
QUARTERLY REPORT
FOR THE PERIOD ENDING 31 DECEMBER 2011

HIGHLIGHTS

- The Lynas Advanced Materials Plant (LAMP) construction project in Malaysia achieved 6,660,000 hours Lost Time Injury (LTI) free as at the end of 2011. Subsequent to the end of the reporting period, the project has now reached more than 7,000,000 hours LTI free.
- The Mount Weld Concentration Plant in Western Australia continues to perform well with Final Concentrate Grade in line with, and REO recovery ahead of, targets for this point in the ramp-up schedule.
- Lynas confirms it has completed all the requirements for the application to the Atomic Energy Licensing Board (AELB) for a temporary licence for the LAMP. A temporary licence will allow Lynas to commission the LAMP and ramp up the plant to nameplate capacity and sell its products.
- As announced earlier in January, Lynas expects that, based on the latest information from the construction manager, first feed to kiln and production from the LAMP will occur in Q2 2012, subject to regulatory compliance and issuance of the temporary licence. Additional engineering requirements and consequential delays in procurement, as well as the recent monsoon season, are the primary causes of delay for LAMP Phase 1. At the same time, Lynas announced it has executed binding documentation for a US\$225m unsecured convertible bonds issue to funds managed by Mount Kellett Capital Management and retired an unused working capital facility of US\$125m.
- A Letter of Award was issued to Abesque Engineering Ltd for the Engineering, Procurement, Construction and Commissioning for Phase 2 of the Mount Weld Concentration Plant. The Letter of Award is for a lump sum contract in the amount of approximately A\$36m.
- In December 2011, the Ministry of Commerce of the People's Republic of China announced Rare Earths export quotas for 2012. The first half quota has been set at 10,546 tonnes. Subject to a number of enterprises passing environmental standards inspections, the maximum possible quota for the whole of 2012 has been set at 31,130 tonnes, a 3% increase on the 2011 quota. The minimum quota for 2012 is 16,772 tonnes, representing 56% of the 2011 quota.

CORPORATE

During the final quarter of 2011, the Company reached new milestones in its journey to becoming a new source of Rare Earths supply. In Western Australia, the Concentration Plant is performing well. During the period, the decision was made to operate the Plant at nameplate capacity to test the operating performance of the Plant under those conditions. Previously, the Plant had been operating at reduced capacity to minimise working capital ahead of commencement of operations at the Lynas Advanced Materials Plant (LAMP) in Malaysia. Pleasingly, the testing period demonstrated that the Plant is capable of operating at full capacity. As at the end of January 2012, the Company has more than 7,000 tonnes of dry bagged Rare Earths concentrate on-site.

In Malaysia, construction of the LAMP continues and was 91% construction complete at the end of the quarter. Construction activity is primarily focused on the final piping works and electrical wiring works. At the same time, selective pre-commissioning activities have commenced on-site at the cracking kiln and waste gas treatment facilities and will be extended across the whole site over the coming weeks. However, additional engineering requirements and consequential delays in procurement, as well as the recent monsoon season, are the primary causes of delay for LAMP Phase 1. Based on the latest information from the construction manager, Lynas anticipates first feed to kiln and first production during Q2 2012, subject to regulatory compliance and issuance of the temporary licence.

Subsequent to the end of the quarter, the Company confirmed that it had completed all the requirements for the application to the Malaysian Atomic Energy Licensing Board (AELB) for a temporary licence for the LAMP in Gebeng, Malaysia. The temporary licence has been referred to in recent correspondence as the "pre-operating licence". A temporary licence has a duration of 2 years. If the temporary licence is granted, and if Lynas complies with the requirements of the temporary licence, a permanent operating licence can be issued any time within the 2 years.

Subsequent to the period, the Company also announced it has executed binding documentation for a US\$225m unsecured convertible bonds issue to funds managed by Mount Kellett Capital Management. The Tranche 1 subscription amount of US\$50m has been received with the balance of US\$175m of the convertible bonds to be subscribed upon the satisfaction of specific conditions precedent, including completion of technical due diligence (which are expected to be satisfied in February 2012). Following the issue of the convertible bonds, Lynas will have sufficient funds to complete construction and commissioning of Phase 1 of the LAMP, and to provide for working capital needs through to cash flow from sales, in light of the project delays described above.

Sally McDonald has been appointed as a new In-House Counsel and Company Secretary with effect from 30 January 2012. Sally is a practising lawyer with 6 years post-admission experience in corporate/commercial law at Norton Rose and Addleshaw Goddard. Ivo Polovineo will continue with the Company as a consultant. With effect from 30 January 2012, Andrew Arnold and Sally McDonald will be the Company Secretaries of Lynas, and Andrew Arnold will continue to be the responsible person for communication with ASX in relation to listing rule matters.

ENGINEERING AND CONSTRUCTION UPDATE

LYNAS ADVANCED MATERIALS PLANT IN MALAYSIA

The LampsOn Project continues to achieve excellent HSE performance with overall recorded project hours to 31 December of 6.66 million hours Lost Time Injury (LTI) free.

Construction

As at the end of the quarter, the overall site construction was 91% complete. Ongoing coordination and focus on systematic completion of test packs and pre-commissioning has gained momentum and are progressing in accordance with expectations. The overall systems pre-commissioning test pack progress is approximately 33% complete. The completion of the remaining portion of construction work is actively and simultaneously being coordinated and executed.

Gas Cleaning System for the Rotary Kilns



Rotary Kilns



Post Treatment Workshop: Precipitation Tanks and Centrifuges



Calcination Workshop: Tunnel Furnaces



LAMPS UP - PHASE 2 EXPANSION TO 22,000T REO

LAMPS Up in Western Australia

On 23 December 2011, the Company announced that a Letter of Award has been issued to Abesque Engineering Ltd for the Engineering, Procurement, Construction and Commissioning Contract for Phase 2 of the Mount Weld concentration plant in Western Australia. The Letter of Award is for a lump sum contract in the amount of approximately A\$36m.

Work for the required regulatory approvals associated with the plant expansion continued during the quarter.

LAMPS Up in Malaysia

The overall project's cumulative progress achieved up to the end of December 2011 was 38%. The project remains Lost Time Injury (LTI) free.

OPERATIONAL UPDATE

WESTERN AUSTRALIA OPERATIONS

The Western Australia operations experienced the first Lost Time Injury (LTI) in its 4 year operational history in November, when a loader operator squeezed his thumb in a door while exiting a vehicle. More positively, the frequency of hazard and near miss reporting continues to increase each month, demonstrating a strong safety culture across the operation.

The Concentration Plant continues to ramp up in line with management's expectations, with nameplate throughput of 15 dry tonnes per hour being reached frequently during the month of December. Other results for December included REO recoveries of 71.7% against a planned 65% recovery rate. At the end of the quarter, 6,059 dry metric tonnes of concentrate containing 2,188 tonnes of REO were bagged on site, ready to be transported.

The Concentration Plant continues to operate on two shifts only, and will change to continuous operations when it becomes necessary for concentrate output to increase in accordance with the requirements of the LAMP in Malaysia after it becomes operational.

On Site Exploration

During the December quarter, work progressed on updating the resource estimation for the Central Lanthanide and Duncan deposits. The new resource model incorporates the aircore resource definition drilling completed in 2011 on the western and southern sides of the Central Lanthanide Deposit, and was completed in early 2012. The new resource model includes material upgraded from Inferred to at least Indicated status. Material classified as Indicated can, following mining studies, be included in the ore reserves. It is expected the first of the mining studies will be completed in the first half of 2012.

Subsequent to the end of the reporting period, the Company announced an increase in the resource base at Mount Weld (see announcement "*Increase in Mt Weld Resource Estimate for the Central Lanthanide Deposit and Duncan Deposit*", 18 January 2012).

MALAYSIA OPERATIONS

Lynas Malaysia staff numbers increased from 210 to 236 people as at the end of December 2011. Lynas Malaysia now has 85% of its expected total workforce.

In regards to the temporary licence, the Company submitted the required documents to the AELB on 31 December 2011 after taking into account all the questions from the Panel of Experts appointed by the AELB. Prior to the submission, Lynas made presentations on each document to the Panel of Experts which took place on 24-28 October 2011. According to the government, the AELB Board is expected to make a decision on the application at their meeting planned by end of January 2012.

During the quarter, Lynas Malaysia organised 15 Public briefings that included International Islamic University academics and students, political party representatives, Pahang State Department of Health Districts' representatives, villagers, bloggers and youth groups. A total of



1,235 people were briefed in these sessions, taking the total number of face-to-face briefings to well over 5,000 people. Senior management also conducted a number of media appearances during the quarter.

A national print advertising campaign on the facts about the LAMP was also published during the quarter.

The Ready For Start Up (RFSU) programme continues and was about 91% complete at the end of the quarter. Further progress was made on testing and documentation of commissioning procedures, Standard Operating Procedures, and maintenance procedures. Staff training will continue ahead of construction completion and start-up of the LAMP. In other areas, Lynas Malaysia made further progress in the ordering and delivery of pre-loading materials and ancillary raw materials.

MALAWI OPERATIONS

Work on the Kangankunde project for the quarter included the re-opening of the old adit under the deposit and the collection of samples for metallurgical and process test work. The revised Environmental Impact Assessment Plan for the project is expected to be submitted in the first quarter of 2012. The drill program is then expected to commence following the end of the wet season in 2012.

SUSTAINABILITY

The Western Australia operations experienced the first Lost Time Injury (LTI) in its 4 year operational history in November, when a loader operator injured his thumb while exiting a vehicle. A number of minor injuries, hazards and near miss incidents were reported confirming a mature safety culture on site and providing the team with opportunities to learn lessons and prevent the occurrence of similar incidents.

During the quarter the LAMPS On construction project team achieved 6.66 million hours LTI free for the project. Subsequent to the end of the period, the project has now reached more than 7.0 million hours LTI free. The engineering design and construction execution of the LAMP continues to be implemented in accordance with all appropriate international standards and practices, suitable for the LAMP's specific location, to facilitate a safe and viable operation.

The Balok Ivory Tower programme, an academic programme supported by Lynas for local Malaysian school children, continued as scheduled during the quarter.

GLOBAL MARKET ACTIVITY

INDUSTRY NEWS

On 28 December 2011, the Ministry of Commerce of the People's Republic of China stated that Rare Earths exports totalled 14,750 tonnes in the first 11 months of 2011, accounting for 49% of total export quotas. Looking ahead, the Ministry stated that in order to guarantee international market demand and keep Rare Earths supplies stable, the export quota in 2012 will be roughly equal to the export quota in 2011.

In that regard, the Ministry of Commerce of the People's Republic of China released 10,546 tonnes of approved Rare Earths export quota for the first half of 2012. The Ministry said that the first batch of Rare Earths export quota was given to 11 enterprises that met with the requirements, including 7 producing enterprises passing the environmental inspections and 4 trading enterprises. In order to protect the environment, the Ministry reserved quotas for enterprises currently under environmental inspections. However, these enterprises cannot use the quota until they pass the environmental standards inspection. Should all these enterprises pass inspection it is expected that the total export quota for 2012 will be 31,130 tonnes, a 3% increase over the 2011 quota. In 2012 the export quota will also include strip cast alloy which accounted for around 10,000t of exports not previously included in the export quota in 2011. As a result, non-Chinese magnet manufacturers will likely have to reduce their purchases of alloy from China and possibly source rare earths metal from non-Chinese suppliers. This trend is also likely to be driven by a new 20% export tax on strip cast alloy in 2012.

To better conserve resources and protect the environment, the Ministry will also split the first batch of the 2012 quota into light and medium-to-heavy categories of Rare Earths. Of the total potential 2012 quota of 31,130 tonnes, 27,125 tonnes is allocated to light Rare Earths and 4,005 tonnes to medium-to-heavy Rare Earths.

RARE EARTHS PRICES

During the quarter, the average Mount Weld "basket price" decreased by 36% to US\$123.69/kg on a China FOB basis and by 32% to US\$56.06/kg on a China domestic basis.

The recent price declines need to be seen in the context of unsustainably high prices during Q2 and Q3 2011. In fact, Q4 2011 average prices are still 283% higher versus Q4 2010 on a China domestic basis and 100% higher on a China FOB basis (see following tables).

Other factors that have influenced prices recently include:

- customer inventory de-stocking
- the announced introduction of a special invoicing system that would prevent illegal rare earths production inside China which caused traders to liquidate inventories
- the implementation of several upstream industrial recycling processes and;
- an easing of global macroeconomic conditions in 2H 2011

Rare Earths Prices FOB China (US\$/kg)				
Rare Earths Oxide	Mt Weld Composition	Average Price Over Quarter		
Purity 99% min	% Rare Earth Oxide*	Q4 2010	Q3 2011	Q4 2011
Lanthanum Oxide	25.50%	52.49	117.68	66.46
Cerium Oxide	46.74%	52.62	118.65	59.31
Neodymium Oxide	18.50%	81.38	338.85	244.23
Praseodymium Oxide	5.32%	78.62	244.73	209.62
Samarium Oxide	2.27%	36.58	129.45	95.31
Dysprosium Oxide	0.12%	287.85	2262.31	2032.31
Europium Oxide	0.44%	611.54	4900.00	3800.00
Terbium Oxide	0.07%	620.38	3761.54	2973.85
Av. Mt Weld Composition		62.18	193.21	123.69

* 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		
Purity 99% min	% Rare Earth Oxide*	Q4 2010	Q3 2011	Q4 2011
Lanthanum Oxide	25.50%	4.47	21.90	18.28
Cerium Oxide	46.74%	4.47	25.17	20.65
Neodymium Oxide	18.50%	37.33	198.23	122.77
Praseodymium Oxide	5.32%	33.40	149.99	106.95
Samarium Oxide	2.27%	2.57	20.50	14.49
Dysprosium Oxide	0.12%	203.90	1743.32	1085.35
Europium Oxide	0.44%	445.70	3527.15	2228.39
Terbium Oxide	0.07%	420.10	2672.13	1765.10
Av. Mt Weld Composition		14.63	82.96	56.06

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

Weekly updates of these prices can be found on the Lynas website, lynascorp.com, under "What Are Rare Earths?" then "What are their prices?".

COMMERCIAL DISCUSSIONS

While there were no additional customer contracts executed in the final quarter of 2011, the Company continues to be engaged in a number of additional negotiations with key customers in Europe, Japan and the USA concerning potential supply agreements.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 31 December 2011 is set out below.

CASH FLOW	A\$M
OPENING CASH BALANCE 1 OCTOBER 2011	370.3
INFLOWS	
Interest and other income received	1.3
Exercised Options	0.0
TOTAL INFLOW OF FUNDS IN THE QUARTER	1.3
OUTFLOWS	
Mt Weld Concentration Plant – Phase 1	(0.5)
Malaysian Advanced Materials Plant – Phase 1	(42.7)
Mt Weld Concentration Plant – Phase 2	(0.4)
Malaysian Advanced Materials Plant – Phase 2	(55.5)
Investments/ Security deposits/ Other capital expenditure	(10.4)
Interest and other costs of finance	(5.5)
Ongoing administration, operational and production related costs	(28.3)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	(143.3)
Exchange rate adjustment	(12.8)
CLOSING CASH BALANCE 31 DECEMBER 2011	215.5

Summary of Cash Balance	
Cash on Hand and at Call (incl. Term Deposits)	35.3
Funds for Phase 2 Construction (Restricted Cash)	180.2
CLOSING CASH BALANCE 31 DECEMBER 2011	215.5

The total cash at the end of December was \$215.5m represented by unrestricted cash of \$35.3m plus restricted cash of \$180.2m. The restricted cash is only available to fund capital expenditure associated with the Phase 2 expansion of the Concentrator at Mt Weld and the LAMP in Malaysia.

The currency composition of unrestricted cash was A\$15m, US\$7m and MYR43m, while the currency composition of the restricted cash was A\$40m and US\$143m.

On 25 January 2012, unrestricted cash increased following the receipt of the US\$50m subscription amount for Tranche 1 of the Company's new Mount Kellett convertible bond facility.

FOREX

Volatility in the forex markets continued in the quarter with the Australian dollar appreciating by 3.9% and 3.5% respectively against the US\$ and the Ringgit resulting in a \$12.8m unfavourable exchange rate adjustment for the quarter. This is partially offset by a reduction in the long term debt liability which reduced from \$229.8m at the end of September 2011 to \$221.2m at the end of December 2011.

WORKING CAPITAL

In the September quarterly report we estimated that first feed to kiln at the LAMP would begin early in 2012. Since then, additional engineering completion requirements and consequential delays in procurement, as well as the recent monsoon season, have led to construction delays to Phase 1. Our construction manager now expects construction to be completed in time to allow first feed to kiln and first production during the second quarter 2012. This time delay results in an additional operational and working capital funding cost which we estimate will, in due course, be in the order of \$47m.

In addition to delays in construction, since September 2011 the forecast final capital cost of construction for Phase 1 has increased by circa \$42m. This increase reflects additional engineering requiring additional procurement as well as associated delay claims.

Collectively these changes result in approximately an additional \$100m of funding required until Phase 1 cash sales commence.

As announced on 22 September 2011 the company had finalised an 18 month \$125m working capital facility with J.P. Morgan and Sumitomo Mitsui Banking Corporation (SMBC) to fund the then anticipated completion costs for Phase 1 as well as working capital needs to the then anticipated cash sales revenues from Phase 1. This facility has not been utilised and has since been retired.

Instead, as announced on 24 January 2012, the company has replaced the \$125m J.P. Morgan and SMBC facility and will fund its additional \$100m of Phase 1 related funding needs through a 4.5 year unsecured US\$225m convertible bond issue to funds managed by Mount Kellett Capital Management .

EXPENDITURE ON PHASE 1 OF THE RARE EARTHS PROJECT

As noted above there is a revised completion schedule and cost associated with Phase 1 of the Rare Earth 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 31 DECEMBER '11 A\$M	FUTURE SPEND A\$M
Mount Weld Concentration Plant	75.4	75.4	0.0
Advanced Materials Plant, Malaysia	349.1	255.0	94.1
Engineering & Project Management Cost	146.9	139.6	7.3
Other Capex including Land at Gebeng **	61.9	61.9	0.0 **
Contingency	7.5		7.5
TOTAL	640.9	532.0	108.9

** The future expenditure for Other Capex is shown below in Other Capital Expenditure.

As noted previously, Lynas has agreed terms for a US\$225m convertible bond issue to fund the completion of Phase 1 as well as associated operational and working capital needs. Consequently the forecast future spend on Phase 1 of \$108.9m will be financed from cash on hand at 31 December 2011 together with proceeds from the convertible bond issue.

With respect to the US\$225m convertible bonds, Lynas received the first tranche amount of US\$50m on 25 January 2012, with the balance of US\$175m of the convertible bonds to be subscribed upon the satisfaction of specific conditions precedent, including completion of technical due diligence (which are expected to be satisfied in February 2012).

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 which will be funded from the remaining Restricted Cash of \$180.2m. The Restricted Cash is drawn from the Sojitz/JOGMEC funding of US\$250m referred to in the Company's ASX announcement dated 30 May 2011.

OTHER CAPITAL EXPENDITURE

In addition to capital expenditure on Phase 1 and Phase 2 at Mt Weld and the LAMP, the Company has plans to spend approximately \$32m before the end of December 2012 on other capital expenditure that sustains ongoing operations.

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.