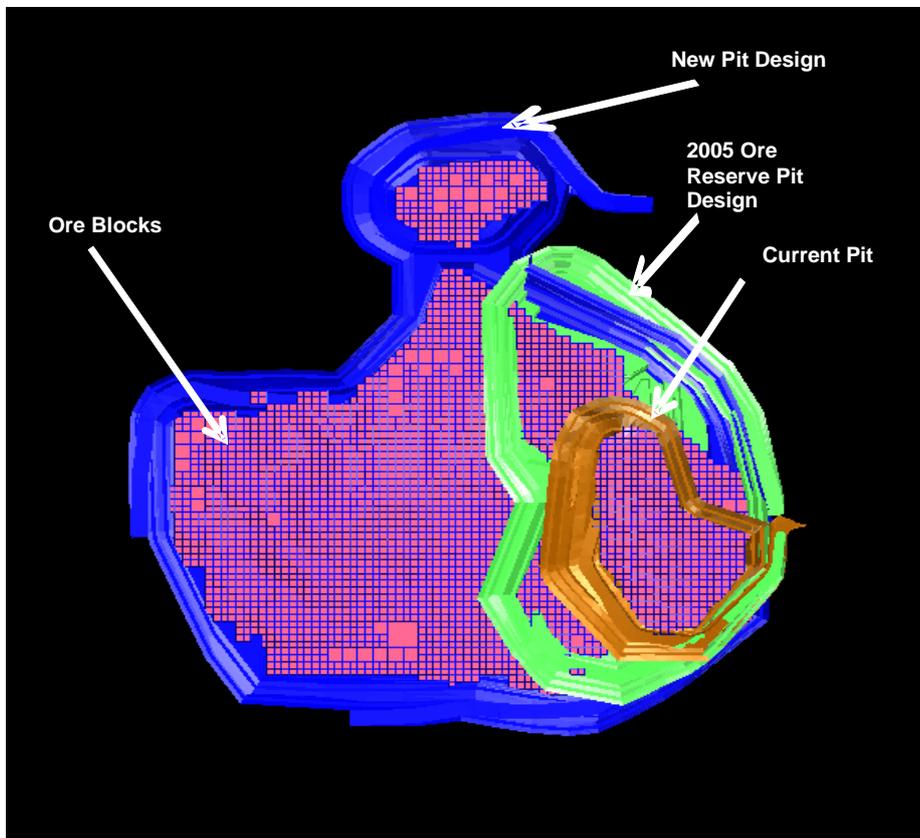
The Ore Reserves estimate for the CLD is 362% higher compared with the 2005 estimate and the contained REO in the Ore Reserves is 260% higher than the 2005 estimate.

TABLE 2: COMPARISON OF 2012 ORE RESERVES ESTIMATE TO PRIOR ESTIMATE

Ore Reserve Estimate	Million tonnes	REO (%)	Contained REO '000 tonnes
2012 Ore Reserve Estimate	9.7	11.8	1,138
2005 Ore Reserve Estimate	2.1	15.2	316

The figure below outlines the development of the Mount Weld pit design following the upgrade of the Ore Reserves.

OVERVIEW OF PIT DESIGN FOR ORE RESERVE EXPANSION



MALAYSIA OPERATIONS

During the period, the Malaysian Atomic Energy Licensing Board (AELB) issued the Temporary Operating Licence (TOL) for the Lynas Advanced Materials Plant (LAMP). The TOL was issued on 5 September 2012 and is valid for two years, subject to compliance with its terms.

Separate to the regulatory approval process, on 25 September 2012, the Kuantan High Court held that it would hear an application for an injunction in respect of Lynas' TOL. The Court also issued an interim order maintaining the status quo in respect of the TOL pending conclusion of that application. A decision on the application is expected on 8 November 2012. Until that time, the interim order remains in place. The interim order has the effect of suspending any new action under the TOL until the Court's decision, including commencement of operations at the LAMP. As a result of the delay that these proceedings have caused to Lynas, the target first feed to kiln date will be delayed to a date later than the previously advised date of October 2012.

Commissioning of Phase 1 of the LAMP continued during the period ahead of the start-up of operations. The company's operational preparedness program, Ready For Start Up (RFSU), was effectively complete at the end of the quarter.

Lynas Malaysia hosted a number of briefings for university faculty staff and students, members of the Malaysian Institute of Public Health, 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.

A thorough and diligent process was undertaken by all relevant authorities prior to the issuance of the TOL, in accordance with all applicable regulatory requirements. The Malaysian Department of Environment, the International Atomic Energy Agency, the Malaysian Atomic Energy Licensing Board, the Minister of Science, Technology and Innovation and a Parliamentary Select Committee have all scrutinised various aspects of Lynas' plant and Lynas' compliance with the required domestic and international standards, and all have found in favour of Lynas. Importantly, all of these reviews were independent and none were commissioned by Lynas.

During the period, Lynas announced plans to invest in a range of programmes aimed at building an innovative approach to creating shared value in host communities. These programmes follow an earlier commitment to fund additional research and development by investing from revenues generated by the LAMP. These research and development activities will be aimed at supporting Malaysia's economic goals and will see the sponsorship of research activity within Malaysia.

ENGINEERING AND CONSTRUCTION UPDATE

LYNAS ADVANCED MATERIALS PLANT IN MALAYSIA

The LampsOn Project (Phase 1) continues to achieve excellent HSE performance with overall recorded project hours to 30 September 2012 of 8.8 million hours Lost Time Injury (LTI) free. In Malaysia, construction of Phase 1 was completed during the previous quarter. In September, all systems were completed and handed over to Lynas for commissioning. LampsOn staff have effectively demobilised from site with a remaining handful to support finalisation of contracts paperwork and commercial finalisation with contractors.

LAMPS UP - PHASE 2 INCREASE IN PRODUCTION CAPACITY TO 22,000TPA REO

LAMPS Up in Western Australia

The overall cumulative progress of the LampsUp Project in WA up to the end of September 2012 was 66%. Engineering activities were 93% complete, procurement activities 85% complete and construction 44% complete. The Project remains LTI free after 40,000 construction hours worked. Total headcount on the construction site at the end of September 2012 was 42.



Tanks and Flotation Cells on Site



Thickener Area



Filter Building Assembly



Switch room & Control Room Footings

LAMPS Up in Malaysia

The overall project's cumulative progress achieved up to the end of September 2012 was 88%. Engineering activities are 100% complete, procurement activities were 98% complete and construction 69% complete. The Project remains LTI free after 2.2 million construction hours worked. Total headcount at site increased to 2,088 as at the end of September 2012.



Rotary Kiln



Primary Leaching



Secondary Leaching



Upstream Extraction



Downstream Extraction



Product Storage



Post Treatment



Calcination



Waste Gas Treatment



Acid Neutralization Plant

SUSTAINABILITY

Lynas operations in Western Australia and Malaysia were Lost Time Injury (LTI) free during the quarter. The LampsOn construction project was completed without any LTIs after more than 8.8 million hours worked. In addition, as at 30 September 2012, the LampsUp Phase 2 construction projects remained LTI free after more than 2.2 million hours worked in both Western Australia and Malaysia.

The Western Australia Operations continued to implement the Lynas Integrated Operational Management System Standards (LIOMSS), which incorporates compliance to OHSAS 18001:2007, ISO14001:2004 and ISO9001:2008. During August 2012, the Lynas Western Australian Integrated Management System was externally audited by Bureau Veritas and was subsequently certified to Safety, Environment and Quality Management Standards (ISO and OHSAS).

In Malaysia, a new Environmental Display was installed on site during the quarter. The sign displays current water effluent and air emission readings directly from the LAMP's processing information system.

EFFLUENT QUALITY		
PARAMS	RESULTS	STANDARD
pH	7.40	5.5-9.0
BOD 5	1.00	50 ppm
COD	13.00	200 ppm
TSS	12.00	100 mg/L
Fe	0.81	1 ppm
Mn	0.01	1 ppm
02-Oct-2012 16:58:54		

Water effluent display

AIR EMISSION QUALITY		
PARAMS	RESULTS	STANDARD
SO2	-0.55	400 mg/m ³
SO3	155.52	200 ppm
HF	0.17	- ppm
DUST	6.42	100 mg/m ³
02-Oct-2012 16:58:49		

Air emission display

GLOBAL MARKET ACTIVITY

INDUSTRY NEWS

Below-trend growth in the global economy and continued uncertainty about the timing and pace of stronger economic growth led to generally subdued trading conditions in the Rare Earths market in Q3 2012. In China, the world's largest Rare Earths-consuming market, industrial activity growth rates continued to ease, while in the major Rare Earths export markets of Japan and Europe business conditions remained difficult and sentiment subdued.

Against this backdrop, a number of Rare Earths-consuming companies are deferring purchases of fresh materials ahead of greater certainty about a period of stronger economic growth. In addition, consumers continue to work through inventories accumulated during the industry crisis in 2010-11. 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.

China's Ministry of Commerce announced in August that the maximum available Rare Earths export quota for 2012 would be 30,996 tonnes, a slight increase on the 2011 quota. However, the 2012 export quota appears unlikely to be fully utilised with *Xinhua* news agency reporting that first half 2012 official exports of Rare Earths were just under 5,000 tonnes. This is likely due to the build-up of inventories at non-China consumers in 2011 and the subsequent weakening of macroeconomic conditions in 2012 leading to a deferral of the drawdown of these accumulated inventories.

Meanwhile, the rationalisation and consolidation of China's Rare Earths industry continued with the Ministry of Land and Resources announcing in September that the number of Rare Earths mining permits would be reduced from 113 to 67. There was no update to the domestic Rare Earths production quota at that time, which was steady in 1H 2012 on the prior period.

In August, China launched a physical trading platform for Rare Earths products based in Baotou in Inner Mongolia. The Inner Mongolia Baotou Steel Rare-Earth (Group) Hi-Tech Co., China's largest Rare Earths producer, and nine other firms and institutions jointly launched the platform with a total investment of 100 million yuan (US\$16 million). Each shareholder invested 10 million yuan and holds a 10% stake in the exchange.

RARE EARTHS PRICES

Compared with the prior quarter, the average Mount Weld “basket price” decreased by 15% during Q3 2012 to US\$53.28/kg on a China FOB basis. The “basket price” also declined by 19% to US\$30.64/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		
		Q3 2011	Q2 2012	Q3 2012
Purity 99% min	% Rare Earth Oxide*			
Lanthanum Oxide	25.50%	117.68	24.64	19.54
Cerium Oxide	46.74%	118.65	24.79	20.38
Neodymium Oxide	18.50%	338.85	122.14	105.31
Praseodymium Oxide	5.32%	244.73	122.86	108.85
Samarium Oxide	2.27%	129.45	82.86	64.77
Dysprosium Oxide	0.12%	2262.31	1085.71	967.69
Europium Oxide	0.44%	4900.00	2412.86	2020.00
Terbium Oxide	0.07%	3761.54	2074.29	1938.46
Av. Mt Weld Composition		193.21	63.00	53.28

* 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		
		Q3 2011	Q2 2012	Q3 2012
Purity 99% min	% Rare Earth Oxide*			
Lanthanum Oxide	25.50%	21.90	12.61	10.82
Cerium Oxide	46.74%	25.17	12.80	10.98
Neodymium Oxide	18.50%	198.23	88.10	68.88
Praseodymium Oxide	5.32%	149.99	82.04	67.13
Samarium Oxide	2.27%	20.50	12.08	9.88
Dysprosium Oxide	0.12%	1743.32	717.70	596.94
Europium Oxide	0.44%	3527.15	1266.10	1028.38
Terbium Oxide	0.07%	2672.13	1037.79	874.03
Av. Mt Weld Composition		82.96	37.74	30.64

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

COMMERCIAL DISCUSSIONS

Lynas has strategic alliances and agreements in place to supply Rare Earths products to credit-worthy counterparties globally. While there were no additional customer agreements executed in the third quarter of 2012, the Company continues to be engaged in a number of additional negotiations with key customers concerning potential supply agreements.

FINANCE

CASH POSITION

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

CASH FLOW	A\$M
OPENING CASH BALANCE 1 JULY 2012	205.4
INFLOWS	
Interest income	0.9
Proceeds from Exercised Options	0.2
TOTAL INFLOW OF FUNDS IN THE QUARTER	1.1
OUTFLOWS	
Mt Weld Concentration Plant – Phase 1	-
Malaysian Advanced Materials Plant – Phase 1	(21.7)
Mt Weld Concentration Plant – Phase 2	(6.1)
Malaysian Advanced Materials Plant – Phase 2	(18.6)
Investments/ Security deposits/ Other capital expenditure	(2.0)
Interest expense and other costs of finance	(6.2)
Ongoing operational, production and administration costs	(24.4)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	(79.0)
Exchange rate adjustment	(0.8)
CLOSING CASH BALANCES 30 SEPTEMBER 2012	126.7
Summary of Cash Balance	
Cash on Hand and at Call (incl. Term Deposits)	73.9
Funds for Phase 2 Construction (Restricted Cash)	52.8
CLOSING CASH BALANCES 30 SEPTEMBER 2012	126.7

Total cash at 30 September 2012 of \$126.7m was represented by unrestricted cash of \$73.9m plus restricted cash of \$52.8m (which is available only to fund the Phase 2 capital expenditure programme related to the Rare Earths Project). Interest income received in the quarter from unrestricted and restricted cash totalled \$0.9m.

FOREX

The currency composition of unrestricted cash at 30 September 2012 was A\$20.7m, US\$53.6m and MYR5.0m, while the currency composition of the restricted cash was A\$21.0m, US\$33.0m and MYR0.4m. During the quarter the Australian dollar appreciated by 2.2% against the US\$ and depreciated by 2.9% against the Ringgit resulting in a (\$0.8)m 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 SEPT '12 A\$M	FUTURE SPEND A\$M
Mount Weld Concentration Plant	75.4	75.4	0.0
Advanced Materials Plant, Malaysia	343.3	325.4	17.9
Engineering & Project Management Cost	165.3	164.3	1.0
Other Capex including Land at Gebeng to Dec '11	61.9	61.9	0.0
Contingency	2.0	0.0	2.0
TOTAL	647.9	627.1	20.8

During the quarter, the forecasted final cost to complete phase 1 of the LAMP decreased by \$4.9m due to the recognition of a net foreign exchange gain on the project resulting from the difference between the planned and actual realised exchange rates. The impact of this benefit has been reflected in our current cash to complete 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 project which will be funded from the remaining Restricted Cash of \$52.8m. Cash settlements for the quarter ended 30 September 2012 relating to Mt Weld were \$6.1m and at the LAMP \$18.6m.

OTHER CAPITAL EXPENDITURE

In addition to capital expenditure for Phase 1 and Phase 2, the Company has plans to spend a further \$6.6m before the end of this calendar year (31 December 2012) on capital expenditure required to sustain ongoing operations.

FUNDING FACILITY

The Group continues to progress discussions with a number of financial institutions with respect to its future working capital and funding requirements for both general operating expenditure purposes and for the Phase 1 and Phase 2 production ramp-ups.

COMPLIANCE WITH THE JORC CODE ASSESSMENT CRITERIA

The Ore Reserves statement has been compiled in accordance with the guidelines defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code – 2004 Edition). The Ore Reserves have been compiled by Ross Bertinshaw of Golder Associates, who is a fellow of Australasian Institute of Mining and Metallurgy and a Chartered Professional (Mining). Mr Bertinshaw has had sufficient experience in Ore Reserve estimation relevant to the style of mineralisation and type of deposit under consideration to qualify as Competent Person as defined in the 2004 Edition of the “Australasian Code for Reporting of Mineral Resources and Ore Reserves”. Mr Bertinshaw consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The Mineral Resource model used for the Ore Reserve Estimate has been 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.