

---

**QUARTERLY REPORT**  
**FOR THE PERIOD ENDING 31 DECEMBER 2012**

---

**HIGHLIGHTS**

---

- During the quarter, Lynas was pleased to announce the first arrival of Rare Earths concentrate at the Lynas Advanced Materials Plant (LAMP) and subsequent first feed to kiln. The commencement of operations at the LAMP represents a significant milestone for the Company in its progress to becoming a major supplier of Rare Earths outside China. Lynas is now able to provide real data showing that the LAMP is entirely safe for our local communities and the environment.
- Subsequent to the end of the period, Lynas confirmed the successful commissioning of the cracking and leaching extraction units at the LAMP. This involves the cracking of the concentrate through the kilns followed by the leaching circuit to produce a mixed Rare Earths sulphate. The process has achieved recovery rates of more than 90% of contained Rare Earths oxides through the cracking units. The mixed Rare Earths sulphate is now being fed into the solvent extraction units for ultimate production of individual Rare Earths products. Lynas anticipates initial commercial Rare Earths product samples will be available in February with the ramp up to nominal Phase 1 capacity to take place over the coming months.
- The Company's financial position was strengthened significantly following the successful completion of the \$150 million Institutional Placement and \$25 million Share Purchase Plan. Lynas anticipates having required working capital through to positive cash flow, the necessary funds to meet capital expenditure requirements and a significant cash buffer to allow for unforeseen events. At the end of the quarter, the Company had \$189.5 million of unrestricted available cash on hand.
- The Phase 2 expansion of the production capacity of the LAMP to 22,000 tonnes per annum of REO, was 90% construction complete as at the end of the quarter and is within budget. Both Phase 1 and Phase 2 of the LAMP remain Lost Time Injury free after almost 13 million hours worked.
- Lynas' global operations (employees and contractors) recorded zero Lost Time Injuries during the quarter.

---

## CORPORATE

---

During the quarter, Lynas was pleased to announce the first arrival of Rare Earths concentrate at the Lynas Advanced Materials Plant (LAMP) and subsequent first feed to kiln. The commencement of operations at the LAMP represents a significant milestone for the Company in its progress to becoming a major supplier of Rare Earths outside China. Lynas is now able to provide real data showing that the LAMP is entirely safe for our local communities and the environment.

Subsequent to the end of the period, Lynas confirmed the successful commissioning of the cracking and leaching extraction units at the LAMP. This involves the cracking of the concentrate through the kilns followed by the leaching circuit to produce a mixed Rare Earths sulphate. The process has achieved recovery rates of more than 90% of contained Rare Earths oxides through the cracking units. The mixed Rare Earths sulphate is now being fed into the solvent extraction units for ultimate production of individual Rare Earths products. Lynas anticipates initial commercial Rare Earths product samples will be available in February with the ramp up to nominal Phase 1 capacity to take place over the coming months.

The Company's financial position was strengthened significantly following the successful completion of the \$150 million Institutional Placement and \$25 million Share Purchase Plan. Lynas anticipates having required working capital through to positive cash flow, the necessary funds to meet capital expenditure requirements and a significant cash buffer to allow for unforeseen events. At the end of the quarter, the Company had \$189.5 million of unrestricted available cash on hand.

The Phase 2 expansion of the production capacity of the LAMP to 22,000 tonnes per annum of REO, was 90% construction complete as at the end of the quarter and is within budget. Both Phase 1 and Phase 2 of the LAMP remain Lost Time Injury (LTI) free after almost 13 million hours worked.

During the period, the Malaysian courts decided on two occasions that parties associated with the Save Malaysia Stop Lynas (SMSL) group are not entitled to an interim injunction against Lynas' Temporary Operating License (TOL). The key decisions were by the Kuantan High Court on 8 November 2012 and the Malaysian Court of Appeal on 19 December 2012. SMSL may appeal to the Federal Court of Malaysia, however Lynas expects that the grounds of appeal would be the same as those that were rejected by the Court of Appeal.

In addition, during 2012, three judicial review challenges were filed by SMSL against the TOL. Two of those challenges have now been dismissed. The key decision dates were 12 April 2012 (Kuala Lumpur High Court), 10 September 2012 (Court of Appeal) and 29 January 2013 (Kuantan High Court). Subject to SMSL appealing to the Court of Appeal or the Federal Court, only one judicial review challenge remains. Lynas and the Malaysian government intend to strongly defend the remaining judicial review challenge.

The remaining judicial review challenge was originally scheduled to be heard by the Kuantan High Court on 5 February 2013. That date will now be postponed to enable the court to deal with some preliminary matters and no new date has been set.

## 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. 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 Phase 2 construction and tie-ins, maintenance, system development and training. A number of short production trials were conducted during October and November to commission the equipment and process modifications made during the shutdown. The first parcel of concentrate was shipped to Kuantan, Malaysia from Fremantle Port during November 2012. At the end of the quarter, 15,200 dry tonnes of concentrate containing 5,410 tonnes of REO were bagged ready for export.

### MALAYSIA OPERATIONS

During the quarter, Lynas announced the first arrival of Rare Earths concentrate at the Lynas Advanced Materials Plant (LAMP) and subsequent first feed to kiln. The commencement of operations at the LAMP represented a significant milestone for the Company in its progress to becoming a major supplier of Rare Earths outside China. Lynas is now able to provide real data showing that the LAMP is entirely safe for our local communities and the environment.

Subsequent to the end of the period, the Company announced the successful commissioning of the cracking and leaching units of the LAMP. This involves the cracking of the concentrate through the kilns followed by the leaching circuit to produce a mixed Rare Earths sulphate. The process has achieved recovery rates of more than 90% of contained Rare Earths oxides through the cracking units. The mixed Rare Earths sulphate is now being fed into the solvent extraction units for ultimate production of individual Rare Earths products.

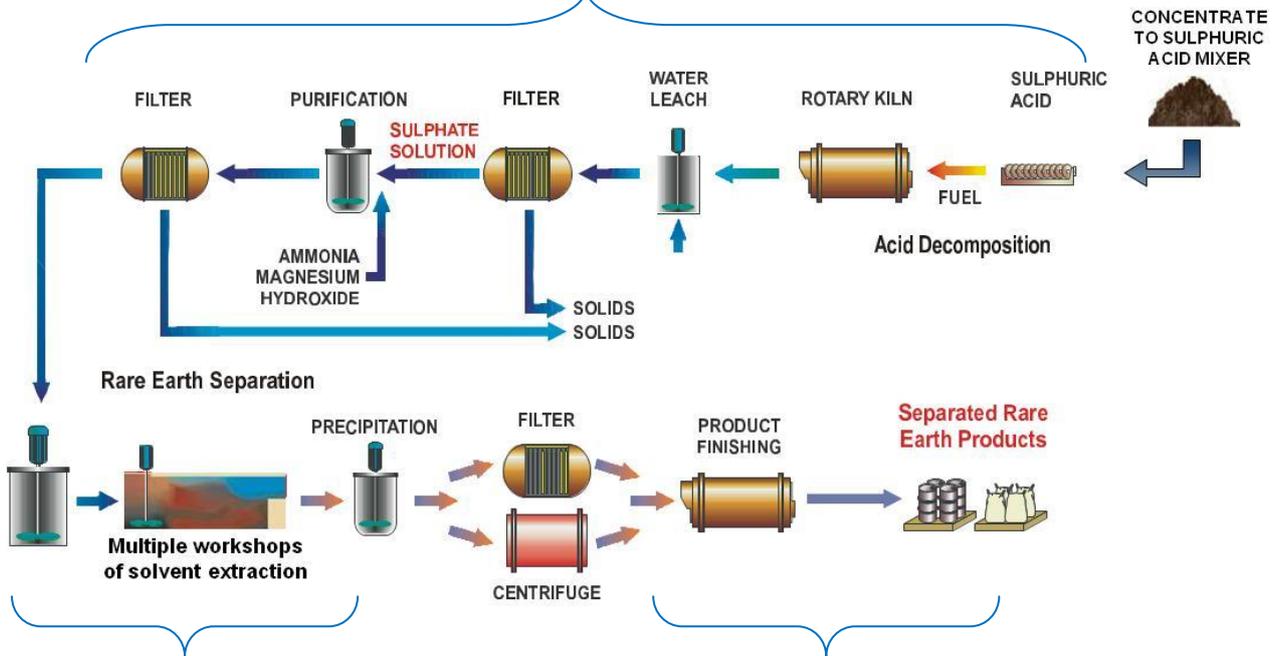
Consistent with starting up a new greenfield plant, the Company has identified a number of minor procurement and equipment-related matters during commissioning. These issues have not materially impacted on the overall expected production ramp-up schedule and it is expected that initial commercial Rare Earths product samples will be available in February.

As a consequence of successful commissioning of the cracking and leaching process, Lynas is now producing sufficient quantities of solids residues to start the production of synthetic gypsum and aggregate co-products. This will provide co-product samples for testing and market trials that are a necessary precursor for commercial off-take contracts.

During the period, Lynas hosted 9 site visits for universities, government agencies and neighbouring companies including the Universiti Malaysia Kelantan, Kuantan Municipal Council, Universiti Malaysia Pahang, Universiti Teknologi MARA and Universiti Malaysia Terengganu. Lynas is engaged in a large public consultation program and has communicated directly with more than 15,000 local residents, community leaders, villagers and their families since July 2011. Lynas' engagement with the Malaysian community will continue for the life of the plant.

## LAMP process overview and ramp-up progress

Cracking and leaching units  
successfully commissioned in January



Rare Earths sulphate solution is now being separated in solvent extraction units

Initial commercial Rare Earths product samples expected in February

## Waste Gas Treatment Plant and Rotary Kilns



## Leaching, Extraction and Product Finishing areas



---

## ENGINEERING AND CONSTRUCTION UPDATE

---

### 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 December 2012 was 84%. Engineering activities were 96% complete, procurement activities at 98% and construction 69% complete. The Project remains LTI free after 78,269 construction hours worked. Total headcount on the construction site at the end of December 2012 was 58.

**Flotation cell installation**



**Thickener Area**



**Filter Press**



**Switch Room & Control Room**



## LAMPS Up in Malaysia

The LampsUp Project in Malaysia continues to achieve excellent HSE performance with overall recorded project hours to 31 December 2012 of 4.1 million hours Lost Time Injury (LTI) free.

The overall project's cumulative progress achieved up to the end of December 2012 was 96%. Engineering and procurement activities are complete. The construction activities reached 90% complete. Total headcount at site has peaked at about 2,300 in mid-December and has already started to decrease as the project comes to completion.



Rotary Kiln



Product Finishing (calcination)

## SUSTAINABILITY

Lynas' global operations (employees and contractors) recorded zero lost time injuries during the quarter. There were no breaches of the company's environmental licence conditions during the period.

Our global operations continue to implement the Lynas Integrated Operational Management System Standards (LIOMSS), which incorporates compliance with:

- OHSAS 18001:2007, Occupational Health and Safety Management Systems
- ISO14001:2004, Environmental Management Systems, and
- ISO9001:2008. Quality Management Systems.

As announced in the prior quarter, the Lynas Western Australian Integrated Operational Management System Standards was externally audited by Bureau Veritas and was subsequently certified to Safety, Environment and Quality Management Standards (ISO and OHSAS). External certification to the OHSAS 18001, ISO 14001 and ISO 9001 standards was maintained during the current quarter.

Bureau Veritas conducted a review of Lynas Malaysia's compliance with the safety, environment and quality components of LIOMSS and internationally recognised standards: OSHAS 18001, ISO 14001 & ISO 9001. This represents a major step forward to achieving external certification in 2013 as the LAMP moves into continuous operations.

Lynas Malaysia continued to engage with local communities during the quarter. Invitations were forwarded to community leaders, state political party leaders, government agencies, schools and universities in Kuantan to visit the LAMP and receive the factual and correct information about Lynas.



Site tour and information session to Council Members and Head of Divisions from Majlis Perbandaran Kuantan (Kuantan Municipal Council)



Site tour and information session to Pengurusan Air Pahang Berhad (PAIP).

## GLOBAL MARKET ACTIVITY

---

### INDUSTRY NEWS

Market conditions in the final quarter of 2012 remained subdued as Rare Earths-consuming companies continued to defer purchases of fresh materials. A number of consumers continue to work through inventories accumulated during the industry crisis in 2010-11. In response to this trend, China's largest Rare Earths producers, including Baotou Hi-Tech, Minmetals and Chinalco, temporarily suspended production at a number of their facilities during Q4. In late December, Baotou Hi-Tech announced that it would extend its temporary suspensions to the end of January 2013.

The recent production suspensions highlight the ongoing rationalisation of the Chinese Rare Earths industry and the cost impacts of stricter enforcement of environmental standards and industry oversight. As further evidence of the consolidation of the industry in China, Baotou Hi-Tech announced in December that it had signed agreements with 12 Inner Mongolia-based upstream Rare Earths enterprises as part of its plans to establish a China Northern Rare Earths Group.

In November 2012, China's Ministry of Commerce announced the application conditions and procedures under which Rare Earths enterprises may apply for export quotas in 2013. These conditions included requirements that the enterprises have registered capital above RMB50 million and have exported Rare Earths every year from 2009 to 2011 and that the enterprises have passed ISO9000 quality system certification and export Rare Earths products from approved enterprises as announced by the Ministry of Environmental Protection.

In December 2012, China's Ministry of Commerce assigned export quotas of 15,499 tonnes in the first half of 2013 to "interim qualified" and "pending" companies. The first half 2013 export quotas represent roughly half the total quota for 2012.

In early January 2013, China's Ministry of Land and Resources set the first batch of 2013 domestic Rare Earths production quotas at 46,900 tonnes REO. The first batch represents roughly half the quota in each of the prior two years. The first batch includes mining quotas of 37,950 tonnes REO of mainly light Rare Earths and 8,950 tonnes REO of mainly medium and heavy Rare Earths. According to the Ministry the second half production quota for 2013 will be announced in the second quarter. In an effort to limit the illegal exploitation of China's Rare Earths resources the Ministry has also reduced the number of Rare Earths mining permits from 113 to 67.

## RARE EARTHS PRICES

Compared with the prior quarter, the average Mount Weld “basket price” decreased by 19% during Q4 2012 to US\$42.92/kg on a China FOB basis. The “basket price” declined by 15% to US\$26.02/kg on a China domestic basis. Prices on both 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 |              |              |
|                                        |                     | Q4 2011                    | Q3 2012      | Q4 2012      |
| Purity 99% min                         | % Rare Earth Oxide* |                            |              |              |
| Lanthanum Oxide                        | 25.50%              | 66.46                      | 19.54        | 13.92        |
| Cerium Oxide                           | 46.74%              | 59.31                      | 20.38        | 15.31        |
| Neodymium Oxide                        | 18.50%              | 244.23                     | 105.31       | 87.46        |
| Praseodymium Oxide                     | 5.32%               | 209.62                     | 108.85       | 88.46        |
| Samarium Oxide                         | 2.27%               | 95.31                      | 64.77        | 34.85        |
| Dysprosium Oxide                       | 0.12%               | 2032.31                    | 967.69       | 716.15       |
| Europium Oxide                         | 0.44%               | 3800.00                    | 2020.00      | 1853.08      |
| Terbium Oxide                          | 0.07%               | 2973.85                    | 1938.46      | 1446.15      |
| <b>Av. Mt Weld Composition</b>         |                     | <b>123.69</b>              | <b>53.28</b> | <b>42.92</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 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 |              |              |
|                                             |                     | Q4 2011                    | Q3 2012      | Q4 2012      |
| Purity 99% min                              | % Rare Earth Oxide* |                            |              |              |
| Lanthanum Oxide                             | 25.50%              | 18.28                      | 10.82        | 8.18         |
| Cerium Oxide                                | 46.74%              | 20.65                      | 10.98        | 8.18         |
| Neodymium Oxide                             | 18.50%              | 122.77                     | 68.88        | 60.60        |
| Praseodymium Oxide                          | 5.32%               | 106.95                     | 67.13        | 60.79        |
| Samarium Oxide                              | 2.27%               | 14.49                      | 9.88         | 8.19         |
| Dysprosium Oxide                            | 0.12%               | 1085.35                    | 596.94       | 452.71       |
| Europium Oxide                              | 0.44%               | 2228.39                    | 1028.38      | 937.74       |
| Terbium Oxide                               | 0.07%               | 1765.10                    | 874.03       | 709.92       |
| <b>Av. Mt Weld Composition</b>              |                     | <b>56.06</b>               | <b>30.64</b> | <b>26.02</b> |

\* 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 fourth 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 31 December 2012 is set out below.

| CASH FLOW                                                    | A\$M          |
|--------------------------------------------------------------|---------------|
| <b>OPENING CASH BALANCE 1 OCTOBER 2012</b>                   | <b>126.7</b>  |
| <b>INFLOWS</b>                                               |               |
| Interest income                                              | 0.4           |
| Proceeds from the issue of share capital                     | 175.0         |
| <b>TOTAL INFLOW OF FUNDS IN THE QUARTER</b>                  | <b>175.4</b>  |
| <b>OUTFLOWS</b>                                              |               |
| Mt Weld Concentration Plant – Phase 1                        | -             |
| Malaysian Advanced Materials Plant – Phase 1                 | (12.5)        |
| Mt Weld Concentration Plant – Phase 2                        | (6.7)         |
| Malaysian Advanced Materials Plant – Phase 2                 | (14.9)        |
| Investments/ Security deposits/ Other capital expenditure    | (4.7)         |
| Interest expense and other costs of finance                  | (1.3)         |
| Transaction costs associated with the issue of share capital | (5.3)         |
| Ongoing operational, production and administration costs     | (30.4)        |
| <b>TOTAL OUTFLOW OF FUNDS IN THE QUARTER</b>                 | <b>(75.8)</b> |
| <b>Exchange rate adjustment</b>                              | <b>(0.1)</b>  |
| <b>CLOSING CASH BALANCES 31 DECEMBER 2012</b>                | <b>226.2</b>  |

|                                                  |              |
|--------------------------------------------------|--------------|
| <b>Summary of Cash Balance</b>                   |              |
| Cash on Hand and at Call (incl. Term Deposits)   | 189.5        |
| Funds for Phase 2 Construction (Restricted Cash) | 36.7         |
| <b>CLOSING CASH BALANCES 31 DECEMBER 2012</b>    | <b>226.2</b> |

Total cash at 31 December 2012 of A\$226.2m was represented by unrestricted cash of A\$189.5m plus restricted cash of A\$36.7m (which is available principally 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 A\$0.4m.

### FOREX

The currency composition of unrestricted cash at 31 December 2012 was A\$172.8m, US\$15.3m and MYR6.0m, while the currency composition of the restricted cash was A\$14.6m, US\$23.0m and MYR0.1m. During the quarter the Australian dollar depreciated by 0.1% against the US\$ and depreciated by 1.5% against the Ringgit resulting in a (\$0.1)m exchange rate adjustment for the quarter.

#### **EXPENDITURE ON PHASE 1 OF THE RARE EARTHS PROJECT**

The forecasted total cost for the project remained unchanged during the quarter (\$647.9m). With final Phase 1 construction activities at the LAMP completed during the quarter in conjunction with the final pre-commissioning activities, outstanding settlement on the project reduced to \$8.2m as at December 31, 2012. These remaining settlements relate primarily to warranty retention payments timed to be paid out gradually over the following 2 years.

#### **EXPENDITURE ON PHASE 2 OF THE RARE EARTHS PROJECT**

There is no change to the estimated capital cost of the Phase 2 expansion project which will be funded from the remaining Restricted Cash of \$36.7m. Cash settlements for the quarter ended 31 December 2012 relating to Mt Weld were \$6.7m and at the LAMP \$14.9m.

#### **FUNDING AND COMPLETION OF INSTITUTIONAL PLACEMENT AND SHARE PURCHASE PLAN**

On 9 November 2012, Lynas Corporation announced an equity raising to deliver gross proceeds of up to approximately A\$200m. The equity raising comprised a fully underwritten Institutional Share Placement ("ISP") and a partially underwritten Share Purchase Plan ("SPP"). Funds raised are to be used for working capital and general corporate purposes during commissioning and ramp-up at the LAMP. Following the successful completion of the equity raising, Lynas anticipates having required working capital through to positive cash flow, necessary funds to meet capital expenditure requirements and a significant cash buffer to allow for unforeseen events.

Following completion of the ISP and the SPP, net equity proceeds raised in the quarter amounted to \$169.7m