

## QUARTERLY REPORT

### FOR THE PERIOD ENDING 31 DECEMBER 2008

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#### HIGHLIGHTS

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- Following substantial completion of engineering, the capital costs have been reviewed to give a higher class of cost certainty as announced
- Review of schedule confirming the fourth quarter 2009 production start up date
- Mobilisation to site of the Principal Construction Contractor, Abesque Engineering & Construction, for the Concentration Plant at Mount Weld in Western Australia
- Award of contracts at the Malaysian Advanced Materials Plant for concreting within the processing areas and pre-engineered buildings
- Reduction in operating costs to US\$5.75 ± 10% /kg REO of final product due to reduction in energy and re-agent prices in Australia and Malaysia
- Signing of sixth customer agreement
- Announcement by Chinese authorities of a further 25% reduction in Chinese Rare Earths export quota for 2009

## CORPORATE

Ranhill WorleyParsons, the Engineering, Procurement and Construction Manager (EPCM), together with Lynas completed a detailed review of the total costs of the Rare Earths project this quarter and announced the updated total costs, spend to date as at the end of November 2008, and subsequent cost to complete the project including operational build and start up costs through to the end of December 2009, as shown below:

### Project Overview

Lynas

Australian Dollar Cost Areas	CCY	Total Cost	Spent 30-Nov-08	Cost to Complete
Australia: Mt Weld Mining Campaign	A\$ M	21	21	0
Australia: Concentration Plant - Mt Weld	A\$ M	69	11	58
Australia: Start up cost	A\$ M	25	1	24
<b>A\$ Total</b>		<b>115</b>	<b>33</b>	<b>82</b>

"US" Dollar Cost Areas	CCY	Total Cost	Spent 30-Nov-08	Cost to Complete
Malaysia: Advanced Materials Plant - Gebeng	US\$ M	214	46	169
Contingency	US\$ M	18	0	18
Malaysia: Land	US\$ M	20	20	0
Malaysia: Start-Up Costs	US\$ M	27	0	26
<b>US\$ Total</b>		<b>279</b>	<b>66</b>	<b>213</b>

Note: sum of figures may not match totals due to rounding

Australian domiciled costs are shown in Australian dollars, however Malaysian costs are presented in US dollars in order to account for the significant movement in currencies since the initial total cost estimate and to align with our funding currency for these costs. Note that approximately 72% of the Malaysian costs are Malaysian Ringgit costs.

As at the end of the quarter A\$53 million of the total forecast cost of A\$69 million for the Concentration Plant in Western Australia and US\$116 million of the total forecast cost of US\$214 million for the Advanced Materials Plant in Malaysia had been committed under equipment orders and construction related contracts. In the company's opinion the level of contingency in the table above reflects this level of commitment and the fact that both the Mount Weld mining campaign and Malaysia plant site land costs have already been paid.

In conjunction with the cost review a detailed review of the project schedule also took place. The Board is pleased to report that the previously announced planned start-up date of the fourth quarter 2009 remains in place.

During the quarter Gerry Taylor was appointed as Chief Financial Officer of Lynas. Gerry has an extensive background with international experience at The Rose Property Group and The Boulderstone Group.

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## **ENGINEERING AND CONSTRUCTION UPDATE**

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Significant progress was achieved by Ranhill WorleyParsons on EPCM work during the quarter which included the detailed cost review discussed above.

### ***CONCENTRATION PLANT AT MOUNT WELD***

Downer EDI has continued to undertake bulk earthworks through the quarter with earthworks in the processing areas nearing completion. Ore Loading, Grinding and Flotation areas have been completed and handed over to Abesque Engineering & Construction (Abesque), the Principal Construction Contractor. The run of mine (ROM) Pad, Reagent Mixing, Concentrate Thickening and storage areas and lay-down areas are due to be completed first quarter 2009.

The relocation and burying of existing power and water lines to the Barrick Granny Smith operations has been completed to provide clear access to the site. Bulk excavation of the treated water pond and plant runoff pond has been completed with construction of embankment walls underway. A review and redesign of the tailings storage facilities and evaporation ponds is underway as part of cost reduction initiatives which shall be finalised in January.

While bulk earthworks have been impacted by some wet weather delay, the effective management and programming of works on site by Mintrex, Lynas Contracts Superintendent, has resulted in minimal impact of construction progress.

Abesque mobilized to site at the beginning of this quarter and have taken possession of the administration, ore handling, grinding and flotation areas from Downer EDI. Foundations have been poured for the ball mill and the flotation building. Concrete slabs for tank bases have been poured, with formwork for the bases fabricated.

Procurement of equipment is continuing. Out of a total of 33 equipment packages for the Concentration Plant, 14 have been awarded and 3 are under a Letter of Intent. The ball mill and pressure filter are ready for shipment from the vendors.

Abesque, Downer EDI and Mintrex resources are being accommodated in the Barrick Granny Smith mine camp located 10 kilometres to the west of the Mount Weld site.

### ***ADVANCED MATERIALS PLANT IN MALAYSIA***

Safety remains a strong focus on the construction site with good performance and compliance being achieved by the current workforce. Environmental performance is also high with the storm water retention and settlement pond performing as designed during the monsoon rainfall.

The Gebeng site construction activities have advanced during the quarter. Piling of 7,500 piles is approaching completion, all major roads are in place and compacted, and site drainage is being progressively installed.

The foundations have been poured for the site administration building and the main substation. The site administration building is a pre-engineered steel building and is now under construction.

There are 23 construction related contracts for the Advanced Materials Plant in Malaysia, of which 13 have now been awarded. The major concreting works contract for the processing facilities was awarded to Hexagon Tower. This contract milestone heralds the commencement of the major construction effort. Hexagon Tower shall mobilise to site in January. The contracts for the remaining pre-engineered buildings have been let to Bluescope Lysaght.

Procurement of equipment for the Advanced Materials Plant is ongoing, of 106 equipment packages in total, 41 have been awarded and 9 are under a Letter of Intent.

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## **OPERATIONAL UPDATE**

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### ***MOUNT WELD OPERATIONS***

In preparation for site start-up, a contract scope of works has been prepared and contractor pre-selection completed for the planned screening and blending of approximately 100,000 tonnes of ore (known as Cz ore) currently on the ROM pad. Screening of the ore during blending will enable the direct feeding of this material to the Concentration Plant ball mill. It is anticipated that this contract will be awarded in the first quarter of 2009 and will provide sufficient ore for the first year of the Concentration Plant operation.

### ***EXPLORATION DRILLING***

The planned drilling operations on the Mount Weld Southern Zone, located immediately to the south of the current mine pit, have commenced. The Southern Zone is known to contain resources with a higher distribution of the heavier and higher value Rare Earths including yttrium, europium, terbium and dysprosium. These resources complement the Central Lanthanide Zone resources which are rich in the lighter Rare Earths such as lanthanum, cerium, praseodymium and neodymium.

The drilling programme aims to provide data for resource estimation, metallurgical test-work and further mine planning. As at the end of December 111 drill holes had been completed at a total of 5,346 metres. The programme will be completed in January.

### ***MALAYSIA OPERATIONS***

Recruitment remains a key focus within the Malaysian operation. Placement of key positions continues as planned and is scheduled to be completed in the first quarter of 2009. These key Lynas staff will take primary accountability for development of the operating systems and processes as well as the training material for Malaysian operations to be ready for start-up. The Lynas interim office within the Gebeng industrial estate, two kilometres from the Gebeng site, is functioning well.

Lynas continues to engage and develop relationships with the Malaysian community within Kuantan. During the last quarter Lynas representatives met with the Crown Prince of Pahang, the Chief Minister for Pahang, and members of the Pahang State Executive Committee. In addition Lynas was guest speaker at the annual Pahang Investors Dinner organised by the Pahang State Development Council. A public meeting was also conducted in conjunction with the Malaysia Nature Society.

## ***SUPPLY CHAIN UPDATE***

Development of supply chain systems and processes has had significant focus this quarter. This has included the development of blueprints for the logistics, sales and operations planning processes, and review of potential supply chain tools. Many processes have now been mapped including Master Data, Production Planning, Production Execution, Production Reporting, Procurement of Stock Material, Contract Procurement, Procurement of Consumables, Procurement of Services and Procurement and Consumption of Consigned Inventory. These form part of the integrated supply chain approach that will distinguish Lynas within the Rare Earths market place and underpin the Lynas value proposition of reliable supply to customers.

Following the finalisation of the major chemical supply contracts last quarter, supply contracts for many of the minor chemicals were completed this quarter. The final supply plan for the single outstanding reagent (Sulphonated Kerosene) is expected to be completed in the next quarter.

The price of supply for many of the chemical inputs has decreased significantly over the last quarter. For example, sulphur as a key input in sulphuric acid production has undergone a rapid decline in price, falling below traditional pricing levels. The contracts for sulphuric acid struck by Lynas will reflect the sulphur prices being achieved in the market place at the time of delivery. In addition the Malaysian plant will also use large quantities of chemicals derived from crude oil. The substantial fall in crude oil prices has seen the price for these products fall in line with this trend. The impact on operational costs to date is a forecast operational cost of US\$5.75 ±10% / kg final product, which is forecast to cover the cash operational costs from mine to final product.

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## **GLOBAL MARKET ACTIVITY**

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### ***CUSTOMER CONTRACTS***

Post quarter end the company signed a sixth customer agreement with a Rare Earths consumer who will purchase material from Phase I of the Advanced Materials Plant, plus additional volume from the planned Phase II expansion.

The multiple-year supply contract covers a minimum tonnage of REO to be purchased and includes the potential to extend this volume as well as the contract timeframe upon mutual agreement of both parties.

The contracts signed to date are with industrial companies which in their own right consume large quantities of Rare Earths, rather than with intermediate trading companies. Under the typical contractual provisions, Lynas delivery obligations commence upon actual start up of the Advanced Materials Plant in Malaysia. The contracts are all for minimum fixed volumes.

The sales value of the signed agreements, assuming the December 2008 quarterly prices in the table below, is over US\$490 million over the first five years of operations.

### ***RARE EARTHS EXPORT QUOTA***

The Ministry of Commerce of the People's Republic of China has released 15,043 tonnes of approved Rare Earths export quota for the first half of 2009. This is a reduction of 34% compared to the first six months' quota for last year. Historically the second tranche is of similar or lower quantity compared to the initial tranche. Therefore the total 2009 quota is expected to be less than 30,000 tonnes as China continues to protect its mineral resource exports. This represents a 25% decrease in total quota tonnage compared to the annualised 2008 figure.

Export quotas on Rare Earths were introduced by the Chinese authorities in 2003 to limit the export of China's strategic resource. The tonnage of quota has been decreasing each year. In 2006, the volume dropped to 48,000 tonnes, and in 2007 it declined to 43,574 tonnes. Half-way through last year, the Chinese government adjusted the release dates of export quota by two months to January and July every year. The initial 2008 tranche was 22,780 tonnes and the second was 11,376 tonnes, however this second tranche covered four months to the end of December. Therefore the total of 34,156 tonnes released in 2008 was for a 10-month period, which equated to an annual volume of 40,987 tonnes.

### ***RARE EARTHS PRICES***

<b>Rare Earths Prices FOB China (US\$/kg)</b>					
<b>Rare Earths Oxide</b>	<b>Mt Weld Composition</b>	<b>Average Price Over Quarter</b>			
Purity 99% min	% Rare Earth Oxide*	<b>Q4 2007</b>	<b>Q3 2008</b>	<b>Q4 2008</b>	
Lanthanum Oxide	25.50%	4.44	9.25	8.45	
Cerium Oxide	46.74%	3.72	4.80	4.60	
Neodymium Oxide	18.50%	29.81	27.65	18.18	
Praseodymium Oxide	5.32%	28.14	27.30	18.02	
Samarium Oxide	2.27%	4.40	4.80	4.80	
Dysprosium Oxide	0.12%	91.30	116.60	112.20	
Europium Oxide	0.44%	354.20	490.00	500.80	
Terbium Oxide	0.07%	609.20	716.20	515.40	
<b>Av. Mt Weld Composition</b>		<b>12.21</b>	<b>14.12</b>	<b>11.45</b>	
* 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](http://www.lynascorp.com), under "What Are Rare Earths?", then "What are their prices?".

## FINANCE

The company opened the quarter with \$102.9 million of available cash and closed the quarter with a balance of \$71.0 million. The decrease in cash of \$31.9 million is summarised below:

<b>CASHFLOW</b>		<b>AUD M</b>
<b>OPENING CASH BALANCE 30 SEPTEMBER 2008</b>		<b>102.9</b>
Interest and other income received	1.6	
<b>TOTAL INCOME</b>		<b>1.6</b>
<b>Less</b>		
Western Australia Concentration Plant	2.3	
Malaysian Advanced Materials Plant	17.7	
Start Up Costs	3.5	
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>23.5</b>	
Ongoing Operational and Financing Costs	10.0	
<b>TOTAL OUTFLOW</b>		<b>33.5</b>
<b>Movement in cash</b>		<b>31.9</b>
<b>CLOSING CASH BALANCE 31 DECEMBER 2008</b>		<b>71.0</b>

The total capital expenditure associated with the Rare Earths project from 1 July 2007 to 31 December 2008 is \$124 million. The allocation is shown below:

<b>PROJECT CAPITAL EXPENDITURE</b>	<b>AUD M</b>
Western Australia Concentration Plant	10.8
Western Australia Mining	20.9
Malaysian Advanced Materials Plant	59.1
Malaysian Land	28.1
Start Up Costs	5.1
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>124</b>

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## TARGET MILESTONES FOR NEXT QUARTER

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The company aims to complete the following target milestones during the next quarter:

- Award tailings storage facilities and evaporation pond contracts for Mount Weld Concentration Plant
- Commencement of concrete works in Malaysia
- Complete all supply contracts for chemical re-agents used at the Mount Weld Concentration Plant and the Malaysian Advanced Materials Plant
- Sign further customer agreements
- Complete Mount Weld Southern Zone exploration drilling

### **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.*