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15 June 2006

Company Announcement Office
Australian Stock Exchange Limited

Offering Circular for \$35 million Convertible Notes Issue

Following the announcement this morning that the Company has finalised subscriptions for a \$35 million Convertible Notes Issue we now attach a copy of the Offering Circular which sets out the terms and conditions of the Notes.



Ivo Polovineo
Company Secretary



OFFERING CIRCULAR DATED 6 JUNE 2006

Lynas Corporation Limited

(ABN 27 009 066 648)

(incorporated with limited liability in Australia under the Australian Corporations Act 2001(Cth))

A\$27,000,000

(plus oversubscriptions of up to A\$8,000,000)

8.25 per cent. Convertible Notes due 2011

Convertible into ordinary shares of
Lynas Corporation Limited

Issue Price 100 per cent.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 11.

Co-Managers

Transocean Securities Pty Ltd

Patersons Securities Limited

Lynas Corporation Limited (the "**Issuer**" or the "**Company**") has confirmed that this Offering Circular contains all information regarding the Issuer, its 8.25 per cent Convertible Notes due 2011 (the "**Notes**") and the ordinary shares (the "**Shares**") of the Issuer into which the Notes are convertible which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions or intentions expressed in this Offering Circular on the part of the Issuer are honestly held or made; this Offering Circular does not omit to state any material fact necessary to make such information, opinions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing. The Issuer accepts responsibility for the information contained in this Offering Circular.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Managers.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstance create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes or Shares.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes and the Shares have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**"). Subject to certain exceptions, Notes may not be offered or sold in the United States or to U.S. persons.

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore and the Notes are offered pursuant to exemptions invoked under Section 274 and/or Section 275 of the Securities and Futures Act (Chapter 289) of Singapore (the "**Securities and Futures Act**"). Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, (ii) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Application will be made for the listing of the Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST") within 7 days after the Issue Date. The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, its subsidiaries, its associated companies or the Notes.

The Notes will be issued in the denomination of A\$1,000 each.

In this Offering Circular, unless otherwise specified, references to "U.S.\$" are to United States dollars, references to "RMB" are to the currency of the People's Republic of China, references to "A\$" or "Australian dollar", are to Australian dollars, references to the "PRC" are to the People's Republic of China, references to "Mt" are to metric Megatonnes (equal to 1,000,000 metric tonnes).

Certain figures included in this Offering Circular have been subject to rounding adjustments, accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Certain of the information contained in this Offering Circular constitutes "forward-looking statements". Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral deposits, the possibility that future exploration, development or mining results will not be consistent with the Issuer's expectations, metal recoveries, accidents, equipment breakdowns, title matters, labour disputes or other unanticipated difficulties with or interruptions in production, the potential for delays in exploration or development activities or the completion of feasibility studies, political risks involving operations in foreign jurisdictions and the policies of other nations towards companies doing business in these jurisdictions, the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations, failure to obtain required financing on a timely basis and other risks and uncertainties. The Issuer undertakes no obligation after the date of this Offering Circular to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future which may affect information contained herein.

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DOCUMENTS INCORPORATED BY REFERENCE

Each document incorporated herein by reference is current only as at the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of the Issuer and affiliates taken as a whole, as the case may be, since the date thereof or that the information contained therein is current as at any time subsequent to its date. Any statement contained therein shall be deemed to be modified or superseded for the purposes of this Offering Circular to the extent that a subsequent statement contained in another incorporated document or herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The documents set out below shall be deemed to be incorporated in, and to form part of, this Offering Circular the audited consolidated financial statements of the Issuer for the financial years ended 30 June 2005 and 2004 and the auditors' reports thereon.

Prospective investors are advised to obtain and read the documents incorporated by reference herein before making their investment decision in relation to the Notes.

SUMMARY OF THE OFFERING

The following summary does not purport to be complete and is qualified in its entirety by the remainder of this Offering Circular, Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this summary.

SUMMARY OF THE OFFERING

Issuer	Lynas Corporation Limited.
Issue	A\$27,000,000 8.25 per cent. Convertible Notes due 2011 convertible into Shares.
Oversubscriptions	At the discretion of the Issuer up to an additional A\$8,000,000 8.25 per cent Convertible Notes due 2011 convertible into Shares
Shares	Ordinary shares in the share capital of the Issuer. The Shares are listed for trading on the Australian Stock Exchange.
Issue Date	11 August 2006
Issue Price	100 per cent.
The Offering	The Notes are being offered outside the United States to non-U.S. persons in accordance with Regulation S under the United States Securities Act of 1933.

THE DEBT SECURITY

Denomination	The Notes will be issued in the denomination of A\$1,000 each.
Status	The Notes constitute direct, unsubordinated, unconditional and unsecured obligations of the Issuer which will rank at all times, <i>pari passu</i> among themselves and at least <i>pari passu</i> with all present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Notes will contain a negative pledge provision as further described in "Terms and Conditions of the Notes - Negative Pledge".
Interest	The Notes bear interest from the Issue Date at

	8.25 per cent. per annum payable quarterly in arrears on each Interest Payment Date.
Final Maturity	Unless previously redeemed, converted, or purchased and cancelled, the Notes will be redeemed on 11 August 2011 at their principal amount.
Redemption at the Option of the Issuer	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with accrued interest to the date fixed for redemption at any time if prior to the date on which the relevant notice of redemption is given by the Issuer less than 10 per cent. in principal amount of the Notes originally issued (including any further notes consolidated and forming a single series with the Notes at such date) remain outstanding.
Redemption at the Option of Noteholders	The Issuer shall, at the option of the Noteholder redeem such Note on any date falling within 90 days of an announcement (if any) by the Relevant Exchange that the Shares have ceased (or will cease) to be listed or traded on the Relevant Exchange and the Shares are not immediately re-listed on another stock exchange.
Underwriter Redemption	<p>If following the Issue Date, the Underwriter delivers a written notice to the Issuer (Underwriter Notice) to the effect that:</p> <ol style="list-style-type: none"> (1) conversion of all of the Notes held by the Underwriter would cause the Underwriter to hold an interest in more than 15% of the issued Shares in the Issuer; and (2) the Underwriter will within 30 days after the date of the Underwriter Notice apply for approval by the Federal Treasurer of Australia of such interest under the <i>Foreign Acquisitions & Takeovers Act 1975</i>; <p>then, if such approval by the Federal Treasurer of Australia is not obtained within 6 months after the date of the Underwriter Notice, then, at the option of the Underwriter, the Issuer will</p>

	<p>be required to redeem such of the Notes held by the Underwriter as would cause the interest of the Underwriter upon conversion of all of its Notes to be an interest in less than 15% of the issued Shares in the Issuer.</p>
Tax Redemption	<p>The Issuer may redeem all but not some only of the Notes at their principal amount together with interest in the event of certain changes affecting taxation in respect of payments on the Notes, subject to the right of Noteholders to elect not to have the Notes redeemed and thereafter to receive payments of interest on the Notes subject to withholding or deduction on account of relevant taxation (see "<i>Taxation</i>").</p>
Taxation	<p>All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Australia or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law.</p>
Non-Payment	<p>The Notes will contain a default provision covering failure to pay principal or interest in respect of the Notes as further described in "<i>Terms and Conditions of the Notes - Events of Default</i>".</p>
Cross Default	<p>The Notes will contain a cross default provision as further described in "<i>Terms and Conditions of the Notes - Events of Default</i>".</p>
Other Events of Default	<p>For a description of certain other events that will permit acceleration of the Notes see "<i>Terms and Conditions of the Notes - Events of Default</i>". If any event that will permit acceleration occurs, then the Trustee at its discretion may and, if so requested in writing by holders of at least one half of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall declare the Notes to be immediately due and payable at their principal amount together</p>

with accrued interest.

THE EQUITY OPTION

Conversion Right	The holder of each Note has the right to convert such Note into fully-paid Shares at any time during the Conversion Period. The number of Shares to be delivered upon conversion shall be determined by dividing the principal amount of the Note by the Conversion Price in effect on the Conversion Date.
Conversion Period	The period beginning on and including the Issue Date and ending on and including the earlier to occur of: <ol style="list-style-type: none">(1) the close of business on the day which is 10 days before the Maturity Date; and(2) if the Notes shall have been called for redemption before the Maturity Date, the close of business on the day which is 10 days before the date fixed for redemption.
Conversion Price	A\$0.40, subject to adjustment in accordance with the Conditions.
Conversion at the Election of the Issuer	The Issuer has the right to require the conversion of each Note into fully paid Shares at any time prior to redemption if: <ol style="list-style-type: none">(1) prior to 12 months after the Issue Date, the Volume Weighted Average Price of the Shares on the ASX for any period of 30 consecutive calendar days exceeds A\$0.80; or(2) at any time 12 months or more after the Issue Date, the Volume Weighted Average Price of the Shares on the ASX for any period of 30 consecutive calendar days exceeds A\$1.20.

ADJUSTMENTS TO THE CONVERSION PRICE

Change of Control	A Change of Control Event occurs if an offer in respect of the Shares has become or been declared unconditional in all respects and the Issuer becomes aware that the right to cast
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more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Shareholders has or will become unconditionally vested in the offeror and/or any associates(s) of the offeror, or an event occurs which has a like or similar effect.

If and whenever a Change of Control Event occurs, the Noteholders shall have the right for a period of 60 days to convert their Notes at a Conversion Price adjusted in accordance with Condition 16.

Other Anti-Dilution Provisions

The Notes will contain other provisions for the adjustment of the Conversion Price in the event of the occurrence of certain dilutive events including, amongst others, share consolidations, share splits, and bonus issues.

MISCELLANEOUS

Governing Law

The Notes, the Trust Deed and the Agency Agreement will be governed by New South Wales law.

Trustee

J.P. Morgan Trust Australia Limited

Listing

Application will be made for listing of the Notes on the SGX-ST within 7 days after the Issue Date.

The Notes will be traded in a minimum board lot size of A\$200,000 for so long as the Notes are listed on the SGX-ST.

Clearing

Application will be made for clearance of the Notes through Austraclear. The ISIN and Common Code will be notified to Noteholders within 7 days after the Issue Date.

RISK FACTORS

The nature of the Issuer's business and its stage of development make the Issuer subject to a number of risk factors. Prior to making an investment decision, prospective investors should carefully consider the following risk factors along with the other matters set out in this Offering Circular. The following risk factors could affect the Issuer's actual results and could cause them to differ materially from the estimates in any forward-looking statements of the Issuer.

General Risks

New projects are subject to technical risks in that they may not perform as designed. Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. Such an outcome would have a negative impact on the Issuer's expected cashflow.

Estimates of Reserves, Mineral Deposits and Production Costs

Although the Ore Reserve and Mineral Resource estimates for the Issuer's mineral properties have been carefully prepared by the Issuer, or, in some instances have been prepared, reviewed or verified by independent mining experts or experienced mining operators, these amounts are estimates only and no assurance can be given that any particular level of recovery from Ore Reserves will in fact be realised or that an identified Mineral Resource will ever qualify as a commercially mineable (or viable) orebody which can be legally and economically exploited. Estimates of Ore Reserves, Mineral Resources and production costs can also be affected by such factors as environmental permission regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short term factors relating to Ore Reserves, such as the need for orderly development of orebodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. There can be no assurance that rare earths recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions or in production scale. Material changes in Ore Reserves, grades, stripping ratios or recovery rates may affect the economic viability of projects. Ore Reserves are reported as general indicators of mine life and should not be interpreted as assurances of mine life or of the profitability of current or future operations.

Risks of Development and Construction of Mining Operations

The Issuer's ability to meet production, timing and cost estimates for the mining tenements at Mt Weld in Western Australia cannot be assured. Technical considerations, delays in obtaining governmental approvals, inability to obtain additional financing (if required) or other factors could cause delays in developing the Tenements. Such delays could materially adversely affect the financial performance of the Issuer.

The business of mining is subject to a variety of risks such as cave-ins and other accidents, flooding, environmental hazards, and other hazards. Such occurrences may delay production, increase production costs or result in liability. The Issuer has insurance in amounts that it considers to be adequate to protect itself against certain risks of mining and processing. However, the Issuer may become subject to liability for hazards which it cannot insure against or which it

may elect not to insure against because of high premium costs or other reasons. In particular, the Issuer is not insured for environmental liability or earthquake damage.

Risks of Development and Construction of Processing Operations

The Issuer's ability to meet production, timing and cost estimates for the processing operations involving extraction of the mixed rare earths oxides at its proposed plant in Zibo, China cannot be assured. Technical considerations, delays in obtaining governmental approvals, or other factors could cause delays in construction of the processing plants. Such delays could materially adversely affect the financial performance of the Issuer.

Whilst the processing route has been determined, the Issuer has not yet completed detailed design for the processing plant. As such, both the estimated start up time for the operation and the capital costs associated with the plant may alter.

In addition, the commissioning period to produce the quality of product required for customer acceptance may be longer than anticipated, and could adversely affect the financial performance of the Issuer.

Foreign Country and Regulatory Requirements

The Issuer's business model contemplates mining in Australia and processing in China and these activities may be affected in varying degrees by government regulations relating to the mining industry in Australia, or foreign investment in industrial production in China. Any changes in regulations or shifts in political conditions are beyond the control of the Issuer and may adversely affect its business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and plant safety.

Share Market Conditions

There are risks involved with any investment in securities convertible into listed shares. The value of the Issuer's shares listed on the Australian Stock Exchange (the "ASX") may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Issuer's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Issuer is a listed company on the ASX, its Share price is subject to numerous influences, which may affect both the broad trend in the share market and the share prices of individual companies and sectors.

Economic Conditions

Australian, Chinese and world economic conditions may affect the performance of the Issuer. Factors such as inflation, currency fluctuations, interest rates, industrial disruption and economic growth may impact on future operations and earnings.

Government Policies and Legislation

The introduction of new policies, legislation or amendments to existing policies or legislation by governments or the interpretation of those laws in either Australia or China, could impact adversely on the assets, operations and ultimately the financial performance of the Issuer.

BUSINESS RISKS

Dependence upon Key Personnel

The Issuer's success depends to a significant extent upon key management personnel both here in Australia and in China, as well as other management and technical personnel including those employed on a contractual basis. The loss of the services of certain personnel could have an adverse effect upon the Issuer. The Issuer has endeavoured to address this concern by securing several key personnel to service contracts.

Enforcement of Legal Rights

The rights of the Issuer to participate in its joint ventures are predicated upon the series of joint venture documents. Should it become necessary for the Issuer to seek to enforce its rights under any or all of these agreements, it would need to do so in accordance with the laws of at least China and perhaps other jurisdictions. There can be no assurance that should it become necessary for the Issuer to take such action, it will be possible to fully obtain the legal remedies that are being sought.

Environmental and Safety Regulation and Risks

Environmental laws and regulations may affect the operations of the Issuer. These laws and regulations set various standards regulating certain aspects of health and environmental quality. They provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to rehabilitate current and former facilities and locations where operations are or were conducted. Furthermore the permission to operate could be withdrawn temporarily where there is evidence of serious breaches of health and safety, or even permanently in the case of extreme breaches.

Significant liabilities could be imposed on the Issuer for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of acquired properties or non-compliance with environmental laws or regulations. In all major developments, the Issuer generally relies on recognised designers and constructors from which the Issuer will, in the first instance, seek indemnities. In addition, the Issuer intends to minimise these risks by taking steps to ensure compliance with environmental, health and safety laws and regulations and operating to international environmental standards. There is also a risk that the environmental laws and regulations in China may become more onerous, making the Issuer's operations in that country more expensive.

Additional Financing Requirements

The Issuer anticipates that its projects are likely to require the need for additional equity and/or debt capital in the future. There is no assurance that these additional funds will be raised when they are required or that the terms associated with providing such capital will be satisfactory to the Issuer.

Insurance

In China, insurance cover is a relatively new concept and for certain aspects of a business operation insurance cover is restricted or expensive. The Issuer intends to maintain insurance within ranges of coverage consistent with industry practice, but no assurance can be given that the

Issuer will be able to obtain such insurance coverage at reasonable rates (or at all), or that any coverage it obtains will be adequate and available to cover any such claims.

Exchange Rate Risks

Fluctuations in the A\$ relative to RMB and the U.S.\$ may materially affect the cash flow and earnings which the Issuer will realise from its operations.

Inflation Risks

Inflation may affect the future earnings of the Issuer. An increase in inflation affecting the costs of the operation, without a change in exchange rates and an increase in the price for rare earths products would adversely affect the Issuer's earnings.

Interest Rate Risks

Businesses that borrow money are potentially exposed to adverse interest rate movements that may affect the cost of borrowing, which in turn would impact on earnings, and increase the financial risk inherent in those businesses. Whilst this risk may be reduced through interest rate hedging, such as interest rate swaps or other mechanisms, there is sometimes residual exposure. Movements in interest rates may affect the appropriate discount rate to be used to value investments.

INDUSTRY RISKS

The business may be disrupted by a variety of risks and hazards which are beyond the control of the Issuer, including environmental hazards, industrial accidents, technical failures, processing deficiencies, labour disputes, severe seismic activity, flooding and extended interruptions due to inclement or hazardous weather conditions, fire, explosions, customs and ports delays.

These risks and hazards could also result in damage to or destruction of production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability.

Resource Estimates

Resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when made may change significantly when new information becomes available.

In addition, resource estimates are necessarily imprecise and depend to some extent on interpretations, which may ultimately prove to be inaccurate. Should the Issuer encounter mineralisation different from that predicted by past drilling, sampling and similar examination, resource estimates may have to be adjusted. This adjustment could affect development and mining plans, which could adversely impact the Issuer's operations.

Commodity Price Volatility

Most of the Issuer's revenues will ultimately be derived from the sale of rare earths products. Consequently, the Issuer's expected earnings will be closely related to the international market prices for rare earths products. Market prices for rare earths products fluctuate and are affected by

numerous factors beyond the control of the Issuer. These factors include world demand, forward selling by producers, and production cost levels of major producers.

Moreover, market prices for rare earths products are also affected by macro-economic factors such as expectations regarding inflation, interest rates and global and regional demand for and supply of rare earths products as well as general global economic conditions. These factors may have an adverse effect on the Issuer's exploration, development and production activity as well as on its ability to fund these activities.

CHINA RISK

The Issuer's key processing operations will be located in China. China's economy differs from the economies of most developed countries in many respects, including government intervention; level of development; growth rate; control of foreign exchange; and allocation of resources.

State Ownership

China's economy has been undergoing a transition from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented economic reforms, reduced state ownership and established sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, control of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

The Issuer's future earnings could be affected if the Chinese government was to reverse recent trends and impose restrictions on the Issuer's business.

Government Economic Intervention

The economy of China has experienced significant growth in the past 20 years, but growth has been uneven both geographically and among various sectors of the economy. The PRC government has implemented various measures from time to time to control the rate of economic growth. Some of these measures benefit the overall economy of China, but may have a negative effect on the Issuer. For example, the Issuer's operating results and financial position may be adversely affected by: changes in the rate or method of taxation; imposition of additional restrictions on currency conversion and remittances abroad; reduction in tariff or quota protection and other import restrictions; changes in the usage and costs of state-controlled transportation services; and, state policies affecting the rare earths industry.

Chinese Government Sector Intervention

The central and local governments exercise a substantial degree of control and influence over industry in China and, as a result, approve major capital expenditure projects; set tax levies and incentives; set import quotas and tariffs; and set safety, environmental and quality standards.

If the Chinese government changes its current policies or the interpretation of those policies that are currently beneficial to the Issuer, the Issuer may face significant constraints on its flexibility and ability to expand its business operations or to maximise its profitability.

Under current PRC regulatory requirements, all major capital expenditure projects require PRC and/or provincial government approval. If any of the Issuer's future important projects required for our growth or cost reduction are not approved, or not approved on a timely basis, the Issuer's financial condition and results of operations could be adversely affected.

Foreign Investment

In China, foreign companies such as the Issuer could be required to work within a framework, which is different to that imposed on local companies. However, the Chinese government is opening up opportunities for foreign investment and this process is expected to continue, especially following China's entry into the World Trade Organisation. However, if the Chinese government should reverse this trend and impose greater restrictions on foreign companies, the Issuer's business and future earnings could be negatively affected.

Currency Conversion

The Issuer will incur costs in different currencies, including Australian dollars and RMB. Some additional costs will be associated with conversion into different currencies.

Repatriation of Local Currency

Any profits booked in China from sales of product in China will be subject to the risks associated with repatriation of local currency.

Developing Legal System

The Chinese legal system is a system based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. Two examples are the promulgation of the Contract Law of the PRC to unify the various economic contract laws into a single code, which went into effect on 1 October, 1999, and the Securities Law of the PRC, which went into effect on 1 July, 1999. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, as the Chinese legal system develops, changes in such laws and regulations, their interpretation or their enforcement may have a material adverse effect on the Issuer's business operations.

Approval Process

Nearly all projects require government approval. While the Issuer has generally been successful in obtaining permits, there can be no certainty that these approvals will be granted in a timely manner, or at all.

SPECIFIC RISKS

Export Quota Risk

The Chinese government imposes export quotas on the export of rare earths from China and application, or tightening, of these export quotas to the rare earths production of the Issuer could restrict the Issuer's ability to meet commitments to customers and materially affect the financial performance of the Issuer.

Customer Sales

The Issuer has yet to secure sales for all of its proposed production. The inability to secure customers for all of the Issuer's product could materially affect the financial performance of the Issuer.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to completion and amendment, are the terms and conditions of the Notes substantially as they will appear in the trust deed constituting the Notes. For ease of reference these terms and conditions are divided into sections dealing with: the definitions used in these terms and conditions (Conditions 1-2); the debt security (Conditions 3-10); the equity option (Conditions 11-15); adjustments to the conversion price (Conditions 16-33); covenants relating to the equity option (Conditions 34-39); and miscellaneous provisions (Conditions 41-48). This paragraph, and any other paragraphs appearing in italics in these terms and conditions, do not form part of these terms and conditions.

INTRODUCTION AND DEFINITIONS

1. Introduction

- (a) *The Notes:* The expression the "**Notes**" refers to the A\$27,000,000 8.25 per cent. Convertible Notes due 11 August 2011 (and any Notes issued pursuant to the over subscription facility under Condition 46 (*Further Issues*)) of Lynas Corporation Limited (the "**Issuer**").

At the discretion of the Issuer, over subscriptions of up to A\$8,000,000 may be accepted via an issue of further Notes pursuant to Condition 46 (*Further Issues*), increasing the total face value of the Notes to up to A\$35,000,000.

- (b) *Trust Deed:* The Notes are subject to, and have the benefit of, a trust deed to be dated on or about the date of this Offering Circular (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and J. P. Morgan Trust Australia Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed).
- (c) *Agency Agreement:* The Notes are also the subject of an agency agreement to be dated on or about the date of this Offering Circular (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, J.P. Morgan Institutional Services Australia Limited as principal paying and conversion agent (the "**Principal Paying and Conversion Agent**", which expression includes any successor principal paying and conversion agent appointed from time to time in connection with the Notes), the paying and conversion agents named therein (together with the Principal Paying and Conversion Agent, the "**Paying and Conversion Agents**", which expression includes any successor or additional paying and conversion agents appointed from time to time in connection with the Notes), J.P. Morgan Institutional Services Australia Limited as registrar (the "**Registrar**"), which expression includes any successor registrar appointed from time to time and the Trustee.
- (d) *Summaries:* Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during

normal business hours at the principal office for the time being of the Trustee, being at the date hereof Level 35, AAP Building, 259 George Street, Sydney NSW 2000 and at the Specified Offices of each of the Paying and Conversion Agents, the initial Specified Offices of which are set out below.

2. Interpretation

(a) *Definitions:* In these Conditions the following expressions have the following meanings:

"**Aggregate Consideration**" has the meaning given in Condition 31 (*Aggregate Consideration and Consideration per Share*);

"**ASX**" means the Australian Stock Exchange Limited (ABN 98 008 624 691);

"**ASX Listing Rules**" means the Listing Rules of the ASX;

"**A\$**" and "**Australian dollars**" means the lawful currency of Australia;

"**Bonus Issue**" means any issue of Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than a Dividend in Shares;

"**Change of Control Cash Amount**" has the meaning given in Condition 16(e) (*Change of Control - Change of Control Cash Amount*);

"**Change of Control Event**" has the meaning given in Condition 16(c) (*Change of Control - Change of Control Event*);

"**Change of Control Event Notice**" has the meaning given in Condition 16(d) (*Change of Control - Adjustment to the Conversion Price*);

"**CHESS**" means the Clearing House Electronic Subregister System, operated by the ASX Settlement and Transfer Corporation, a wholly-owned subsidiary of the ASX;

"**Consideration per Share**" has the meaning given in Condition 31 (*Aggregate Consideration and Consideration per Share*);

"**Conversion Date**" has the meaning given in Condition 12(d) (*Procedure for Conversion - Conversion Date*);

"**Conversion Expenses**" has the meaning given in Condition 12(b) (*Procedure for Conversion - Conversion Expenses*);

"**Conversion Notice**" means a notice of conversion substantially in the form (for the time being current) obtainable from the Specified Office of the Registrar;

"**Conversion Period**" has the meaning given in Condition 11(b) (*Conversion - Conversion Period*);

"**Conversion Price**" has the meaning given in Condition 11(d) (*Conversion - Conversion Price*);

"Conversion Right" means, in respect of any Note, the right of the holder to convert the Note into fully-paid non-assessable Shares in accordance with these Conditions;

"Corporations Act" means the Corporations Act 2001 (Cth);

"Current Market Price" means, in respect of a Share at a particular date, the arithmetic average of the Volume Weighted Average Price per Share for each of the 10 consecutive Exchange Business Days immediately preceding such date (the **"Relevant Period"**), *provided that:*

- (i) if at any time during the Relevant Period the Volume Weighted Average Price per Share shall have been based on a price ex-Dividend (or ex-any other entitlement) and during some other part of that period the Volume Weighted Average Price per Share shall have been based on a price cum-Dividend (or cum-any other entitlement), then:
 - (A) if the Shares to be issued do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price per Share on the dates on which the Volume Weighted Average Price per Share shall have been based on a price cum-Dividend (or cum-any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that Dividend (or entitlement) per Share (excluding, in the case of a dividend in cash, any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of Australia); or
 - (B) if the Shares to be issued do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price per Share on the dates on which the Shares shall have been based on a price ex- Dividend (or ex-any other entitlement) shall for the purpose of this definition be deemed to have been the amount thereof increased by such similar amount; and
- (ii) if on each of the 10 Exchange Business Days during the Relevant Period the Volume Weighted Average Price per Share shall have been based on a price cum-Dividend (or cum-any other entitlement) in respect of a Dividend (or entitlement) which has been declared or announced but the Shares to be issued do not rank for that Dividend (or entitlement) the Volume Weighted Average Price per Share on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of that Dividend (or entitlement) per Share (excluding, in the case of a dividend in cash, any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of Australia);
- (iii) if such closing prices are not available on each of the 10 Exchange Business Days during the Relevant Period, then the arithmetic average of such Volume Weighted Average Prices per Share which are available in the Relevant Period shall be used (subject to the Volume Weighted Average Prices per Share being available on at least two such Exchange Business Days); and

- (iv) if the Volume Weighted Average Price per Share is not available on at least two Exchange Business Days in the Relevant Period, then the Current Market Price shall be Determined by an Expert;

"Determined by an Expert" means determined in good faith by an Expert acting as an expert;

"Dividend" means any dividend or distribution of any kind on the class of capital represented by the Shares, whether in cash or otherwise and however described:

- (i) including, without limitation, a Dividend in Shares;
- (ii) excluding a Bonus Issue; and
- (iii) including, without limitation, any other issue of shares or other securities credited as fully or partly paid by way of capitalisation of profits or reserves;

"Dividend in Shares" means any issue of Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves which is to be, or may at the election of the Shareholders be, issued instead of the whole or any part of a cash Dividend which the Shareholders concerned would or could otherwise have received;

"Effective Date" has, for the purposes of any Condition in which such expression is used, the meaning given in the relevant Condition;

"Exchange Business Day" means any day that is a trading day on the Relevant Exchange other than a day on which the Relevant Exchange is scheduled to close prior to its regular weekday closing time;

"Expert" means, in relation to any matter to be Determined by an Expert, an independent investment bank and/or a firm of accountants which is, in either case, of international repute, appointed to act as an expert for the purposes of such matter in accordance with these Conditions and the Trust Deed;

"Extraordinary Dividend" has the meaning given in Condition 17(a) (*Extraordinary Dividends - Determination of Extraordinary Dividends*);

"Extraordinary Resolution" has the meaning given in the Trust Deed;

"Fair Market Value" means,

- (a) with respect to a cash Dividend or other cash amount, the amount of such cash; and
- (b) with respect to any other property on any date, the fair market value of that property as Determined by an Expert,

provided, however, that in any such case:

- (i) where options, warrants or other rights are publicly traded in a market which is Determined by an Expert to have adequate liquidity, the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily

closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on such date (or, if later, the first such trading day such options, warrants or other rights are publicly traded) or such shorter period as such options, warrants or other rights are publicly traded;

- (ii) any cash Dividend declared or paid in a currency other than Australian dollars shall be converted into Australian dollars at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid the cash Dividend in Australian dollars; and
- (iii) any other amount or value in a currency other than Australian dollars shall be converted into Australian dollars at the Screen Rate on that date;

"Financial Year" means, in respect of the Issuer, any 12 month accounting period in respect of which audited financial statements of the Issuer have been published or are expected to be published;

"Guarantee" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness;

"Indebtedness" means any indebtedness of any Person for money borrowed or raised;

"Interest Payment Date" means 11 February, 11 May, 11 August and 11 November in each year, the first Interest Payment Date being 11 November 2006;

"Issue Date" means 11 August 2006;

"Material Subsidiary" means any Subsidiary of the Issuer:

- (i) whose total assets at the time of the most recently published consolidated audited financial statements of the Issuer represent at least 5 per cent, of the consolidated net assets of the Issuer; or
- (ii) whose revenues at the time of the most recently published consolidated audited financial statements of the Issuer represent at least 5 per cent, of the consolidated total revenues of the Issuer,

provided that in the case of a Subsidiary acquired or an entity which becomes a Subsidiary after the end of the Financial Year to which the then latest audited consolidated financial statements of the Issuer relate, the reference to the then latest audited consolidated financial statements for the purposes of the calculation above shall, until audited consolidated financial statements of the Issuer are published for the Financial Year in which the acquisition is made or, as the case may be, in which such entity becomes a Subsidiary, be deemed to be a reference to the then latest consolidated financial statements of the Issuer adjusted in such manner as the Issuer shall consider appropriate to consolidate the latest audited accounts of such Subsidiary in such accounts; and a certificate signed by two directors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any time or throughout any specified period a Material Subsidiary shall be conclusive and binding on all parties;

"Maturity Date" means 11 August 2011;

"Offer" means an offer to acquire Shares, whether expressed as a legal offer, an invitation to treat, a scheme with regard to such acquisition or in any other way, in circumstances where such offer is available to all Shareholders or all Shareholders other than any Shareholder who is the person making such offer (or any associate of such person) or who is excluded from the offer by reason of being connected with one or more specific jurisdictions;

"Payment Business Day" means, in respect of any place of presentation of any Note, any day on which banks are open for presentation and payment of debt securities and for dealings in foreign currencies in such place of presentation;

"Permitted Security Interest" means:

- (i) any Security Interest in respect of Project Debt;
- (ii) any Security Interest arising by operation of law and in the ordinary course of business of the Issuer or any of its Subsidiaries (including, without limitation, security interest in respect of banker's right of set-off or netting arrangement; title retention arrangements; documentary letters of credit; pledge over documents of title to goods in favour of supplier to secure purchase price or trade finance on arm's length terms) which does not (either alone or together with any one or more other such Security Interests) materially impair the operation of such business and which has not been enforced against the assets to which it attaches;
- (iii) any Security Interest which arises in respect of taxes which are not overdue or which are overdue and which are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with applicable accounting standards;
- (iv) any Security Interest which is created to secure the performance of an obligation for the protection or enhancement of the environment, a statutory obligation, a tender, a bond, a government or local contract or other obligation of a like nature (excluding obligations for the payment of Indebtedness), in each case entered into in the ordinary course of business of the Issuer or any Subsidiary;
- (v) any Security Interest which arises to secure Indebtedness existing on any property or assets of any person which becomes a Subsidiary of the Issuer after the date hereof, at the time such person becomes a Subsidiary *provided that* (i) the Indebtedness secured thereby is Indebtedness of, or is assumed by, the relevant Subsidiary, and (ii) the amount of the Indebtedness is not increased at any time; or
- (vi) any Security Interest which arises to secure Indebtedness existing on any property or assets of any company where such company's assets and property (and not the shares thereof) are acquired after the date hereof by the Issuer or any of its Subsidiaries *provided that* (i) the Indebtedness secured thereby is Indebtedness of, or is assumed by, the relevant acquiring entity and (ii) the amount of the Indebtedness is not increased at any time;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"Project Debt" means all money which the Issuer or any of the Issuer's Subsidiaries (whether alone or not) is or at any time may become actually or contingently liable to pay in connection with the provision of financial accommodation for working capital in connection with the construction, development or operation of a mining operation on the Tenements and/or the Issuer's proposed processing operations in China up to a maximum principal amount of A\$10,000,000;

"Rare Earths Elements" means the rare earth elements including Lanthanum, Cerium, Praseodymium, Neodymium, Promethium, Samarium, Europium, Gadolinium, Terbium, Dysprosium, Holmium, Erbium, Thulium, Ytterbium, Lutetium, Yttrium and Scandium;

"Rare Earths Oxides" means minerals containing Rare Earths Elements;

"Rate of Interest" means 8.25 per cent. per annum calculated and paid on a quarterly basis;

"Record Date" means, in respect of any entitlement to receive any dividend or other distribution declared, paid or made, a new offer or issue of securities or any rights granted, the record date or other due date for the establishment of the relevant entitlement;

"Regulation S" means Regulation S under the United States Securities Act of 1933;

"Relevant Date" means, in relation to any payment in respect of a Note, whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying and Conversion Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"Relevant Exchange" means the ASX or, if the Shares are no longer traded on the ASX the principal stock exchange or securities market on which the Shares are then traded;

"Relevant Indebtedness" means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market;

"REO" means Rare Earths Oxides, expressed in tonnes produced;

"Reserved Matter" means, in the context of any meeting of Noteholders, any proposal:

- (i) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;
- (ii) to effect the exchange, conversion or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of

the Issuer or any other person or body corporate formed or to be formed (other than as permitted under the Trust Deed);

- (iii) to change the currency in which amounts due in respect of the Notes are payable;
- (iv) to change any aspect of the Conversion Right;
- (v) to change the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution; or
- (vi) to amend this definition of Reserved Matter;

"Rights" means, in respect of any securities or assets, any options, warrants or other rights (other than Share-Related Securities) which by their terms of issue carry a right to subscribe for, purchase or otherwise acquire such securities or assets;

"Screen Rate" means, on any day, and, in respect of the translation or conversion of one currency into another currency, the rate of exchange between such currencies appearing on the relevant Reuters page on that day, or, if that page is not available or that rate of exchange does not appear on that page on that day, the rate of exchange between such currencies appearing on such other screen or information service, or determined in such other manner, as the Issuer shall determine, with the prior written approval of the Trustee;

"Security Interest" means any mortgage, charge, pledge, lien, assignment by way of security or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"SGX-ST" means the Singapore Exchange Securities Trading Limited;

"Share" means an ordinary share in the share capital of the Issuer;

"Shareholder" means the person in whose name a Share is for the time being registered in the register of Share ownership maintained by or on behalf of the Issuer;

"Share-Related Securities" means any securities (excluding the Notes but including any further Notes issued pursuant to Condition 46 (*Further Issues*)) which by their terms of issue:

- (i) carry a right to subscribe for, purchase or otherwise acquire Shares or any securities which by their terms of issue might be redesignated as Shares; or
- (ii) might be redesignated as Shares or be redesignated so as to carry a right to subscribe for, purchase or otherwise acquire Shares;

"Share Repurchase Threshold" means the threshold determined in accordance with Condition 17(b) (*Extraordinary Dividends - Share Repurchase Threshold*);

"Specified Office" means the address of the Trustee specified in the Trust Deed or the address of the Principal Paying and Conversion Agent or the Registrar specified in the Agency Agreement, as applicable;

"Subsidiary" means, in relation to any Person (the **"first Person"**) at any particular time, any other Person (the **"second Person"**):

- (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"Tax Redemption Date" has the meaning give in Condition 7(b) (*Redemption and Purchase - Redemption for tax reasons*);

"Tenements" means Western Australian mining tenements M38/58, M38/59 and M38/326;

"Underwriter" means RAB Special Situations (Master) Fund Limited.

"Volume Weighted Average Price" means, in respect of a Share on any Exchange Business Day, the order book volume-weighted price of a Share (expressed in Australian dollars) as obtained or derived from the Relevant Exchange (or such other source as shall be Determined by an Expert) on such Exchange Business Day, *provided that* (other than for the purpose of the definition of Current Market Price):

- (i) if on any such Exchange Business Day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of a Share in respect of such Exchange Business Day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding Exchange Business Day on which the same can be so determined; and
- (ii) if any Dividend or other entitlement in respect of the Shares is announced on or prior to the relevant Conversion Date in circumstances where the Record Date in respect of such Dividend or other entitlement shall be on or after the relevant Conversion Date and if on any such Exchange Business Day the price as determined as provided above is based on a price ex-Dividend or ex-any other entitlement, then such price shall be increased by an amount equal to the Fair Market Value of any such Dividend or other cash entitlement as at the date of announcement of such Dividend or entitlement per Share (excluding, in the case of a dividend in cash, any associated tax credit and less the tax, if any, falling to be deducted on payment thereof to a resident of Australia).

(b) *Construction of certain references:* In these Conditions, unless otherwise specified or unless the context otherwise requires:

- (i) a reference to a business day in any place shall be construed as a reference to a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in that place;

- (ii) the expression the "Notes" shall be construed so as to include any further notes issued pursuant to Condition 46 (*Further Issues*) and forming a single series with the Notes;
- (iii) references to Notes being "outstanding" shall be construed in accordance with the Trust Deed;
- (iv) references to any issue or offer or grant to Shareholders "as a class" or "by way of rights" shall be construed so as to include an issue or offer or grant to all or substantially all Shareholders other than Shareholders to whom, by reason of the laws of any jurisdiction or requirements of any recognised regulatory body or any stock exchange in any jurisdiction or in connection with fractional entitlements, it is determined not to make such issue or offer or grant;
- (v) "equity share capital" means, in relation to a company, its issued share capital excluding any part of that capital which, neither as respects dividends nor as respects capital, carries any right to participate beyond a specified amount in a distribution;
- (vi) references to the "issue" of Shares shall include the transfer and/or delivery of Shares by the Issuer or any of its Subsidiaries, whether newly issued and allotted or previously existing;
- (vii) Shares held by the Issuer or any of its Subsidiaries shall not be considered as or treated as "in issue"; and
- (viii) headings and sub-headings are for ease of reference only and shall not affect the construction of these Conditions.

THE DEBT SECURITY

3. **Form, Denomination and Title**

The Notes are serially numbered and in the denomination of A\$1,000 per Note. The registered holder of any Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such registered holder.

4. **Status**

The Notes constitute direct, unsubordinated, unconditional and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. **Negative Pledge**

So long as any Note remains outstanding:

- (i) the Issuer shall not create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or any Guarantee of any Indebtedness; and
- (ii) the Issuer shall procure that none of its Subsidiaries will create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or any Guarantee of any Indebtedness,

without (in the case of paragraphs (i) or (ii) above) at the same time or prior thereto (A) securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (B) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution of Noteholders.

6. **Interest**

- (a) *Interest commencement and rate:* The Notes bear interest from the Issue Date at the Rate of Interest payable in arrears on each Interest Payment Date, subject as provided in Condition 8 (*Payments*).
- (b) *Cessation of interest accrual:* Each Note will cease to bear interest from the due date for redemption, subject as provided in Condition 6(c) (*Interest - Principal Amount not paid on due date*) and Condition 15(d) (*Interest*).
- (c) *Principal Amount not paid on due date:* If, upon due presentation of any Note on the due date for redemption, payment of principal is improperly withheld or refused, such Note will continue to bear interest at the Rate of Interest (both before and after judgment) until the Relevant Date.
- (d) *Coupon amount:* The amount of interest payable on each Interest Payment Date shall be A\$20.625 in respect of each Note. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 365 (the number of days to be calculated on the basis of a year of 365 days).

7. **Redemption and Purchase**

- (a) *Scheduled redemption:* Unless previously redeemed, converted, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date, subject as provided in Condition 8 (*Payments*).
- (b) *Redemption for tax reasons:* Subject to Condition 7(c) (*Redemption and Purchase - Noteholders' tax option*), the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 45 nor more than 60 days' notice to the

Noteholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption (the "**Tax Redemption Date**"), if, immediately before giving such notice, the Issuer satisfies the Trustee that:

- (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Australia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 7(b), the Issuer shall provide such information to the Trustee as the Trustee requires in order to satisfy itself of the matters referred to in this Condition 7(b) and shall deliver to the Trustee:

- (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and
- (2) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 7(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 7(b).

- (c) *Noteholders' tax option:* If the Issuer shall give a notice of redemption pursuant to Condition 7(b) (*Redemption and Purchase - Redemption for tax reasons*), each Noteholder will have the right to elect that its Note(s) shall not be redeemed and that the provisions of Condition 9 (*Taxation*) shall not apply in respect of any payment of interest to be made which falls due after the Tax Redemption Date on such Note(s) whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 (*Taxation*) and payment of all amounts shall be made subject to the deduction or withholding of the relevant Australian taxation required to be withheld or deducted. To exercise a right pursuant to this Condition 7(c), the relevant Noteholder must present a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the

specified office of the Registrar by not later than 30 days prior to the Tax Redemption Date at the specified office of the Registrar.

- (d) *Redemption at the option of the Issuer:* The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with accrued interest to the date fixed for redemption at any time if prior to the date on which the relevant notice of redemption is given by the Issuer less than 10 per cent. in principal amount of the Notes originally issued (including any further notes consolidated and forming a single series with the Notes at such date) remain outstanding. In order to exercise such option the Issuer shall give not less than 30 nor more than 60 days' notice to the Trustee and the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes on the date for redemption specified in such notice). Such notice shall specify (i) the date when the relevant redemption will take place and (ii) the last day on which Conversion Rights may be exercised by a Noteholder.

Prior to the publication of any notice of redemption pursuant to this Condition 7(d), the Issuer shall provide such information to the Trustee as the Trustee requires in order to satisfy itself of the matters referred to in this Condition 7(d).

- (e) *Redemption at the option of Noteholders:* The Issuer shall, at the option of the holder of any Note redeem such Note on any date (a "**Put Settlement Date**") falling within 90 days of an announcement (if any) by the Relevant Exchange that pursuant to the rules of the Relevant Exchange the Shares have ceased (or will cease) to be listed, traded or publicly quoted on the Relevant Exchange for any reason (other than as a consequence of a Change of Control Event or any event described in Condition 35 (*Corporate Reorganisation*)) in circumstances where the Shares are not immediately re-listed, re-traded or re-quoted on another recognised exchange or quotation system, at a price equal to 100 per cent. of the Note's principal amount together with interest accrued but unpaid to such date. In order to exercise the option contained in this Condition 7(e), the holder of a Note must, not less than 30 nor more than 60 days before the Put Settlement Date, deposit with the Registrar a duly completed put option notice (for the purposes of this Condition 7(e), a "**Put Option Notice**") substantially in the form obtainable from the Registrar. The Registrar shall deliver a duly completed receipt for such Put Option Notice (a "**Put Option Receipt**") to the depositing Noteholder. No Put Option Notice, once deposited in accordance with this Condition 7(e), may be withdrawn; *provided, however, that* if, prior to the Put Settlement Date, any such Note becomes immediately due and payable or payment of the redemption moneys is improperly withheld or refused, the Registrar shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice.
- (f) *Redemption and Purchase of Underwriter's Notes:* If following the Issue Date, the Underwriter delivers a written notice to the Issuer ("**Underwriter Notice**") to the effect that:
- (i) conversion of all or a portion of the Notes held by the Underwriter would cause the Underwriter to hold an interest in more than 15% of the issued Shares in the Issuer; and

- (ii) the Underwriter will within 30 days after the date of the Underwriter Notice apply for approval by the Federal Treasurer of Australia of such interest under the *Foreign Acquisitions & Takeovers Act 1975*,

then, if such approval by the Federal Treasurer of Australia is not obtained by the first to occur of the dates specified in (iii) and (iv) below, then, at the option of the Underwriter, the Issuer will be required to redeem such of the Notes held by the Underwriter as would cause the interest of the Underwriter upon conversion of all or such portion of its Notes to be an interest in less than 15% of the issued Shares in the Issuer.

Such redemption will occur at a price equal to 100% of the principal amount of the redeemed Notes, together with interest accrued but unpaid to the date of redemption. In order to exercise the option contained in this Condition 7(f), the Underwriter must, not more than 30 days after the first to occur of the following:

- (iii) receipt by the Underwriter of a letter pursuant to the *Foreign Acquisitions & Takeovers Act 1975* indicating that the Federal Treasurer of Australia will not approve the acquisition by the Underwriter of an interest in 15% or more of the issued Shares in the Issuer; or
- (iv) the expiration of 6 months after the date of issue of the Underwriter Notice, if during such period the approval of the Federal Treasurer of Australia under the *Foreign Acquisitions & Takeovers Act 1975* has not been obtained despite the Underwriter using its reasonable endeavours to obtain such approval,

deposit with the Registrar a duly completed put option notice in respect of such of the Notes registered in the name of the Underwriter as would cause the interest of the Underwriter upon conversion of all of its Notes to be an interest in less than 15% of the issued Shares in the Issuer (for the purposes of this Condition 7(f), a “**Put Option Notice**”) substantially in the form obtainable from the Registrar. The provisions of Condition 7(e) will thereupon apply as if a Put Option Notice has been deposited in accordance with Condition 7(e), and for this purpose the Put Settlement Date (as defined in Condition 7(e)) will be deemed to be the date of deposit of the Put Option Notice.

- (g) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 7(a) (*Redemption and Purchase - Scheduled redemption*), Condition 7(b) (*Redemption and Purchase - Redemption for tax reasons*), Condition 7(d) (*Redemption and Purchase - Redemption at the option of the Issuer*), Condition 7(e) (*Redemption and Purchase - Redemption at the option of Noteholders*) or Condition 7(f) (*Redemption and Purchase of Underwriter’s Notes*).
- (h) *Purchase:* Neither the Issuer nor any of its Subsidiaries may purchase any Notes in the period of 15 days before any date fixed for redemption of the Notes. Subject thereto, the Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.
- (i) *Cancellation:* All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries, and all Notes which are converted, shall be cancelled and may not be reissued or resold.

8. **Payments**

- (a) *Principal:* Payments of principal shall be made by cheque, or by transfer to a bank account authorised by the payee.
- (b) *Interest:* Payments of interest shall be made by cheque, or by transfer to a bank account authorised by the payee.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days:* If the due date for payment of any amount in respect of any Note is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

9. **Taxation**

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Australia or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with Australia other than the mere holding of the Note.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 9 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 9 (*Taxation*) pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Australia, references in these Conditions to Australia shall be construed as references to Australia and/or such other jurisdiction.

10. **Events of Default**

If any of the following events occurs, then the Trustee at its discretion may and, if so requested in writing by holders of at least one half of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified or provided with security to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon

they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

- (a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within three days of the due date for payment thereof; or
- (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default is incapable of remedy or remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer; or
- (c) *Cross-default of Issuer or Material Subsidiary:*
 - (i) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;
 - (ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than:
 - (A) at the option of the Issuer or (as the case may be) the relevant Material Subsidiary; or
 - (B) (provided that no event of default, howsoever described, has occurred) at the option of any person entitled to such Indebtedness; or
 - (iii) the Issuer or any of Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;
provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds A\$5,000,000 (or its equivalent in any other currency or currencies); or
- (d) *Unsatisfied judgment:* one or more judgment(s) or order(s) for the payment of an amount in excess of A\$5,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or
- (e) *Security enforced:* a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial (in the opinion of the Trustee) part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries; or
- (f) *Insolvency, etc.:* (i) the Issuer or any of its Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any of its Subsidiaries or the whole or any substantial (in the opinion of the Trustee) part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer or any of its Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its

creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business; or

- (g) *Winding up, etc.:* an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Subsidiaries (otherwise than, in the case of a Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (h) *Failure to take action, etc.:* any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes or the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Trust Deed admissible in evidence in the courts of Australia is not taken, fulfilled or done; or
- (i) *Unlawfulness:* it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed.

THE EQUITY OPTION

11. **Conversion**

- (a) *Conversion right:* The holder of each Note has the right to convert such Note into fully-paid Shares at any time during the Conversion Period.
- (b) *Conversion Period:* The "**Conversion Period**" in respect of any Note shall be the period beginning on and including the Issue Date and ending on and including the earlier to occur of:
 - (i) the close of business (in the place where the Conversion Notice in respect of the Note is deposited) on the day which is 10 days before the Maturity Date; and
 - (ii) if such Note shall have been called for redemption before the Maturity Date, the close of business (in the place where the Conversion Notice in respect of the Note is deposited) on the day which is 10 days before the date fixed for redemption thereof,

provided, however, that:

- (A) if the Issuer shall default in making payment in full in respect of such Note on the date fixed for redemption thereof, the relevant Conversion Period shall continue up to and including the date upon which the full amount of the moneys payable in respect of such Note has been duly received by the Trustee or the Principal Paying and Conversion Agent and notice of such receipt has been given to the Noteholders in accordance with Condition 47 (*Notices*) or, if earlier, up to and including the Maturity Date; and
- (B) in any such case, if the last day of the Conversion Period would otherwise be a day which is not a business day in the place where the Conversion Notice in

respect of the Note is deposited, the last day of the Conversion Period shall be the immediately preceding business day in such place.

In any event the Conversion Period shall end on the date of any notice from the Trustee declaring the Notes to be immediately due and payable pursuant to Condition 10 (*Events of Default*).

- (c) *Conversion ratio:* The number of Shares to be issued upon exercise of the Conversion Right attaching to any Note shall be determined by dividing the principal amount of the Note by the Conversion Price in effect on the Conversion Date.
- (d) *Conversion Price:* The Conversion Price in effect on the Issue Date is A\$0.40. The Conversion Price in effect on any subsequent date shall be the Conversion Price in effect on the Issue Date subject to any subsequent adjustment in accordance with these Conditions and the expression "Conversion Price" shall be construed accordingly.
- (e) *No Shares set aside:* Conversion Rights are not exercisable in respect of any specific Shares and no Shares have been or will be charged, placed in custody or otherwise set aside to secure or satisfy the obligations of the Issuer in respect of the Conversion Rights.
- (f) *Fractions of a Share:* Fractions of a Share will not be issued on conversion. However, if more than one Note is to be converted at any one time by the same Noteholder such that the Shares to be issued upon conversion thereof are to be registered in the same name, the number of Shares which shall be issued upon conversion thereof shall be calculated on the basis of the aggregate principal amount of the Notes so to be converted. If a fraction of a Share would otherwise fall to be issued upon conversion, the Issuer shall make or procure that the number of Shares to be issued will be rounded up to the nearest whole number of Shares.

12. **Procedure for Conversion**

- (a) *Deposit:* To exercise the Conversion Right attaching to any Note, the Noteholder must:
 - (i) complete, execute and deposit at the Noteholder's own expense during normal business hours on any business day during the Conversion Period at the Specified Office of the Registrar a Conversion Notice (in duplicate); and
 - (ii) pay to the Issuer (or to such person as the Issuer may direct) any applicable Conversion Expenses.

A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Issuer.

- (b) *Conversion Expenses:* The Issuer will pay all stamp, issue, registration or other similar taxes and duties (if any) arising in Australia on the issue of Shares on conversion of the Notes, their transfer and delivery to or to the order of the converting Noteholder or, as the case may be, the Trustee, any expenses of obtaining a listing for such Shares on the Relevant Exchange and all charges of the Registrar in connection therewith as provided in the Agency Agreement. Subject thereto, as conditions precedent to conversion, the Noteholder must pay to the Issuer (or to such person as the Issuer may direct) all stamp,

issue, registration or other similar taxes and duties (if any) ("**Conversion Expenses**") arising on conversion which may be payable in any other jurisdiction as a result of the issue, transfer or delivery of Shares or any other property or cash upon conversion to or to the order of the converting Noteholder (except to the extent that such Conversion Expenses arise because the Issuer has become subject to any taxing jurisdiction other than Australia).

- (c) *U.S. certification:* Upon exercising the Conversion Right attaching to any Note, the Noteholder shall be required to represent and agree in the Conversion Notice that at the time of execution and deposit of such Conversion Notice it or the person who has the beneficial interest in that Note is not in the United States (within the meaning of Regulation S) and it, or such person, purchased such Note, or the beneficial interest therein, in a transaction made in accordance with Rule 903 or Rule 904 of Regulation S. No Shares will be issued to a Noteholder unless the Noteholder satisfies the foregoing conditions.
- (d) *Conversion Date:* The conversion date in respect of a Note (the "**Conversion Date**") shall be the Sydney business day following the satisfaction of the conditions specified in Condition 12(a) (*Procedure for Conversion - Deposit*).
- (e) *Specified account:* Upon exercise of Conversion Rights, a Noteholder shall in the relevant Conversion Notice, specify a bank account to which any cash amount payable on or in respect of the exercise of Conversion Rights by that Noteholder shall be credited and the Issuer shall pay such sum to the relevant Noteholder in accordance with any such directions.

13. **Certificates**

- (a) *Notes:* The Notes will be in uncertificated form. The Issuer may issue to Noteholders, without charge, in the discretion of the Issuer, one or more of the following:
 - (i) any holding statement required by the SGX-ST; or
 - (ii) any other document that confirms ownership of the Notes as the Issuer may decide to issue.
- (b) *Shares in uncertificated form:* Shares to be issued on conversion of the Notes will be in uncertificated form. The Issuer, through its share registry, operates an issuer sponsored subregister. In addition, the Issuer participates in the security transfer system known as the Clearing House Electronic Subregister System (CHES). Noteholders who elect to have their shareholding managed by a broker will have their holding recorded on the CHES subregister. All other Noteholders will have their holding recorded on the issuer sponsored subregister. Within 5 Sydney business days after the relevant Conversion Date or the date of issue of the relevant Shares, Noteholders on the issuer sponsored subregister will be sent a notice advising them of their Security Holder Reference Number (SRN) and the opening balance of their holding. Where Shares are to be issued through CHES, they will be delivered to the account specified by the relevant Noteholder in the relevant Conversion Notice by not later than 5 Sydney business days following the relevant Conversion Date.

- (c) *Monthly statements:* Following distribution of the initial holding statements after conversion, a holding statement will be provided to a Noteholder on the issuer sponsored subregister within 5 Sydney business days after the end of any subsequent month during which there has been a movement in its shareholding. Noteholders may also request the Issuer to provide a statement at other times, although an administration fee may be charged in those circumstances.

14. **Conversion Initiated by the Issuer**

- (a) *Conversion right:* The Issuer has the right to require the conversion of each Note into fully-paid Shares at any time prior to redemption if:
 - (i) at any time prior to 12 months after the Issue Date, the Volume Weighted Average Price per Share on the ASX for any period of 30 consecutive calendar days exceeds A\$0.80; or
 - (ii) at any time 12 months or more after the Issue Date, the Volume Weighted Average Price per Share on the ASX for any period of 30 consecutive calendar days exceeds A\$1.20.
- (b) *Exercise of conversion right:* To exercise its rights under Condition 14(a) (*Conversion Initiated by the Issuer – Conversion right*), the Issuer must deposit at the Specified Office of the Registrar a written notice specifying that the Issuer is exercising its rights under Condition 14(a) (*Conversion Initiated by the Issuer – Conversion right*). The Issuer must at the same time cause a copy of such notice to be sent to the address of each Noteholder specified in the Register. Thereupon, each Noteholder will be deemed to have deposited a Conversion Notice in accordance with Condition 12 (*Procedure for Conversion*), and the provisions of Condition 12 (*Procedure for Conversion*) will apply in respect of the conversion of the Notes.

15. **Rights Arising on Conversion**

- (a) *Rights in respect of Shares issued upon conversion:* Shares issued upon exercise of Conversion Rights will be fully paid, free from any liens, charges, encumbrances, pre-emptive rights or other third-party rights and, subject as provided in Conditions 15(b) (*Rights Arising on Conversion - Dividends and other distributions*) and 15(c) (*Rights Arising on Conversion - Voting rights*):
 - (i) such Shares will rank *pari passu* in all respects with all other Shares in issue on the Conversion Date and upon admission will be freely tradeable on the Relevant Exchange without restriction (including as to any secondary sale of such Shares); and
 - (ii) the holders of such Shares will be treated by the Issuer as Shareholders for all purposes with effect from and including the Conversion Date.
- (b) *Dividends and other distributions:* Shares issued upon exercise of Conversion Rights will rank *pari passu* in respect of Dividends and other distributions declared, paid or made, or rights granted, with all other Shares in issue on the Conversion Date except that such Shares will not rank for any Dividend or other distribution declared, paid or made on, or

rights granted in respect of, the Shares for which the Record Date precedes the Conversion Date.

- (c) *Voting rights:* Shares issued upon exercise of Conversion Rights will rank *pari passu* in respect of voting rights with all other Shares in issue on the Conversion Date except that they will not rank for any voting rights where the entitlement to voting rights accrues to Shareholders by reference to a Record Date which precedes the Conversion Date.
- (d) *Interest:* Upon conversion of any Note, interest shall accrue on the Note from and including the Interest Payment Date immediately preceding the Conversion Date (or, if the relevant Conversion Date falls on or before the first Interest Payment Date, from and including the Issue Date) to but excluding the Conversion Date. Any such interest shall be paid not later than 14 days after the relevant Conversion Date by cheque, or by transfer to a bank account authorised by the payee in accordance with instructions given by the relevant Noteholder.
- (e) *Cleansing Statement:* Within 5 business days after the day on which Shares are issued upon exercise of Conversion Rights, the Issuer will issue to the Australian Stock Exchange Limited a notice in accordance with s 708A(6) of the *Corporations Act*.

ADJUSTMENTS TO THE CONVERSION PRICE

16. **Change of Control**

- (a) *Offer:* If an Offer is made in respect of the Shares, the Issuer shall give notice of such Offer to the Noteholders, with a copy to the Trustee, at the same time as any notice thereof is sent to its Shareholders (or as soon as practicable thereafter) indicating that details concerning such Offer may be obtained from the Specified Offices of the Registrar.
- (b) *Extension of Offer to Noteholders:* Where an Offer in respect of the Shares has been recommended by the board of directors of the Issuer, or where such an Offer has become or been declared unconditional in all respects, to the extent permitted by law the Issuer shall use its reasonable endeavours to procure that the Offer is extended to the holders of any Shares issued during the period in which such Offer is open for acceptance (as determined in accordance with any relevant laws, rules, regulations and voluntary codes applicable to such Offer) as a result of the exercise of Conversion Rights.
- (c) *Change Of Control Event:* In these Conditions, a "**Change of Control Event**" occurs if an Offer in respect of the Shares has become or been declared unconditional in all respects and the Issuer becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Shareholders has or will become unconditionally vested in the offeror and/or any associates(s) of the offeror, or an event occurs which has a like or similar effect.
- (d) *Adjustment to the Conversion Price:* If and whenever a Change of Control Event shall occur the Issuer shall forthwith give notice to the Noteholders (a "**Change of Control Event Notice**"), with a copy to the Trustee, of such event and, in relation to each Note for which the Conversion Date occurs after the date of such Change of Control Event Notice but on or prior to the 60th day following the date of such Change of Control Event Notice, the Conversion Price shall be the product of (1) the Conversion Price that would otherwise

apply on such Conversion Date in the absence of a Change of Control Event and (2) the percentage determined in accordance with the following table:

Conversion Date	Percentage (%)
On or before 11 August 2008	92.5%
Thereafter, but on or before 11 August 2009	95%
Thereafter, but on or before 11 August 2010	97.5%
Thereafter, but on or before the Maturity Date	100.0%

- (e) *Change of Control Cash Amount:* If Conversion Rights may be exercised in circumstances where the Conversion Price is to be determined as provided in Condition 16(d) (*Change of Control - Adjustment to the Conversion Price*), then the Issuer may elect by notice to the Noteholders contained in the relevant Change of Control Notice that a holder exercising Conversion Rights in those circumstances will not be entitled to receive that number of Shares (the "**Excess Shares**") in excess of the number of Shares it would have been entitled to receive if the Conversion Price had not been adjusted as provided in Condition 16(d) (*Change of Control - Adjustment to the Conversion Price*) but in lieu thereof shall be entitled to receive an amount (the "**Change of Control Cash Amount**") determined by multiplying the number of Excess Shares by the Current Market Price of the Shares on the Conversion Date. Such Change of Control Cash Amount shall be payable as provided in Condition 8 (*Payments*) to the account specified by the Noteholder in the relevant Conversion Notice in accordance with Condition 12(e) (*Procedure for Conversion - Specified account*).
- (f) *Change of Control Event Notice:* Any Change of Control Event Notice shall inform Noteholders of their entitlement to exercise the Conversion Right in accordance with these Conditions and shall specify:
- (i) all information material to Noteholders concerning the Change of Control Event;
 - (ii) the Conversion Price in relation to each Note for which the Conversion Date occurs on the date of such notice to the Noteholders;
 - (iii) the Conversion Price in relation to each Note for which the Conversion Date occurs after the date of such notice to the Noteholders but on or prior to the 60th day following the date of such notice to the Noteholders; and
 - (iv) whether or not the Issuer has elected to pay the Change of Control Cash Amount in relation to each Note for which the Conversion Date occurs after the date of such notice to the Noteholders but on or prior to the 60th day following the date of such notice to the Noteholders.

17. **Extraordinary Dividends**

- (a) *Determination of Extraordinary Dividends:* Whether or not any event constitutes an extraordinary dividend (an "**Extraordinary Dividend**") will be determined as follows:

- (i) any Dividend, whether or not expressed by the Issuer or declared by the board of directors of the Issuer to be an ordinary dividend, an ordinary distribution, a capital distribution, an extraordinary dividend, an extraordinary distribution, a special dividend or a special distribution or any analogous or similar term, will constitute an Extraordinary Dividend, and the amount of such Extraordinary Dividend will be the Fair Market Value of the entire amount of the relevant Dividend; and
 - (ii) a purchase or redemption of Shares by the Issuer which causes the Share Repurchase Threshold to be exceeded will constitute an Extraordinary Dividend, and the amount of such Extraordinary Dividend will be the product of (A) the number of Shares purchased or redeemed by the Issuer on the relevant date and (B) the average price (before expenses) of such purchase or redemption on that date.
- (b) *Share Repurchase Threshold:* A purchase or redemption of share capital by the Issuer will cause the Share Repurchase Threshold to be exceeded if (and only if) it comprises a purchase or redemption of Shares by the Issuer at an average price (before expenses) on any one day which exceeds by more than five per cent. the Volume Weighted Average Price of the Shares either (A) on that date (or if that date is not an Exchange Business Day, the immediately preceding Exchange Business Day), or (B) where an announcement (excluding for the avoidance of doubt, general authority for such purchases given by a Shareholders meeting of the Issuer or any notice convening such meeting) has been made of the intention to purchase Shares at some future date at a specified price, on the Exchange Business Day immediately preceding the date of such announcement.
- (c) *Adjustment Event:* If and whenever the Issuer shall distribute any Extraordinary Dividend to the Shareholders, the Conversion Price shall be subject to adjustment in accordance with this Condition 17.
- (d) *Effective Date:* For the purposes of this Condition 17, the "**Effective Date**" means the date on which the relevant Extraordinary Dividend is actually distributed.
- (e) *Adjustment to the Conversion Price:* If and whenever the Issuer shall distribute any Extraordinary Dividend to the Shareholders, in relation to each Note for which the Conversion Date has not occurred prior to the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the Exchange Business Day immediately preceding the date of the first public announcement of the terms of such Extraordinary Dividend; and
- B is the Fair Market Value on the date of such announcement of the portion of the Extraordinary Dividend attributable to one Share.

- (f) *Effect of adjustment:* The Conversion Price as adjusted pursuant to this Condition 17 shall apply, with effect from and including the Effective Date, to each Note for which the Conversion Date has not occurred prior to the Effective Date. Any such adjustment shall be subject to any subsequent adjustment pursuant to these Conditions.

18. **Bonus Issues**

- (a) *Adjustment event:* If and whenever the Issuer shall make any Bonus Issue, the Conversion Price shall be subject to adjustment in accordance with this Condition 18.
- (b) *Effective Date:* For the purposes of this Condition 18, the "**Effective Date**" means the date of issue of the relevant Bonus Issue Shares.
- (c) *Adjustment to the Conversion Price:* In relation to each Note for which the Conversion Date has not occurred prior to the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A}{B}$$

where:

A = the number of Shares in issue immediately before the issue of such Shares;
and

B = the number of Shares in issue immediately after the issue of such Shares.

- (d) *Effect of adjustment:* The Conversion Price as adjusted pursuant to this Condition 18 shall apply, with effect from and including the Effective Date, to each Note for which the Conversion Date has not occurred prior to the Effective Date. Any such adjustment shall be subject to any subsequent adjustment pursuant to these Conditions.

19. **Consolidation or Subdivision of Shares**

- (a) *Adjustment event:* If and whenever there shall be a consolidation or subdivision of the Shares, the Conversion Price shall be subject to adjustment in accordance with this Condition 19.
- (b) *Effective Date:* For the purposes of this Condition 19, the "**Effective Date**" means the date on which such subdivision or consolidation becomes effective.
- (c) *Adjustment to the Conversion Price:* In relation to each Note for which the Conversion Date has not occurred prior to the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A}{B}$$

where:

- A = the number of Shares in issue immediately before such alteration; and
 B = the number of Shares in issue immediately after such alteration.

- (d) *Effect of adjustment:* The Conversion Price as adjusted pursuant to this Condition 19 shall apply, with effect from and including the Effective Date, to each Note for which the Conversion Date has not occurred prior to the Effective Date. Any such adjustment shall be subject to any subsequent adjustment pursuant to these Conditions.

20. **Shares, Rights and Share-Related Securities Issued to Shareholders**

- (a) *Adjustment event:* If and whenever the Issuer shall issue, grant or offer Shares, Share-Related Securities, Rights in respect of Shares or Rights in respect of Share-Related Securities to all or substantially all of the Shareholders as a class by way of rights as a result of which, in each case, Shareholders have the right to acquire Shares at a Consideration per Share which is less than 95 per cent. of the Current Market Price of the Shares on the Exchange Business Day immediately preceding the date of the first public announcement of such issue, grant or offer, the Conversion Price shall be subject to adjustment in accordance with this Condition 20.
- (b) *Effective Date:* For the purposes of this Condition 20, the "**Effective Date**" means the first date on which the Shares are traded ex-rights, ex-warrants or ex-options on the Relevant Exchange.
- (c) *Adjustment to the Conversion Price:* In relation to each Note for which the Conversion Date has not occurred prior to the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A = the number of Shares in issue on the Exchange Business Day immediately preceding the date of such announcement;
- B = the number of Shares which the Aggregate Consideration would purchase at such Current Market Price; and
- C = (1) in the case of an issue, grant or offer of Shares, the number of Shares comprised in the issue, grant or offer; or
 (2) in the case of an issue, grant or offer of Share-Related Securities or Rights, the maximum number of Shares which could be issued upon exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Share-Related Securities or Rights at the initial price or rate.

- (d) *Formula:* If on the date (the "**Specified Date**") of issue, grant or offer of the relevant Share-Related Securities, Rights in respect of Shares or Rights in respect of Share Related

Securities the maximum number of Shares which could be issued upon exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Share Related Securities or Rights is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time then, for the purposes of this Condition 20, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such subscription, purchase or acquisition had taken place on the Specified Date.

- (e) *Effect of adjustment:* The Conversion Price as adjusted pursuant to this Condition 20 shall apply, with effect from and including the Effective Date, to each Note for which the Conversion Date has not occurred prior to the Effective Date. Any such adjustment shall be subject to any subsequent adjustment pursuant to these Conditions.

21. Issue of Other Securities to Shareholders

- (a) *Adjustment event:* If and whenever the Issuer shall issue any securities (other than Shares, Share-Related Securities, Rights in respect of Shares or Rights in respect of Share-Related Securities) to all or substantially all of the Shareholders as a class by way of rights or the Issuer shall issue or grant any Rights in respect of any securities (other than Shares, Share-Related Securities, Rights in respect of Shares or Rights in respect of Share-Related Securities) or assets to all or substantially all of the Shareholders as a class, the Conversion Price shall be subject to adjustment in accordance with this Condition 21.
- (b) *Effective Date:* For the purposes of this Condition 21, "**Effective Date**" means the first date on which the Shares are traded ex-rights, ex-warrants or ex-options on the Relevant Exchange.
- (c) *Adjustment to the Conversion Price:* In relation to each Note for which the Conversion Date has not occurred prior to the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A = the Current Market Price of one Share on the Exchange Business Day immediately preceding the date of the first public announcement of the terms of such issue or grant; and
- B = the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share, net of any amount payable by a Shareholder to acquire such rights.
- (d) *Effect of adjustment:* The Conversion Price as adjusted pursuant to this Condition 21 shall apply, with effect from and including the Effective Date, to each Note for which the Conversion Date has not occurred prior to the Effective Date. Any such adjustment shall be subject to any subsequent adjustment pursuant to these Conditions.

22. **Issues of Shares at Below Current Market Price**

- (a) *Adjustment event:* If and whenever the Issuer shall issue any Shares or the Issuer shall issue or grant Rights in respect of Shares or Rights in respect of Share-Related Securities as a result of which, in each case, persons to whom the Shares or Rights are issued or granted have the right to acquire Shares at a Consideration per Share which is less than 90 per cent. of the Current Market Price of the Shares on the Exchange Business Day immediately preceding the date of the first public announcement of such issue or grant, the Conversion Price shall be subject to adjustment in accordance with this Condition 22. However, if any such issue or grant if any such issue or grant also falls within the terms of Condition 20 (*Shares, Rights and Share-Related Securities Issued to Shareholders*) or constitutes an issue of Shares consequent upon the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares, the Conversion Price shall not be subject to adjustment in accordance with this Condition 22.
- (b) *Effective Date:* For the purposes of this Condition 22, the "**Effective Date**" means the date of issue of such Shares or, as the case may be, the issue or grant of such Rights.
- (c) *Adjustment to the Conversion Price:* In relation to each Note for which the Conversion Date has not occurred prior to the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A = the number of Shares in issue on the Exchange Business Day immediately preceding the date of such announcement;
- B = the number of Shares which the Aggregate Consideration would purchase at such Current Market Price; and
- C = (1) in the case of an issue of Shares, the number of Shares issued; or
(2) in the case of an issue or grant of Rights, the maximum number of Shares which could be issued upon exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares and, if applicable, Share-Related Securities pursuant to the terms of such Rights and, if applicable, Share-Related Securities at the initial price or rate.

- (d) *Formula:* If on the date (the "**Specified Date**") of issue or grant of the relevant Rights in respect of Shares or Rights in respect of Share-Related Securities the maximum number of Shares which could be issued upon exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares and, if applicable, Share-Related Securities pursuant to the terms of such Rights and, if applicable, Share-Related Securities is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time then, for the purposes of this Condition 22, "C" shall be

determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such subscription, purchase or acquisition had taken place on the Specified Date.

- (e) *Effect of adjustment:* The Conversion Price as adjusted pursuant to this Condition 22 shall apply, with effect from and including the Effective Date, to each Note for which the Conversion Date has not occurred prior to the Effective Date. Any such adjustment shall be subject to any subsequent adjustment pursuant to these Conditions.

23. **Share-Related Securities Issued Other than to Shareholders**

- (a) *Adjustment event:* If and whenever the Issuer or any Subsidiary or (pursuant to arrangements with the Issuer or any of its Subsidiaries) any other person or entity shall issue any Share-Related Securities or shall grant to any existing securities so issued such rights as to make such securities Share-Related Securities as a result of which, in each case, persons to whom the Share-Related Securities or such rights are issued or granted have the right to acquire Shares at a Consideration per Share which is less than 90 per cent. of the Current Market Price of the Shares on the Exchange Business Day immediately preceding the date of the first public announcement of the terms of issue of such Share-Related Securities or the terms of such grant, the Conversion Price shall be subject to adjustment in accordance with this Condition 23. However, if any such issue or grant also falls within the terms of Condition 20 (*Shares, Rights and Share-Related Securities Issued to Shareholders*), Condition 21 (*Issue of Other Securities to Shareholders*) or Condition 22 (*Issues of Shares at Below Current Market Price*), the Conversion Price shall not be subject to adjustment in accordance with this Condition 23.
- (b) *Effective Date:* For the purposes of this Condition 23 the "**Effective Date**" means the date of issue of the Share-Related Securities or the grant of the relevant rights.
- (c) *Adjustment to the Conversion Price:* In relation to each Note for which the Conversion Date has not occurred prior to the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A = the number of Shares in issue on the Exchange Business Day immediately preceding the date of such announcement;
- B = the number of Shares which the Aggregate Consideration would purchase at such Current Market Price; and
- C = the maximum number of Shares which could be issued upon exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Share-Related Securities at the initial price or rate.

- (d) *Formula:* If on the date (the "**Specified Date**") of issue of the relevant Share-Related Securities or date of grant of such rights the maximum number of Shares which could be issued upon exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Share-Related Securities is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time then, for the purposes of this Condition 23, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such subscription, purchase or acquisition had taken place on the Specified Date.
- (e) *Effect of adjustment:* The Conversion Price as adjusted pursuant to this Condition 23 shall apply, with effect from and including the Effective Date, to each Note for which the Conversion Date has not occurred prior to the Effective Date. Any such adjustment shall be subject to any subsequent adjustment pursuant to these Conditions.

24. **Amendment of Terms of Rights or Share-Related Securities**

- (a) *Adjustment event:* If and whenever the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of any Rights or Share-Related Securities are amended (other than in accordance with their terms of issue (including terms as to adjustment of such rights)) so that following such amendment the Consideration per Share is (1) reduced and (2) less than 90 per cent. of the Current Market Price of the Shares on the Exchange Business Day immediately preceding the date of the first public announcement of the proposals for such amendment, the Conversion Price shall be subject to adjustment in accordance with this Condition 24.
- (b) *Effective Date:* For the purposes of this Condition 24, "**Effective Date**" means the date of amendment of such rights.
- (c) *Adjustment to the Conversion Price:* In relation to each Note for which the Conversion Date has not occurred prior to the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Shares in issue on the Exchange Business Day immediately preceding the date of such announcement;
- B is the number of Shares which the Aggregate Consideration (calculated taking account of the amended rights) would purchase at such Current Market Price; and
- C the maximum number of Shares which could be issued upon exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Rights or Share-Related Securities at the amended subscription, purchase or acquisition price or rate (but giving credit in such manner as shall be Determined by an Expert to be appropriate for any previous adjustment under

Condition 20 (*Shares, Rights and Share-Related Securities Issued to Shareholders*), Condition 23 (*Share-Related Securities Issued Other than to Shareholders*) or this Condition 24).

- (d) *Formula:* If on the date (the "**Specified Date**") of such amendment the maximum number of Shares which could be issued upon exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Rights or Share-Related Securities is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time then, for the purposes of this Condition 24, "C" shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such subscription, purchase or acquisition had taken place on the Specified Date.
- (e) *Effect of adjustment:* The Conversion Price as adjusted pursuant to this Condition 24 shall apply, with effect from and including the Effective Date, to each Note for which the Conversion Date has not occurred prior to the Effective Date. Any such adjustment shall be subject to any subsequent adjustment pursuant to these Conditions.

25. **Other Arrangements to Acquire Securities**

- (a) *Adjustment event:* If and whenever the Issuer or any Subsidiary or (pursuant to arrangements with the Issuer or any of its Subsidiaries) any other person or entity shall offer any securities in connection with which offer Shareholders as a class are entitled to participate in arrangements whereby such securities may be acquired by them, the Conversion Price shall be subject to adjustment in accordance with this Condition 25. However, if any such offer also causes the Conversion Price to be adjusted within the terms of Condition 20 (*Shares, Rights and Share-Related Securities Issued to Shareholders*) or Condition 21 (*Issue of Other Securities to Shareholders*) (or would cause the Conversion Price to be so adjusted if the relevant Consideration per Share was less than 95 per cent. of the Current Market Price per Share on the relevant Exchange Business Day), the Conversion Price shall not be subject to adjustment in accordance with this Condition 25.
- (b) *Effective Date:* For the purposes of this Condition 25, the "**Effective Date**" means the first date on which the Shares are traded ex-rights on the Relevant Exchange.
- (c) *Adjustment to the Conversion Price:* In relation to each Note for which the Conversion Date has not occurred prior to the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in effect immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the Current Market Price of one Share on the Exchange Business Day immediately preceding the date of the first public announcement of such offer;

and

B = the Fair Market Value on the date of such announcement of the portion of the relevant offer attributable to one Share, net of any amount payable by a Shareholder to acquire such rights.

- (d) *Effect of adjustment:* The Conversion Price as adjusted pursuant to this Condition 25 shall apply, with effect from and including the Effective Date, to each Note for which the Conversion Date has not occurred prior to the Effective Date. Any such adjustment shall be subject to any subsequent adjustment pursuant to these Conditions.

26. **New Issues**

- (a) *Participation in new issues:* A Noteholder may not in its capacity as a holder of a Note participate in new issues of securities by the Issuer unless the Noteholder exercises its Conversion Rights and becomes the holder of Shares prior to the Record Date for the new issue of securities.
- (b) *Notification of new issues:* The Issuer must, however, give the Noteholders, with a copy to the Trustee, 14 days prior notice of the Record Date for a new offer or issue of securities to holders of Shares in the issuer to enable the holder to exercise its Conversion Rights and participate in the new offer or issue.

27. **Other Events; Contemporaneous Events**

- (a) *Adjustment event:* If the Issuer (after consultation with the Trustee) determines that:
- (i) an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in Condition 17 (*Extraordinary Dividends*) to Condition 25 (*Other Arrangements to Acquire Securities*) (even if the relevant event or circumstance is specifically excluded from the operation of Condition 17 (*Extraordinary Dividends*) to Condition 25 (*Other Arrangements to Acquire Securities*)); or
 - (ii) more than one event which gives rise or may give rise to an adjustment to the Conversion Price has occurred or will occur within such a short period of time that a modification to the operation of the adjustment provisions is required in order to give the intended result, or
 - (iii) one event which gives rise or may give rise to more than one adjustment to the Conversion Price has occurred or will occur such that a modification to the operation of the adjustment provisions is required in order to give the intended result,

then the Issuer shall, at its own expense, use all reasonable endeavours to procure that such adjustment (if any) to the Conversion Price as is fair and reasonable to take account thereof and the date on which such adjustment should take effect shall be Determined by an Expert.

- (b) *Effective Date:* Upon such determination, the Issuer and the Trustee shall procure that such adjustment (if any) shall be made and shall take effect in accordance with such

determination, *provided, however*, that an adjustment shall only be made pursuant to this Condition 27 if the relevant Expert is requested to make such a determination not more than 60 days after the date on which the relevant event occurs or circumstances exist.

- (c) *Certificate of Expert*: If any doubt shall arise as to any appropriate adjustment to the Conversion Price, the Issuer shall use all reasonable endeavours to procure that the appropriate adjustment shall be Determined by an Expert and a certificate from the relevant Expert as to the appropriate adjustment to the Conversion Price shall, in the absence of manifest error, be conclusive and binding on all concerned.

28. **Corporations Act and ASX Listing Rules**

The Notes are issued subject to any applicable provisions of the Corporations Act and the ASX Listing Rules.

29. **Minor Adjustments and No Adjustments**

- (a) *Rounding and adjustments of less than one per cent*: On any adjustment of the Conversion Price, the resultant Conversion Price, if not an integral multiple of one cent, shall be rounded down to the nearest whole cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment but such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time.
- (b) *Employee share schemes*: No adjustment shall be made to the Conversion Price where Shares or other securities (including rights, warrants or options) are issued, offered, exercised, allotted, appropriated, modified or granted to or for the benefit of employees or former employees (including directors holding or formerly holding executive office) of the Issuer or any Subsidiary or any associated company of the Issuer pursuant to any employees' share scheme or plan (including a dividend reinvestment plan), provided that the total number of Shares or other securities that may be subject to this Condition 29(b) from time to time shall not exceed 10% of the total number of Shares on issue.
- (c) *Existing or committed option*: No adjustments shall be made to the Conversion Price where Shares or other securities are issued: (i) pursuant to options over Shares or other securities issued or granted by the Issuer to any person before the date of the Offering Circular relating to the Notes, or (ii) pursuant to the options over shares or other securities disclosed on pages 77 and 78 of the Offering Circular relating to the Notes.
- (d) *Adjustments not permitted by law*: The Conversion Price may not be adjusted so that exercise of the Conversion Right would require Shares to be issued in circumstances not permitted by applicable law.

30. **Adjustments for Conversion near a Record Date**

- (a) *Adjustment Event:* If and whenever the Conversion Price is to be adjusted pursuant to any of Condition 17 (*Extraordinary Dividends*) to Condition 25 (*Other Arrangements to Acquire Securities*) and the Conversion Date in relation to any Note is either:
- (i) after the Record Date for any such issue, distribution, grant or offer as is mentioned in the relevant Condition but before the relevant adjustment becomes effective under the relevant Condition; or
 - (ii) before the Record Date for any such issue, distribution, grant or offer as is mentioned in the relevant Condition but in circumstances where the relevant Noteholder is unable, by the relevant Record Date, to become duly entitled to the Shares for the purpose of receiving the issue, distribution, grant or offer as is mentioned in the relevant Condition,

the Conversion Right attaching to the relevant Note shall be subject to adjustment in accordance with this Condition 30.

- (b) *Adjustment to the Conversion Right:* Upon the relevant adjustment becoming effective under the relevant Condition the Issuer shall procure that there shall be issued to the converting Noteholder or in accordance with the instructions contained in the relevant Conversion Notice (subject to any applicable exchange control or other laws or other regulations) such additional number of Shares as, together with the Shares issued or to be issued on conversion of the relevant Note, is equal to the number of Shares which would have been required to be issued on conversion of such Note if the relevant adjustment to the Conversion Price had in fact been made and become effective immediately before the relevant Conversion Date.
- (c) *Shares in uncertificated form:* Such additional Shares will be in uncertificated form. The Issuer, through its share registry, operates an issuer sponsored subregister. In addition, the Issuer participates in the security transfer system known as the Clearing House Electronic Subregister System (CHESS). Noteholders who elect to have their shareholding managed by a broker will have their holding recorded on the CHESS subregister. All other Noteholders will have their holding recorded on the issuer sponsored subregister. Within 5 Sydney business days after the relevant Conversion Date or the date of issue of the relevant Shares, Noteholders on the issuer sponsored subregister will be sent a notice advising them of their Security Holder Reference Number (SRN) and the opening balance of their holding. Where Shares are to be issued through CHESS, they will be delivered to the account specified by the relevant Noteholder in the relevant Conversion Notice by not later than 5 Sydney business days following the relevant Conversion Date.
- (d) *Monthly statements:* Following distribution of the initial holding statements, a holding statement will be provided to a Noteholder on the issuer sponsored subregister within 5 Sydney business days after the end of any subsequent month during which there has been a movement in its shareholding. Noteholders may also request the Issuer to provide a statement at other times, although an administration fee may be charged in those circumstances.

31. **Aggregate Consideration and Consideration per Share**

(a) *Applicability of this Condition:* For the purpose of calculating any adjustment to the Conversion Price pursuant to these Conditions, in the case of any:

- (i) issue, grant or offer of Shares, Share-Related Securities, Rights in respect of Shares or Rights in respect of Share-Related Securities; or
- (ii) grant to any existing securities issued of such rights as to make such securities Share-Related Securities; or
- (iii) amendment of the terms of any Rights or Share-Related Securities (other than in accordance with their terms of issue),

the "**Aggregate Consideration**" and the "**Number of Shares**" shall be calculated or determined (if necessary) in accordance with the following provisions of this Condition 31 and the "**Consideration per Share**" shall, in each case, be the relevant Aggregate Consideration divided by the relevant Number of Shares.

(b) *Shares for cash:* In the case of an issue, grant or offer of Shares for cash:

- (i) the Aggregate Consideration shall be the amount of such cash, *provided that* in no such case shall any deduction be made for any commissions or any expenses paid or incurred by the Issuer for any underwriting of the issue or otherwise in connection therewith; and
- (ii) the Number of Shares shall be the number of Shares so issued, granted or offered.

(c) *Shares not for cash:* In the case of the issue, grant or offer of Shares for a consideration in whole or in part other than cash:

- (i) the Aggregate Consideration shall be the amount of such cash (if any) plus the consideration other than cash, which shall be deemed to be the Fair Market Value thereof or, if pursuant to applicable law such determination is to be made by application to a court of competent jurisdiction, the value thereof as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof; and
- (ii) the Number of Shares shall be the number of Shares so issued, granted or offered.

(d) *Issue of Share-Related Securities:* In the case of the issue, grant or offer of Share-Related Securities or Rights in respect of Share-Related Securities or the grant to any securities issued of such rights as to make such securities Share-Related Securities:

- (i) the Aggregate Consideration shall be:
 - (A) the consideration (if any) received by the Issuer for such Share-Related Securities and (if applicable) Rights or, as the case may be, such grant; plus
 - (B) the additional consideration (if any) to be received by the Issuer upon (and assuming) the exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Share-Related

Securities at the initial price or rate and (if applicable) the exercise in full of the rights to subscribe for, purchase or otherwise acquire Share-Related Securities pursuant to the terms of such Rights at the initial price or rate,

the consideration in each case to be determined in the same manner as provided in paragraphs (b) and (c) of this Condition 31; and

- (ii) the Number of Shares shall be the number of Shares to be issued upon (and assuming) such exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Share-Related Securities at the initial price or rate and (if applicable) the exercise in full of the rights to subscribe for, purchase or otherwise acquire Share-Related Securities pursuant to the terms of such Rights at the initial price or rate.
- (c) *Amendment of Share-Related Securities/Rights in respect of Share-Related Securities:* In the case of the amendment of the terms of any Share-Related Securities and/or Rights in respect of Share-Related Securities (in either case, other than in accordance with their terms of issue):
 - (i) the Aggregate Consideration shall be:
 - (A) the consideration (if any) received by the Issuer for such amendment; plus
 - (B) the additional consideration (if any) to be received by the Issuer upon (and assuming) the exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Share-Related Securities at the initial price or rate or (in the case of an amendment to the terms of such Share-Related Securities) the amended price or rate and (if applicable) the exercise in full of the rights to subscribe for, purchase or otherwise acquire Share-Related Securities pursuant to the terms of such Rights at the initial price or rate or (in the case of an amendment to the terms of such Rights) the amended price or rate,

the consideration in each case to be determined in the same manner as provided in paragraphs (b) and (c) of this Condition 31; and

- (ii) the Number of Shares shall be the number of Shares to be issued upon (and assuming) such exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Share-Related Securities at the initial price or rate or (in the case of an amendment to the terms of such Share-Related Securities) the amended price or rate and (if applicable) the exercise in full of the rights to subscribe for, purchase or otherwise acquire Share-Related Securities pursuant to the terms of such Rights at the initial price or rate or (in the case of an amendment to the terms of such Rights) the amended price or rate.

- (f) *Rights in respect of Shares:* In the case of the issue, grant or offer of Rights in respect of Shares or the amendment of the terms of any Rights in respect of Shares (other than in accordance with their terms of issue):
- (i) the Aggregate Consideration shall be:
 - (A) the consideration received by the Issuer for any such Rights or, as the case may be, such amendment; plus
 - (B) the additional consideration to be received by the Issuer upon (and assuming) the exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Rights at the initial price or rate or (in the case of an amendment to the terms of such Rights) the amended price or rate,the consideration in each case to be determined in the same manner as provided in paragraphs (b) and (c) of this Condition 31; and
 - (ii) the Number of Shares shall be the number of Shares to be issued upon (and assuming) the exercise in full of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Rights at the initial price or rate or (in the case of an amendment to the terms of such Rights) the amended price or rate.
- (g) *Currency translation:* If any of the consideration referred to in any of the preceding paragraphs of this Condition 31 is receivable in a currency other than Australian dollars, such consideration shall be translated into Australian dollars for the purposes of this Condition 31:
- (i) in any case where there is a fixed rate of exchange between Australian dollars and the relevant currency for the purposes of the issue, grant or offer of the Shares, Share-Related Securities or Rights, the exercise of the rights to subscribe for, purchase or otherwise acquire Share-Related Securities pursuant to the terms of such Rights or the exercise of the rights to subscribe for, purchase or otherwise acquire Shares pursuant to the terms of such Rights or Share-Related Securities, at such fixed rate of exchange; and
 - (ii) in all other cases, at the Screen Rate on the date as of which the said consideration is required to be calculated.

32. Trustee Not Obligated to Monitor

The Trustee shall not be under any duty to monitor or make enquiries as to whether or not any event or circumstance which gives rise or may give rise to an adjustment to the Conversion Price has occurred or may occur and will not be responsible to Noteholders for any loss arising from any failure by it to do so.

33. Notice of Adjustment of the Conversion Price

The Issuer shall give notice to the Trustee, to the Noteholders in accordance with Condition 47 (*Notices*) and to the SGX-ST (so long as the Notes are listed on the SGX-ST)

of any adjustment of the Conversion Price as soon as reasonably practicable following the determination thereof.

COVENANTS RELATING TO THE EQUITY OPTION

34. Listing of Shares Issued upon Conversion

The Issuer shall use all reasonable endeavours to ensure that the Shares issued upon exercise of any Conversion Right will:

- (a) be admitted to listing on the Relevant Exchange in accordance with its rules and will be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems by which the Shares are then (following application by or on behalf of the Issuer) admitted to listing, trading and/or quotation in accordance with their respective rules; and
- (b) once admitted, be freely tradeable on the Relevant Exchange without restriction (including as to any secondary sale of such Shares).

35. Corporate Reorganisation

- (a) Merger; sale of assets: In the event of any:

- (i) consolidation, amalgamation or merger of the Issuer with any other corporation (other than a consolidation, amalgamation or merger in which the Issuer is the continuing corporation); or
- (ii) sale or transfer of all or substantially all of the assets of the Issuer,

the Issuer shall immediately notify the Noteholders and the Trustee of such event and (so far as legally possible) cause the corporation resulting from such consolidation, amalgamation or merger or the corporation which shall have acquired such assets, as the case may be, to execute a trust deed supplemental to the Trust Deed providing that the holder of each Note then outstanding shall have the right (during the Conversion Period) to convert such Note into the class and amount of shares and other securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Note would have been converted had the relevant Conversion Date fallen immediately prior to such consolidation, amalgamation, merger, sale or transfer.

- (b) *Other adjustments:* Such supplemental trust deed shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in these Conditions. The undertaking contained in this Condition 35 is without prejudice to the provisions of Condition 16 (*Change of Control*) and shall apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

36. Restriction on New Classes of Shares

For so long as any Conversion Right remains exercisable, the Issuer shall not create or permit there to be in issue any class of shares in its equity share capital carrying any rights

which are more favourable than the rights attaching to the Shares with respect to voting, dividends or liquidation.

37. Frustration of Conversion Right

For so long as any Conversion Right remains exercisable, the Issuer shall not take or omit to take any action which would have the effect, or but for the provisions of Condition 29(d) (*Minor Adjustments and No Adjustments - Adjustments not permitted by law*) would have the effect, that exercise of the Conversion Right would require Shares to be issued in circumstances not permitted by applicable law.

38. Capitalisation of Profits or Reserves

For so long as any Conversion Right remains exercisable, the Issuer shall not issue or pay up any securities, in either case, by way of capitalisation of profits or reserves, except:

- (a) where such action gives rise (or would, but for the provisions of Condition 29 (*Minor Adjustments and No Adjustments*), give rise) to an adjustment to the Conversion Price; or
- (b) where the Trustee in its absolute discretion considers that there would be no material detriment to the interests of the Noteholders, or where approval is given by an Extraordinary Resolution of Noteholders.

39. Reduction of Share Capital

For so long as any Conversion Right remains exercisable, the Issuer shall not buy back its shares or otherwise reduce its issued share capital except where such buy back or reduction:

- (a) gives rise (or would, but for the provisions of Condition 29 (*Minor Adjustments and No Adjustments*), give rise) to an adjustment to the Conversion Price;
- (b) is pursuant to the terms of the relevant share capital; or
- (c) where the Trustee in its absolute discretion considers that there would be no material detriment to the interests of the Noteholders, or where approval is given by an Extraordinary Resolution of Noteholders.

40. Limitation on new or additional Indebtedness

For so long as any Conversion Right remains exercisable, the Issuer shall not incur (and shall ensure that no Subsidiary of the Issuer incurs) any new or additional Indebtedness without the consent in writing of the holders of at least one half of the aggregate principal amount of the outstanding Notes, except in relation to Project Debt.

MISCELLANEOUS PROVISIONS

41. Determined by an Expert

In relation to any matter required by these Conditions or the Trust Deed to be Determined by an Expert, the Issuer shall promptly appoint an Expert with the prior written approval of

the Trustee. If when any matter is required by these Conditions or the Trust Deed to be Determined by an Expert, the Issuer shall within a reasonable time fail to appoint an Expert the Trustee shall be entitled (but not obliged) to make such appointment. In either case, any such appointment shall be for the account of the Issuer.

42. **Trusts not recognised**

Except as required by law, the Issuer need not recognise:

- (a) that a person holds a Note on trust; or
- (b) any interest in a Note except the registered holder's absolute ownership of the whole Note.

43. **Trustee**

- (a) *Role of Trustee:* Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit. In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.
- (b) *Roles of Paying and Conversion Agents and Registrars:* In acting under the Agency Agreement and in connection with the Notes, the Paying and Conversion Agents and the Registrar act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.
- (c) *Changes to Paying and Conversion Agents:* The initial Paying and Conversion Agent and the initial Registrar and their respective initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying and Conversion Agent or any Registrar and to appoint a successor principal paying and conversion agent and additional or successor paying and conversion agents or a successor registrar, as applicable; *provided, however, that* the Issuer shall at all times maintain a principal paying and conversion agent and shall, for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, maintain a paying agent in Singapore.

Initial Specified Office of the Principal Paying and Conversion Agent, the Registrar and the Singapore Paying Agent

The Principal Paying and Conversion Agent and Registrar:

J.P. Morgan Institutional Services Australia Limited

Level 35

AAP Building

259 George Street
Sydney NSW 2000

Fax: +61 2 9247 4913
Attention: "Worldwide Securities Services – Trust"

The Singapore Paying Agent

JPMorgan Chase Bank, N.A., Singapore Branch

Capital Tower
16th Floor
168 Robinson Road, Singapore, 068912

Fax: +65 6882 7667
Attention: "Worldwide Securities Services – Trust"

With copy to:

J.P. Morgan Institutional Services Australia Limited

Level 35
AAP Building
259 George Street
Sydney NSW 2000

Fax: +61 2 9247 4913
Attention: "Worldwide Securities Services – Trust"

Notice of any change in any of the Paying and Conversion Agents, the Registrar or in their respective Specified Offices shall promptly be given to the Noteholders.

44. Meetings of Noteholders; Modification and Waiver

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

45. **Enforcement**

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

46. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes *provided that* the following conditions are satisfied:

- (a) the aggregate principal amount of all Notes including such further notes shall not exceed A\$35,000,000;
- (b) on the occasion of each (if any) issue of such further notes, none of the events described in Condition 10 (*Events of Default*) shall have occurred and be continuing;

- (c) on the occasion of each (if any) issue of such further notes, the Issuer shall have given at least 30 days notice of such issue to the Noteholders in accordance with Condition 47 (*Notices*); and
- (d) the Issuer shall not issue any such further notes to any person unless it has made an offer to each Noteholder to issue to such Noteholder on the same or more favourable terms a proportion of those further notes which is as nearly as practicable equal to the proportion in principal amount held by such Noteholder of the aggregate principal amount of the Notes then outstanding.

The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

47. **Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper having general circulation in Asia (which is expected to be the Asian Wall Street Journal). Any such notice shall be deemed to have been given on the date of first publication.

48. **Governing Law and Jurisdiction**

- (a) *Governing law:* The Trust Deed and the Notes and all matters arising from or connected with the Trust Deed and the Notes are governed by, and shall be construed in accordance with, New South Wales law.
- (b) *New South Wales courts:* The courts of New South Wales and the Commonwealth of Australia have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes.
- (c) *Appropriate forum:* The Issuer agrees that the courts of New South Wales and the Commonwealth of Australia are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Address for Service:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to its registered office for the time being. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in New South Wales and to Proceedings elsewhere.

USE OF PROCEEDS

The net proceeds of the issue of the Notes are expected to be A\$25.35 million for the minimum Notes Placement and A\$32.95 million if the maximum placement of Notes is undertaken. These amounts are calculated after deduction of the combined management and underwriting commission and the estimated expenses incurred in connection with the issue of the Notes. These amounts will be used by the Issuer for the purpose of repayment of the outstanding balance of the contingent debt payable by the Issuer to Ashton Mining (WA) Pty Ltd (in the amount of approximately A\$8.6 million), provisions for the repayment of the existing convertible notes due November 2007 (A\$5.0 million), exploration, appraisal and development activities on the Issuer's current or future licence areas, for general corporate purposes and for general working capital in accordance with the table below.

	Minimum Placement of Notes (A\$)	Maximum Placement of Notes (A\$)
Funds Received from Placement of Notes	27,000,000	35,000,000
Expenses in Connection with Placement of Notes including Underwriting Fee	(1,650,000)	(2,050,000)
Net Proceeds available	25,350,000	32,950,000

INTENDED APPLICATION OF FUNDS

Intended Application of Funds Raised	Amount (A\$)	Total (A\$)
Project Capital Costs		
Mt Weld mine development capital cost	\$16.2m	
Processing Plant capital cost	\$40.4m	
Contingency (15%)	\$8.4m	\$65.0m
Corporate refinancing Costs		
Repayment of Ashton outstanding contingent debt	\$8.6m	
Provision for repayment of convertible note	\$5.0m	\$13.6m
Finance and corporate costs to first production		\$12.3m
Total Project and Corporate Costs to Production		\$90.9m
Less cash on hand to be applied to the project		\$5.9m
Net Funds Required for Project		\$85.0m

DESCRIPTION OF THE ISSUER

1. COMPANY BACKGROUND

- (a) Lynas Corporation Limited (“Lynas”) is an Australian public company listed on the ASX principally involved in exploration, development and upstream processing of Rare Earth minerals. Lynas is focused on becoming a global Rare Earths producer and supplier through its focus on developing its main asset, the Mt Weld Rare Earths Deposit (“the Project”) and through the implementation of its “Rare Earths Direct” (“RED”) strategy.

To fund the implementation of this strategy, the Company is seeking to raise a total of up to A\$85 million which is to be sourced from a combination of a fully underwritten convertible note facility of A\$27 million (with a capacity for oversubscriptions of up to an additional A\$8 million) and the balance via an equity placement of approximately A\$50 million.

- (b) The Company was originally incorporated with the name Yilgangi Gold N.L. in Australia on 23 May 1983 under the former Companies Act 1981 (Australia) as an Australian no liability public company. The name of the Company was changed to Lynas Gold NL on 4 July 1985. The Company converted to an Australian public company limited by shares on 4 May 2000, and the name of the Company since that date has been Lynas Corporation Limited. The registered number of the Company is ACN 009 066 648.
- (c) The principal legislation applying to the corporate governance of the Company is the Corporations Act and the regulations made thereunder.
- (d) The Ordinary Shares of Lynas are traded on ASX (under code LYC). The Ordinary Shares have been traded on the ASX since 11 September 1986.
- (e) The Company is in compliance with all legal and regulatory requirements involved in having its securities traded on the ASX. The Company also complies with the corporate governance guidelines developed by ASX in the form of the ASX Principles of Good Corporate Governance and Best Practice Recommendations, in the manner summarised in the Corporate Governance Statement Section of the Annual Report 2005.
- (f) The Company has complied with the continuous disclosure requirements of the ASX. All significant changes in its financial or operational position since the end of the financial year ended 30 June 2005 have been the subject of announcements available on the Company's website (www.lynascorp.com).
- (g) Lynas is the holding company of the Group. It has a 100 per cent. interest in each of the following subsidiary undertakings:

Name	Registered Office	Country of Incorporation
Lynas Transales Pty Ltd ACN 103 936 232	Level 7 56 Pitt Street Sydney NSW 2000, Australia	Australia
Mt Weld Rare Earths Pty Limited ACN 053 160 302	Level 7 56 Pitt Street Sydney NSW 2000, Australia	Australia
Mt Weld Holdings Limited ACN 073 998 106	Level 7 56 Pitt Street Sydney NSW 2000, Australia	Australia

Name	Registered Office	Country of Incorporation
Mt Weld Mining Pty Limited ACN 053 160 400	Level 7 56 Pitt Street Sydney NSW 2000 Australia	Australia
Mt Weld Niobium Pty Limited ACN 118 216 014	Level 7 56 Pitt Street Sydney NSW 2000	Australia
Lynas Chemet Australia Pty Ltd ACN 114 279 202	Level 7 56 Pitt Street Sydney NSW 2000 Australia	Australia
Lynas also has a 95% interest in Lynas (Shandong) Chemet Limited, a joint venture company incorporated in the People's Republic of China.		

2. RARE EARTHS DIRECT (“RED”)

- (a) The Company’s strategy is to develop a commercial Rare Earths mining operation at the Mt Weld site in Western Australia and to construct a Rare Earths processing plant in Zibo City in the Shandong province of the Peoples Republic of China.
- (b) The key value propositions of Lynas’s RED business model include:
 - (i) producing Rare Earth products with numerous applications across a range of growing high-technology industries;
 - (ii) building an integrated Rare Earths supply system from mine to customer; and
 - (iii) marketing an international brand that will be marketed as a quality product in the Rare Earths market.

3. RARE EARTHS DESCRIBED

- (a) The term Rare Earths refers to the lanthanide series of metals on the periodic table of elements in addition to the metallic element yttrium (Figure 3). The grouping of these elements results from the similarity in chemical behaviour between the elements and hence their collective occurrence in natural deposits.

Rare Earth Elements

														Y 39
La	Ce	Pr	Nd	Pm	Sm	Eu	Gd	Tb	Dy	Ho	Er	Tm	Yb	Lu
57	58	59	60	61	62	63	64	65	66	67	68	69	70	71
Lanthanides														

- | |
|-------------------|
| Lanthanum (La) |
| Cerium (Ce) |
| Praseodymium (Pr) |
| Neodymium (Nd) |
| Samarium (Sm) |
| Europium (Eu) |
| Gadolinium (Gd) |
| Terbium (Tb) |
| Dysprosium (Dy) |
| Holmium (Ho) |
| Erbium (Er) |
| Thulium (Tm) |
| Ytterbium (Yb) |
| Lutetium (Lu) |
| Yttrium (Y) |

Figure 3. The periodic table of elements highlighting the rare earth elements
(Source: U.S. Geological Survey)

- (b) In several industrial sectors, product development engineers are reaching the technological limits of traditional materials and therefore are turning to new materials to maintain the current pace of high-tech advancement within more stringent environmental regulation. New materials and novel applications incorporating rare earths enable companies to produce more efficient, higher performance, and cleaner products.
- (c) Rare earths already play a critical role in the electronics, automotive, environmental protection and petrochemical sectors. As these industries grow and as research around the world continues to develop applications for rare earths the demand for these materials is expected to experience continued growth.

4. PROJECT BACKGROUND

Location and Tenements

- (a) The Project is located at Mt Weld which is situated in the North-Eastern Goldfields of Western Australia, approximately 32 kilometres southeast of Laverton. The Project is based on a concentration of rare earth elements within the Mt Weld carbonatite intrusive.
- (b) The Mt Weld area is covered by four mining leases. Lynas, through its wholly owned subsidiary Mt Weld Mining Pty Limited (“MWM”), owns three leases; the fourth lease is owned by Wesfarmers CSBP (“Wesfarmers”), but MWM has rights to the rare earth (non-phosphate) ores.
- (c) Lynas has completed a technical feasibility study for the Project, which involves mining, crushing and blending of rare earths-iron oxide ore at Mt Weld, and export of the ore to Shandong province, China, where Lynas and its joint venture partner plan to establish processing operations.

Resource

- (d) Total JORC compliant Resources in the Mt Weld Rare Earths deposit are estimated to be 7.7 Mt at 11.9% REO as outlined below.

Category	Tonnes(Mt)	Grade (%REO)	Tonnes REO
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Measured	1.2	15.6	186,000
Indicated	5.0	11.8	584,000
Inferred	1.5	9.8	149,000
Total	7.7	11.9	919,000

Note: JORC standard resource estimation and resource modelling by Hellman and Schofield

- (e) It is planned to ship approximately 120,000tpa initially, building up to 220,000tpa. Shipments in Years 1-11 are planned to average approximately 17-20% Rare Earth Oxides; from Years 12-18 the intended grades range from approximately 13-15% REO.

Grade Quality

- (f) The composition of the Mt. Weld ore is very similar to that of the bastnäsite that is mined from the Baotou (Bayan Obo) area of China (Table 1). The exception is the level of europium, which is more than double that of the Baotou ore. Overall, the Mt. Weld material will be directly competing with Baotou to supply La, Ce, Pr, Nd and Eu rare earth materials to meet the global demand. As Mt. Weld ores will be processed in China, the separated products will be located close to the current markets.

TABLE 1: COMPARISON OF ORE COMPOSITIONS (% OF TOTAL REO)

	Mountain Pass CA, bastnäsite	Baotou, China bastnäsite	Mt. Weld, Australia monazite	LongNan Jiangxi, China Ion ads. clay	XinFeng, China, Ion ads. clay	Xunwu, Jiangxi, China Ion ads. clay
Cerium	49.10	50.8	46.74	2.4	1.9	2.40
Dysprosium	trace	0.1	0.12	5.3	4.1	trace
Erbium	trace	trace	trace	3.6	2.0	trace
Europium	0.1	0.21	0.44	0.03	0.71	0.51
Gadolinium	0.2	0.6	0.75	4.4	4.8	3.00
Holmium	trace	trace	trace	1.4	0.8	trace
Lanthanum	33.20	26.50	25.50	7.8	26.2	43.4
Lutetium	trace	trace	trace	0.3	0.2	0.1
Neodymium	12.00	15.40	18.50	9.0	21.1	31.70
Praseodymium	4.34	4.96	5.32	2.4	6.0	9.00
Samarium	0.8	1.1	2.27	3.0	4.5	3.90
Terbium	trace	0.03	0.05	0.9	0.77	trace
Thulium	trace	trace	trace	trace	trace	trace
Ytterbium	trace	trace	trace	2.7	1.6	0.3
Yttrium	0.10	0.2	0.25	56.2	25.1	8.00

Sources: USGS, Rhodia, Lynas

- (g) It should be noted that the higher grade ore at Mt. Weld (~15% REO) is three times that of the reported grade at Baotou (~5%). As a result, the costs associated with beneficiation and cracking (e.g., energy, water, reagents, capital equipment) are expected to be reduced and the overall recovery rate expected is higher.
- (h) In addition, the environmental impact is significantly reduced because of the lesser amount of tailings per unit REO recovered. For example, in Baotou the 5% grade and

10% recovery requires 80 tons of ore to produce 1 ton of 40% concentrate. This compares to Mt. Weld with 15% grade and 63% recovery requiring 4.2 tons of ore to produce 1 ton of 40% concentrate.

5. RARE EARTH PROCESSING AND PLANNED OPERATIONS

- (a) Typically, the supply chain of the rare earth industry includes six general stages as summarised in Table 2 below. Addition of value occurs at each one of these stages noting that the proposed Lynas operations are completed at Stage 4 which is the current commodity point of following supply chain.

TABLE 2: PROCESSING STEPS IN THE RARE EARTH INDUSTRY

Stage	Processing Steps	Products
1	Mining	Bastnäsite, monazite, ionic adsorption clays
2	Mineral concentration by froth flotation	Rare earths concentrate
3	“Cracking” of minerals and extraction of rare earths into concentrate subgroups	Intermediate mixed products for low value consumption or further processing
4	Separation of high purity, individual rare earths	A variety of chemical compounds and alloy purities
5	Smelting into high purity and mixed metals	Mischmetal, alloys, individual element metals
6	Addition of rare earths into products	Magnets, catalysts, metal hydrides, etc.

Source: BCC Research

Planned Mining and Processing Operations

Australia - Mining

- (b) Mining operations within Western Australia will include open pit mining, stockpiling, blending, crushing and bulk transport by road and rail to Esperance Port, Western Australia. It is intended that mining operations will be outsourced on a campaign basis.
- (c) As part of the feasibility study, proposals have been received from mining contractors for the provision of integrated mine site services, and from transport groups for the bulk transport of ore in kibbles from Mt Weld to Esperance.
- (d) At the date of this Offering Circular, the Project has received all necessary environmental approvals for the mining operations and in February 2005 a non-substantial change to the environmental approval was granted to include the bulk transport of ore from Mt Weld and the export of ore through Esperance. All of the mining tenements on which the Mt Weld rare earths project will be developed were granted before the commencement of the *Native Title Act 1993 (Cth)* (**Native Title Act**). Accordingly, no rights to negotiate under the Native Title Act apply to the tenements. In addition, Miscellaneous Licence 38/98, which provides for road access to the tenements, was granted in compliance with the Native Title Act, and accordingly no rights to negotiate apply to that miscellaneous licence.

China – Downstream Processing

- (e) In Shandong, it is intended that the ore from the Mt Weld mine will be transported from port to processing plant in Zibo City to be constructed for concentration, cracking and initial separation to produce partly separated and purified intermediate Rare Earths products, and an inorganic filler co-product for potential use in the cement industry.
- (f) Lynas’s concentration process will employ a flotation reagent regime developed by Lynas with a Chinese research institute. A pilot plant employing this oxide flotation process achieved a steady state process recovery for the Rare Earths oxide of 63% at 40% REO grade.

- (g) The mature cracking and separation process employs sulphuric acid treatment of Mt Weld concentrate to produce the intermediate Rare Earths products being: a mixed samarium-europium-gadolinium (SEG) product; a mixed heavy rare earth (HRE) product including terbium and dysprosium; a mixed light rare earth chloride containing lanthanum, praseodymium, and neodymium (LPN RECl); and a cerium nitrate product.
- (h) Rare Earths chlorides will be further separated into individual Rare Earths oxides of various purities for their individual or combined commercial use depending on their application, employing standard solvent extraction technology.
- (i) Lynas has identified a strategic partner in China and it is intended that this strategic partner will undertake toll separation through either a strategic alliance or commercial arrangement under the control of Lynas.
- (j) Lynas has secured a 13 ha site for the integrated concentration, cracking-separation processing site which is to be located within the Qilu Industrial Park (“QIP”) and environmental and project approvals for construction have been received. Once construction is completed, a final completion approval will be required.
- (k) Locating all the processing in China at an integrated site offers significant capital and operational cost savings.

Engineering Design and Construction Plans

- (l) A Chinese design institute has completed an engineering study with cost estimations for the Rare Earths concentrator for the Zibo site. This study was based on a flowsheet and engineering design defined in a study by Lycopodium Limited (2004) in Australia and the pilot plant completed in 2003. The flotation process was developed in China specifically for the Mt Weld ore. The engineering design is based on a flotation process demonstrated at pilot scale in 2003.
- (m) A Chinese design institute has completed an engineering study for the cracking-separation plant based on mature technology from the Chinese Rare Earths industry and experienced Chinese Rare Earths process engineers have optimised the flow-scheme further to tailor the product to potential customer specifications.
- (n) Lynas intends to work with Chinese Design Institutes (CDIs), construction companies and monitoring companies according to the Chinese methodology of project execution, which follows well-documented procedures and standards for engineering design for the steel and chemical industries. Additional Western engineering experience will be brought to bear in specific areas such as the design of waste gas and water treatment equipment.
- (o) Lynas has negotiated with CDIs from the metallurgical and chemical industries for the engineering work. The processing operation has been divided into two scopes of engineering work to align with the core strengths and experience of the CDIs:
 - **Scope 1:** Concentrator and site infrastructure, which includes general site services and the metallurgical processes of comminution and flotation. The Basic Engineering Design (BED) is complete and, following a review, the Detailed Engineering Design (DED) work has commenced; and
 - **Scope 2:** The cracking-separation stages of the plant. The BED and DED negotiations are ongoing with a chemical CDI. Work is expected to commence in June 2006.
- (p) Figure 1 outlines the estimated schedule of project development.

Development Stage	2006				2007				2008	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Engineering design		■	■	■	■	■	■	■		
Civil works				■	■	■	■	■		
Equipment installation						■	■	■	■	
Commissioning								■	■	
Grade control drilling			■	■						
Mining campaign				■	■	■	■	■		
Initial production									■	■

Figure 1. Estimated schedule of project development.

Sections 6,7 and 8 are summarised from a Rare Earths market report by the USA based research company BCC Research (BCC). BCC have conducted a custom research study for Lynas Corporation Limited on “Rare Earths Resources and Markets”.

BCC’s report outlines an Introduction to Rare Earths, global Rare Earths demand through an analysis of the main applications that use Rare Earths, global Rare Earths supply including reserves and a review of operations in current production. BCC also provide an analysis of both historic and forecast Rare Earths pricing. BCC is an independent research company, and the views expressed in the report are those of BCC. A full copy of the report can be downloaded from the Lynas website: www.lynascorp.com.

6. RARE EARTHS APPLICATIONS AND DEMAND

- (a) The overall demand for rare earths is a combination of the demand for each element which is driven by the demand for the applications that use the different rare earth elements. The main applications for Rare Earths and some of the major factors driving their growth are listed in Table 3 below.

Table 3: Summary of rare earth applications, demand, and growth drivers

Rare Earths Application	Rare Earths Elements	2005 Rare Earths Demand	Growth Drivers
Magnets	Nd, Pr, Dy, Tb, Sm	17,170 tons	<ul style="list-style-type: none"> ▪ Hybrid vehicle electric motors ▪ Electronic power steering ▪ Other small electric motors ▪ Air conditioners ▪ Generators ▪ Hard Disk Drives
NiMH Batteries	La, Ce, Pr, Nd	7,200 tons	<ul style="list-style-type: none"> ▪ Hybrid vehicle batteries ▪ Rechargeable batteries
Auto Catalysis	Ce, La, Nd	5,830 tons	<ul style="list-style-type: none"> ▪ Gasoline and hybrids, diesel fuel additive ▪ Tightening of automotive emission standards globally
Fluid Cracking Catalysis	La, Ce, Pr, Nd	15,400 tons	<ul style="list-style-type: none"> ▪ Oil production ▪ Increased use for sour oils
Phosphors	Eu, Y, Tb, La, Dy, Ce, Pr, Gd	4,007 tons	<ul style="list-style-type: none"> ▪ LCD TVs and monitors ▪ Plasma TVs and displays ▪ Energy efficient compact fluorescent lights

Rare Earths Application	Rare Earths Elements	2005 Rare Earths Demand	Growth Drivers
Polishing Powders	Ce, La, Pr , mixed	15,150 tons	<ul style="list-style-type: none"> ▪ LCD TVs and monitors ▪ Plasma TVs and displays ▪ Silicon wafers and chips
Glass additives	Ce, La , Nd, Er, Gd, Yb	13,590 tons	<ul style="list-style-type: none"> ▪ Optical glass for digital camera ▪ Fiber optics

Bold denotes the main rare earth element(s) for each specific application

- (b) Table 4 and Figure 2 show the estimated overall market demand for the rare earths and the forecast demand and growth to 2010. Current demand is dominated by catalysts (lanthanum and cerium) and Neo magnets (neodymium, praseodymium, dysprosium, and terbium). These two sectors are expected to continue to dominate demand, although the highest growth is expected for NiMH batteries in response to growth in hybrid vehicle sales.

Table 4: Summary of estimated total rare earth demand, by application, through 2010 (Metric Tons).

Application	2004	2005	2005 % of total	2010	2005-2010 AAGR%
Neo Magnets	13,650	17,150	18.0%	31,100	12.64%
NiMH batteries	6,200	7,200	7.6%	27,300	30.55%
Catalysts	20,440	21,230	22.3%	25,960	3.78%
Phosphors	3,652	4,007	4.2%	7,512	13.00%
Glass	13,440	13,590	14.3%	13,990	0.57%
Polishing compounds	14,100	15,150	15.9%	23,500	9.2%
Other	15,365	16,935	17.8%	24,950	8%
Total	86,847	95,262	100%	154,312	10.1%

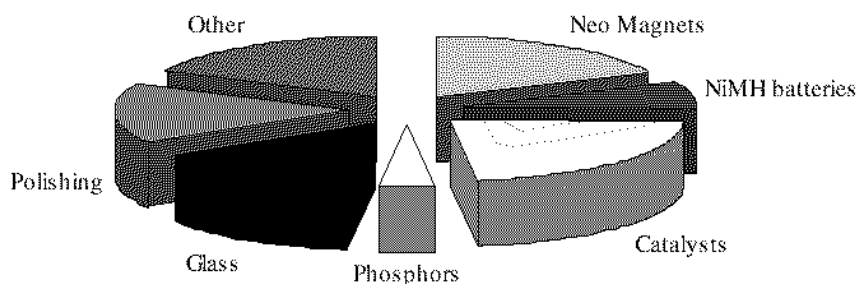


Figure 2. Chart showing the estimated relative demand of each sector for rare earth elements in 2005.

7. RARE EARTHS GLOBAL PRODUCTION AND RESERVES

- (a) In 2005, global production of rare earths used in the applications outlined at Section 5 was estimated at 96,000 metric tons REO. Of this, 91,000 metric tons was produced in China, or 95% of the total production. More than half of the Chinese production came from bastnäsite in the Baotou area in Inner Mongolia with the remainder from mines in

Sichuan and Jiangxi (where the ion-adsorption clays are mined). China exported approximately half of its product predominately to Japan, USA and Europe.

- (b) Global published reserves are reported at 100 million metric tons. Table 5 summarizes the published rare earth reserves for the countries that have the most important resources.
- (c) Published reserve levels do not take into account the actual recovery rate of material or what is currently economical. For instance, under today's economic climate, the economic reserves of the United States are essentially equal to zero because despite a previously exploited resource, there is no mining activity. In China, the recovery of rare earths from Baotou is on the order of 10% and approximately 50% in Sichuan. So, the actual recoverable reserves in China using current practices are closer to 4.65 million metric tons (Table 5). Taken together, the global net recoverable reserves that can be economically extracted (including Mt. Weld) are estimated to be 6.2 million metric tons REO.

Table 5 estimated global rare earth reserves (metric tons - REO equivalent)

Country	Published Reserves	Economic at Current Prices	Estimated Recovery Rates	Net Recoverable Reserves
China	43,000,000		10% to 50%	4,650,000
United States	13,000,000	0	NA	0
India*	1,100,000	1,100,000	75%	825,000
Australia	5,200,000	917,000	63%	577,000
Brazil	109,000	0	NA	0
Russia and CIS	19,000,000	unknown	unknown	unknown
Canada	940,000	0	NA	0
South Africa	390,000	0	NA	0
Malaysia	30,000	0	NA	0
Vietnam	9,000,000	0	NA	0
Other countries	9,000,000	0	NA	0
Total	100,769,000			6,052,000

* Indian rare earths produced from beach sand monazite and therefore limited to domestic production

Sources: U.S. Geological Survey; Rhodia; BCC Research

- (d) With more than 90% of the global supply and the majority of processing coming from a single, state-run country, there is the potential for disruptions in the supply of both beneficiated ores and separated rare earth products. Such disruptions can be caused by a combination of political, economical, and environmental issues.
- (e) In April 2006, the Chinese Ministry of Land and Resources mandated a limit of 86,520 tons REO of mined rare earths ores in 2006. Specifically, the following limits at the

concentrate level are mandated: Baotou 46,000 tons REO; Sichuan 31,000 tons REO; Jiangxi 7,000 tons REO; and other sources 2,520 tons REO.

- (f) In 2006 and beyond, the overall supply is expected to be lower than the demand forecast for the elements used in the discussed applications as a result of reductions in production in China. Even with the addition of the Mt. Weld material expected to begin in 2008, there is a forecast gap of 35,000 metric tons REO. Specific elements that are expected to be in short supply are those associated with the permanent magnet market (Pr, Nd, Tb and Dy), NiMH battery market (La), and phosphors market (Eu and Tb).

8. PRICING

- (a) The price of rare earths depends on the purity level, which is set by the specifications for each application. Purity can be defined either as the percent total REO or percent of the individual element with the standard pricing typically quoted on a 99% REO basis FOB China port.
- (b) Table 6 shows a comparison of the value of a metric ton of separated REO products derived from ores of Mt. Weld, Baotou, and Mountain Pass using March 2006 average prices at 99% purity. Compared to Baotou, a metric ton of the Mt. Weld separated REO products have a value approximately \$1,000 greater, or 23%. This is driven by the larger proportion of europium and neodymium oxide in the Mt. Weld material.

Table 6: Value of one metric ton of REO based on 2006 prices, and published are composites, for three ore sources (US\$ per metric ton).

Material	REO 2006 Prices	Mountain Pass	Baotou	Mt. Weld
Ce oxide 99%		\$786	\$813	\$748
Dy oxide 99%		\$0	\$63	\$79
Eu oxide 99%		\$250	\$520	\$1,108
La oxide 99%		\$714	\$569	\$548
Nd oxide 99%		\$1,242	\$1,597	\$1,915
Pr oxide 99%		\$447	\$511	\$548
Samarium oxide 99%		\$20	\$28	\$57
Terbium oxide 99%		\$0	\$130	\$197
Yttrium metal 99%		\$26	\$0	\$0
Total		\$3,458	\$4,232	\$5,199

- (c) With demand for most of the rare earths expected to grow over the next five years at 10% per annum, as well as supply expected to be limited within China to lower than current production levels, it is expected that the price for most of these elements will increase. Some specific points include:
- The elements forecast to be in short supply are those associated with the permanent magnet market (Pr, Nd, Tb and Dy), NiMH battery market (La), and phosphors market (Eu and Tb).
 - The strong market demand for dysprosium and terbium that has resulted in increased prices for both elements is expected to continue in 2006 and 2007
 - However some uncertainty in the supply forecast exists, as it is not clear how effective the Chinese government will be in controlling the mining of the ionic clay ores in southern China. In the past, efforts to control mine production resulted in only short-term reductions.

- The excess supply of yttrium and cerium will result in keeping their prices relatively stable until demand crosses over supply and stockpiles are reduced.

9. BOARD AND EXECUTIVE MANAGEMENT

- The execution of the Project will be managed by Lynas personnel and specialist international consultants with proven Chinese industry experience who can enhance the interface between Lynas personnel and the Chinese design and construction companies.
- Lynas has recruited three Rare Earths specialist engineers. The engineers will be based at the company's Zibo City Office, Shandong PRC. These personnel bring valuable Rare Earths industry experience that will be applied as the Company commences detailed engineering of the project. Together with the General Manager in China, it is intended that these personnel will also form the management core of the operational team that will run the plant after construction.

The Board of Directors of Lynas is outlined below.

Nicholas Curtis B.A. (Hons)

Executive Chairman

Appointed Executive Chairman of the Company in 2004. Prior to this Nick was President and Chief Executive Officer. He is also the immediate past Chairman of Sino Gold Limited, an Australian listed public company with gold mining operations in China; Chairman of St Vincents and Mater Health Sydney Limited; Director of Sisters of Charity Health Service; Director of Garvan Institute of Medical Research; and Director of Australia China Business Council National Board. His background is in resources banking and financing based on more than 20 years as a professional in the futures, commodities and stockbroking industries.

David Davidson

Director – Non-Executive

Mr Davidson is a Non-executive Director of the Company and joined the Board on 28 March 2002. He has had a distinguished career with ICI and DuPont. An Australian, he has lived and worked in Europe and North America and held a number of Senior Executive roles with global responsibilities. He is a former director of ICI America Inc. Since returning to Australia, Mr Davidson has been providing executive and corporate advice on organisation development and strategy.

Jake Klein

Director – Non-Executive

Appointed an independent Director of the Company, Jake joined the Board on 28 August 2004. He is also President and CEO of Sino Gold Limited and President of Australia China Business Council, NSW branch. Jake has over 14 years experience in senior finance and managerial positions. He brings invaluable knowledge of management of operations in China gained through his role as CEO of Sino Gold Ltd.

DESCRIPTION OF THE ISSUER'S SHARE CAPITAL

Set out below is certain information relating to the share capital of the Issuer including a brief summary of certain provisions of the Constitution of the Issuer and the Australian Corporations Act 2001 (Cth) (the "**Corporations Act**"), the governing corporate law of the Issuer, in effect as of the date hereof. This summary does not purport to be complete and is qualified in its entirety by reference to the Issuer's Constitution and applicable Australian corporate law.

1. **General**

The Issuer was incorporated in Western Australia on 23 May 1983. The Issuer was listed on the Australian Stock Exchange (the "**ASX**") on 11 September 1986.

The rights attaching to shares in the Issuer are detailed in the Constitution of the Issuer, the Corporations Act, the Listing Rules of the Australian Stock Exchange and general law. Set out below is a summary of some material provisions of the Constitution of the Issuer concerning the Issuer's share capital. This summary does not constitute an exhaustive statement of the rights and liabilities of shareholders. A copy of the Constitution of the Issuer is available to Noteholders on request.

2. **Share Capital**

- 2.1 The issued share capital of the Company as at 6 June 2006 is 245,824,924 Ordinary Shares. The Ordinary Shares have no nominal or par value and are recorded in the accounts of the Company at their issue price.
- 2.2 In addition, the Company has in issue a number of options over Ordinary Shares. Details of the number and type of these options are set out in section 6 below.
- 2.3 The Company does not have an authorised share capital, as such term is understood in the UK, that sets the limit to the number of shares a company can issue. There is generally no limit in the Corporations Act or the Constitution on the power of the Directors to issue shares. However, subject to certain exceptions (including those in respect of pro rata issues and issues under employee schemes):
 - (a) Rule 7.1 of the ASX Listing Rules prohibits a company which is listed on the ASX from issuing shares or options representing more than 15 per cent. of its issued capital in any twelve month period without Shareholder approval. Such Shareholder approval requires an ordinary resolution passed by a simple majority; and
 - (b) Chapter 6 of the Corporations Act forbids the acquisition of a "relevant interest" in voting shares in the Company (whether by transfer or issue) if, as a result, the "voting power" of the acquirer (or any other person) would increase from 20 per cent. or below to more than 20 per cent.
- 2.4 There is no similar statutory requirement under Australian law, as is found under English law, providing that Shareholders have a right to be offered any shares in the Company which are being newly issued for cash before the same can be offered to new Shareholders

and consequently there is no requirement for shareholders in general meetings to provide a waiver to this obligation.

- 2.5 Subject to the ASX Listing Rules, the Company, in accordance with the Corporations Act, may by ordinary resolution:
- (a) consolidate and divide all or any of its shares into shares of larger amount than its existing shares; and
 - (b) sub-divide all or any of its shares into shares of smaller amount.
- 2.6 Subject to the Corporations Act, the Company may reduce its share capital in any way.
- 2.7 Subject to the Corporations Act and the ASX Listing Rules, the Company may purchase its own shares on such terms and at such times as may be determined by the directors from time to time. Subject to the Corporations Act, the Company may give financial assistance to any person for the purchase of its own shares on such terms and at such times as may be determined by the directors from time to time.
- 2.8 Save as disclosed in this document:
- (a) no share of the Company has been issued or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash;
 - (b) no share of the Company is subject to an option granted or created by the Company or is agreed conditionally or unconditionally to be put under an option granted or created by the Company;
 - (c) no commission, discount, brokerage or other special term has been granted by the Company or is now proposed in connection with the issue or sale of any part of the share capital of the Company;
 - (d) no founder, management or deferred shares have been issued by the Company; and
 - (e) no amount or benefit has been paid or is to be paid or given to any promoter of the Company.

3. **Constitution**

The Constitution of the Company, which was adopted by a special resolution dated 22 March 2000 and modified by special resolution dated 23 September 2003, includes provisions to the following effect:

3.1 **Objects**

Lynas does not have an objects clause in its Constitution because an Australian company, unlike companies incorporated under the laws of England and Wales, is not required to have an objects clause. Pursuant to section 124 of the Corporations Act, Lynas has the legal capacity and powers of an individual and all powers of a body corporate.

3.2 Voting rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, each Shareholder entitled to vote may vote in person or by proxy, attorney or representative. On a show of hands every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote and on a poll every person present who is a Shareholder or proxy, attorney or representative of a Shareholder shall in respect of each fully paid share held by him have one vote per share but in respect of partly paid shares shall have such number of votes being equivalent to the proportion paid up on those shares.

3.3 Dividends

Subject to the rights of persons (if any) entitled to shares with special rights to dividend, the directors may declare a final dividend in accordance with the Corporations Act and may in accordance with the ASX Listing Rules fix times for entitlement to and the payment or crediting by the Company to the Shareholders of such a dividend.

The directors may in accordance with the ASX Listing Rules authorise the payment or crediting by the Company to the Shareholders of such interim dividends as appear to the directors to be justified by the profits of the Company. A declaration by the directors as to the amount of profits available for dividends shall be conclusive. The directors may also pay any preferential dividend on shares issued upon terms that the preferential dividends thereon will be payable on fixed dates. The payment of any preferential dividend or interim dividend does not require confirmation by a general meeting.

The directors, when paying or declaring a dividend, may direct payment of the dividend wholly or partly by distribution of specific assets, including fully-paid shares in, or debentures of, any other corporation.

All dividends declared but unclaimed may be invested by the directors as they think fit for the benefit of the Company until claimed or until required to be dealt with in accordance with any law relating to unclaimed moneys.

3.4 Distribution of assets on a winding-up

On winding up, the liquidators of the Company may divide among the Shareholders in kind the whole or any part of the property of the Company and may, for that purpose, set such value as the liquidator considers fair on any property to be so divided and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders according to their rights and interests in the Company.

3.5 Transfer of shares

Subject to the Constitution and the Corporations Act, a Shareholder may transfer all or any of the Shareholder's shares:

- (a) by a proper ASTC transfer (a defined method under the Corporations Act) or any other method of transferring or dealing with shares established or recognised by ASX from time to time or operated in accordance with the ASTC Settlement Rules

(as defined in the Corporations Act) or the ASX Listing Rules and in any case recognised under the Corporations Act; or

- (b) by instrument in writing in any usual or common form or in any other form that the directors approve.

A Shareholder may not, however, dispose of any restricted securities during the escrow period pertaining to them except as permitted by ASX or the ASX Listing Rules.

Unless otherwise provided for by the Corporations Act, the ASX Listing Rules or the ASTC Settlement Rules, the directors must register all proper ASTC transfers and all registrable transfer forms, split certificates, renunciations and transfers, issue certificates and transmission receipts and mark or note transfer forms without charge, except when replacing a lost or destroyed certificate.

3.6 Variation of rights

If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, be varied or abrogated in any way with the consent in writing of the holders of three quarters of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

The rights conferred on the holders of the shares of any class are deemed not to be varied by the creation or issue of further shares ranking equally with the first-mentioned shares unless otherwise:

- (a) expressly provided by the terms of issue of the first-mentioned shares; or
- (b) required by the Corporations Act.

3.7 Borrowing powers

The Directors may exercise all the powers of the Company to borrow or raise money, to secure the payment of money, to charge any property, business or undertaking of the Company (both present and future) or all or any of its uncalled capital and to issue debentures or give any other security, guarantee or indemnity for a debt, liability or obligation of the Company or of any other person.

3.8 Issue of shares

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares but subject to the Corporations Act and the ASX Listing Rules, or as the Company in general meeting may when authorising any issue of shares otherwise direct, shares are under the control of the directors who may allot or dispose of all or any of the same to such persons at such times and on such terms and conditions and having attached to them such preferred, deferred or other special rights or such restrictions, whether with regard to dividend, voting, return of capital or otherwise or at a discount, as the directors think fit.

3.9 Unmarketable Parcels

In certain circumstances the Company may reduce or eliminate unmarketable parcels of shares held by Shareholders (i.e. those that have a value of less than A\$500) ("Unmarketable Parcels"). This is consistent with, and subject to, the ASX Listing Rules and the Corporations Act.

To ensure that the Shareholders of the Company are given an opportunity to vote on whether the Company should eliminate or reduce Unmarketable Parcels, the Constitution provides that the power of the Company to eliminate or reduce Unmarketable Parcels only lasts for 12 months from the date of such approval and must then be voted on again by Shareholders.

The Company cannot require a Shareholder to sell an Unmarketable Parcel. All Shareholders holding an Unmarketable Parcel will be given an opportunity to request that it retain its Unmarketable Parcel. The ASX Listing Rules also contain a number of safeguards that protect the holders of Unmarketable Parcels including:

- (a) the Company may only seek to sell any Unmarketable Parcels once in any 12 month period;
- (b) the Company must notify the relevant Shareholder of its intention to sell the Unmarketable Parcel;
- (c) the Shareholder must be given at least a six week notice period from the date that the notice is sent in which to tell the Company that it wishes to retain its Unmarketable Parcel, and if the Shareholder does so inform the Company, the Unmarketable Parcel will not be sold;
- (d) the sale of the Unmarketable Parcel must stop following the announcement of any takeover bid for the Company but may be started again after the close of offers made under the takeover bid;
- (e) only the Unmarketable Parcels held by Shareholders who do not respond in writing to the Company during the notice period or who expressly state that they want their Unmarketable Parcel sold, may be sold by the Company; and
- (f) the Company must pay the costs of the sale (although it would not be liable for the income tax and capital gains tax consequences associated with the sale and these remain the responsibility of the relevant Shareholder).

3.10 Remuneration of Directors

Subject to the ASX Listing Rules, the directors (other than a "Managing Director" or an executive director whether by employment or consultancy) may be paid as remuneration for their services, an aggregate maximum sum (not being a commission on or a percentage of profits or operating revenue) of A\$500,000-per annum unless otherwise determined from time to time by the Company in general meeting, such sum to be divided among the directors in such proportion and manner as the directors determine from time to time and, in default of such determination, equally.

The remuneration of the Managing Director or of an executive director may from time to time be fixed by the directors and may be by way of salary or commission or participation in profits or by all these modes but may not be by a commission on or a percentage of operating revenue.

3.11 Indemnity

To the extent permitted by law, the Company must indemnify each officer against liability incurred to another person (other than the Company or a related body corporate) except where the liability arises out of conduct involving a lack of good faith.

3.12 Pensions and gratuities for directors

The Company shall pay a retiring allowances to directors who cease to hold office such that the directors may cause the Company to make any such payment by way of pension or lump sum in relation to any director who ceases to hold office whether by way of retirement, death or otherwise. The amount of such payment shall be determined by the directors in their absolute discretion and may exceed the Authorised Amount (calculated in accordance with the formula set out in Part 2D.2 Division 2 of the Corporations Act), provided however, that any payment which exceeds the Authorised Amount and any agreement under which such payment is made have been approved by a resolution of the Company in a general meeting.

3.13 Directors' interests in contracts

No director is disqualified by the director's office and the fiduciary relationship established by it from holding any office or place of profit (other than that of auditor) under the Company. Subject to the Corporations Act and the ASX Listing Rules, any director may:

- (a) be or become a director of or otherwise hold office or a place of profit in any other company promoted by the Company or in which the Company may be interested as vendor, shareholder or otherwise;
- (b) contract or make any arrangement with the Company or any company in which the Company shall be a shareholder or otherwise interested, whether as vendor, purchaser, broker, underwriter, solicitor or accountant or other professional person or otherwise and any contract or arrangement entered or to be entered into by or on behalf of the Company in which any director is in any way interested is not avoided for that reason; and
- (c) participate in any association, institution, fund, trust or scheme for past or present employees or directors of the Company, a related body corporate or any of their respective predecessors in business or their dependents or persons connected with them.

Each director must disclose that director's interests to the Company and the Secretary must record any such declaration in the minutes of the relevant meeting or pursuant to the Corporations Act. The Company must advise ASX without delay of any material contract involving the director's interests in accordance with the ASX Listing Rules.

3.14 Restrictions on directors' voting

Except as permitted by the Corporations Act and subject to the ASX Listing Rules, a director who has directly or indirectly a material personal interest in a matter that is being considered at a meeting of the directors, or of any of them, must not vote on or in relation to the matter. The director may be counted in the quorum present at any director's meeting at which such contract, proposed contract or arrangement is considered if the director is permitted under the Corporations Act to be present during consideration of the matter.

Subject to the Corporations Act and the ASX Listing Rules, the restrictions above may at any time or times be suspended or relaxed to any extent and either prospectively or retrospectively by resolution of the Company in general meeting.

3.15 Number of directors

The number of directors must be such number not less than 3 and not more than 8 as the directors determine, provided that the number so determined must not be less than the number of directors when the determination takes effect and the directors in office at the time of adoption of the Constitution will continue in office subject to the Constitution. All directors shall be natural persons. At least 2 directors must be persons who ordinarily reside within Australia.

3.16 Directors' appointment and retirement by rotation

At each annual general meeting of the Company one-third of the directors for the time being, or, if their number is not 3 nor a multiple of 3, then the number nearest one-third, and any other director who has held office for 3 years or more (except the Managing Director), must retire from office. The retirement of a director, and the re-election of the director or the election of another person to that office, as the case may be, takes effect at the conclusion of the meeting at which the retirement and re-election or election occurs.

The directors to retire at any annual general meeting must be those who have been longest in office since their last election, but, as between persons who became directors on the same day, those to retire must (unless they otherwise agree among themselves) be determined by lot. A retiring director is eligible for re-election.

The directors may cause the Company to make any such payment by way of pension or lump sum in relation to any director who ceases to hold office whether by way of retirement, death or otherwise.

3.17 General meetings

In accordance with the Corporations Act, the Company must hold an annual general meeting at least once every calendar year, and within the period of 5 months after the end of the financial year, at such time and place as determined by the directors.

A general meeting of the Company may also be convened by:

- (a) the directors, at any time they think fit; and

- (b) Shareholder(s) holding at least 5 per cent. of the total votes (the Shareholder(s) must pay the expenses of calling and holding the meeting).

The directors may also convene a general meeting on the request of:

- (a) no less than 100 Shareholders entitled to vote at the general meeting; or
- (b) Shareholder(s) entitled to at least 5 per cent. of the total voting rights of all Shareholders.

If the directors do not convene a general meeting within 21 days of being requisitioned to do so, the Shareholder(s) representing more than 50 per cent. of the votes of all the Shareholders who requested the meeting may convene a meeting. The meeting must then be held within three months of the request being given to the Company. The Company must repay the requisitioning Shareholders any reasonable expenses incurred by them by reason of the failure of the directors to convene a meeting. The Company may recover the amount of expenses from the directors.

At least 28 days notice must be to the Shareholders of a general meeting.

3.18 Change in control

Subject to the ASX Listing Rules, the directors may not, without the prior approval of a resolution of the Company in general meeting, allot any shares to any person where the allotment would have the effect of transferring a controlling interest in the Company.

3.19 Disclosure of shareholding

The Corporation Act requires that a Shareholder with a voting power of 5 per cent. or more of the Ordinary Shares must give notice to the Company and ASX of the fact, and that Shareholder must continue to give notice if there is a movement of at least 1 per cent. in their holding.

4. Rights attaching to preference shares

The holders of preference shares have the same rights as Shareholders holding Ordinary Shares as regards receiving notice, reports and audited accounts, and attending general meetings of the Company. A preference shareholder shall have the right to vote in each of the following, but in no other circumstances:

- (1) during a period during which a dividend (or part of a dividend) in respect of the share is in arrears;
- (2) on a proposal to reduce the Company's share capital;
- (3) on a resolution to approve the terms of a buy-back agreement;
- (4) on a proposal that affects rights attached to the share;
- (5) on a proposal to wind up the Company;

- (6) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
- (7) during the winding up of the Company.

5. Takeover regulation

- 5.1 The Company is incorporated in Australia where it has its head office and place of central management. Accordingly, although the Ordinary Shares will trade on the ASX, transactions involving Ordinary Shares in the Company will not be subject to the provisions of the Takeover Code which regulates takeovers in the UK. However, Chapter 6 of the Corporations Act contains provisions that are similar or analogous to certain provisions of the Takeover Code.
- 5.2 The takeovers provisions of the Corporations Act apply to dealings in the Ordinary Shares. The Corporations Act forbids the acquisition of a "relevant interest" (basically power to vote or dispose of the share) in the voting shares in a company incorporated in Australia if, as a result, the "voting power" of the acquirer (or any other person) would increase from 20 per cent. or below to more than 20 per cent. Similarly, such an acquisition is forbidden if any person who already has more than 20 per cent., but less than 90 per cent., of the voting power increases their voting power in the target company. However, it is not mandatory for a person who already exceeds these thresholds to make a takeover bid for all Ordinary Shares.
- 5.3 There are several exceptions which allow acquisitions which would otherwise be prohibited from taking place. These exceptions include acquisitions:
 - (a) under a formal takeover offer in which all Shareholders can participate;
 - (b) with the approval of the Shareholders given at a general meeting of the Company; and
 - (c) in 3 per cent. increments every six months (provided that the acquirer has had voting power of at least 19 per cent. in the target company for at least six months).
- 5.4 A person who has made a takeover bid where at the end of the offer period that person (and its associates) have a relevant interest in 90 per cent. of the issued shares and acquired 75 per cent. (by number) of shares held by other shareholders, may compulsorily acquire any remaining shares it does not hold at the same price offered under the bid, within one month after the end of the offer period. Even if a takeover bid has not been made, a person who otherwise lawfully acquires a relevant interest in 90 per cent. of the issued shares is able to acquire the remaining shares for fair value (confirmed by an independent expert).
- 5.5 There have not been any public takeover bids in respect of the Company's shares during the current or previous financial year.
- 5.6 Under the Australian Foreign Acquisition and Takeovers Act, a non-Australian foreign person or entity cannot acquire a substantial interest in 15 per cent. or more, or two or more foreign entities or persons cannot acquire an aggregate substantial interest in 40 per cent.

or more, of a company's issued shares, without first obtaining approval from the Foreign Investment Review Board.

6. Options

Share options on issue at 6 June 2006:	38,236,640
Exercise prices of share options on issue:	between A\$0.17 and A\$0.30

In addition, the Issuer agreed in December 2005 to issue a maximum of 20,000,000 options to Transocean Securities Pty Ltd pursuant to the quantum of funds raised and the successful completion of the issue of the Notes and/or the proposed equity raising of the Issuer. Such options will be issued on the following terms:

Term:	3 years
Exercise Price:	\$A0.17

7. Terms of Existing Convertible Notes

Issue Price	\$50,000 per convertible note
Issue Date	November 2003
Term	3 years from issue date unless redeemed or converted prior to expiry of the 3 year term
No. of Notes Outstanding	100 convertible notes were outstanding as at 6 June 2006
Interest Rate	Bank Bill Rate plus 0.5% per annum
Interest Payable	On the date 3 business days following the end of each interest period (being the period of 6 months from the issue date in arrears and each 6 months thereafter. Accrued interest will be paid in the event of conversion or redemption.
Conversion Date	At any time by the noteholder upon 14 days notice to the Company. The Company must issue the shares and options within 3 business days of the conversion date.
Conversion Rights	In respect of each convertible note that is converted after 2 years but before 3 years after the date of issue of the convertible note, each note is convertible into 263,158 fully paid ordinary shares (at an effective issue price of \$0.19 per share).
Redemption Rights	Any convertible note not converted by the Maturity Date must be redeemed by Lynas at the issue price of \$50,000.
Security	The Convertible Notes are unsecured, and rank ahead of ordinary shares in Lynas but behind secured creditors.
Voting Rights	Noteholders are not entitled to vote at general meetings of Lynas, except upon the occurrence of an event of default for so long as the event has not been remedied. In these circumstances, each convertible note will carry the number of votes which the holder would be entitled to cast had the convertible notes been converted into ordinary shares at the date of the relevant meeting.
Listing	The convertible notes will not be listed. However, the Company will apply to have any ordinary shares issued as a

result of a conversion or as a result of the exercise of options listed on the ASX within 3 business days of such issue.

TAXATION

Australian Tax Considerations

This section of the Offering Circular sets out the key Australian taxation and revenue implications arising for Noteholders who are non-residents of Australia for taxation purposes.

Capitalised expressions in this section refer to terms defined in the Offering Circular generally and more particularly in Conditions 1 and 2 of the section entitled "Terms and Conditions of the Notes" of this Offering Circular.

References in this section to the "ITAA 36" and the "ITAA 97" are references to the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 of Australia respectively.

Qualifications

This guide is given, based on, and is limited to, the precise arrangements set out in the summary information about the Notes in the section entitled "Summary of the Offering" of this Offering Circular and the Terms and Conditions of the Notes.

This guide is only relevant for investors who acquire Notes on capital account and not on revenue account or as trading stock.

This section is based on the law in force, and administrative practice of the Commissioner of Taxation ("**Commissioner**"), as of 6 June 2006. However, potential investors should be aware that the ultimate interpretation of the taxation law rests with the courts and that the law, and the way the Commissioner administers the law, may change at any time.

This section is provided for general information only. The tax considerations outlined below are general in nature and do not take into account the specific taxation circumstances of each individual Noteholder. The taxation consequences may vary depending upon the particular circumstances of each individual Noteholder. Accordingly potential investors must seek their own independent taxation advice before deciding whether to subscribe for Notes.

Classification of the Notes for Australian Taxation Purposes

Division 974 of the ITAA 97 contains rules that classify financing arrangements as either "debt" or "equity" for certain Australian taxation purposes.

These rules, which have regard to the economic substance of the rights and obligations arising under a financing arrangement rather than the mere legal form, need to be considered to determine whether the Notes will be "debt interests" (and subject to the interest withholding tax ("**IWT**") provisions) or "equity interests" (and subject to the dividend withholding tax ("**DWT**") provisions).

Broadly, the Notes will constitute "debt interests" if the Issuer has "an effectively non-contingent obligation" under the Terms and Conditions to provide "financial benefits" to the Noteholders that are "substantially more likely than not" to exceed the Issue Price (section 974-20 of ITAA 97).

The Issuer will have an effectively non-contingent obligation to pay interest over the term of the Notes. The issue of an equity interest does not however constitute the provision of a "financial benefit". Accordingly, for the Notes to constitute "debt interests", there must be an effectively non-contingent obligation on the Issuer to repay the principal of the Notes.

The existence of the right of a Noteholder to convert a Note into Shares in the Issuer will not of itself make the Issuer's obligation to repay the principal of the Notes not non-contingent (section 974-135(4) of ITAA 97). Further, it is considered that the terms, conditions and pricing of the conversion mechanism are not so favourable to justify a conclusion that conversion is commercially inevitable. The Issuer has the right to require conversion of each Note into fully paid Shares at any time prior to redemption if the Volume Weighted Average Price of the Shares on the ASX for any period of 30 consecutive calendar days during specified periods exceeds specified prices. The fact that the Issuer's right to convert is subject to a contingency means that the possibility of conversion should be disregarded in calculating the life of the Notes for the purposes of Division 974 (section 974-45(3) of ITAA 97). While the classification of the Notes as "debt interests" is not free from doubt in the case of a convertible note with conversion terms similar to those of the Notes, it is considered that the Notes should constitute "debt interests" under Division 974 of the ITAA 97 and, as "debt interests" the IWT provisions should apply to the payment of interest (and other amounts in the nature of interest) on the Notes. If the Notes were, however, to constitute "equity interests" under Division 974, then different tax considerations would apply. Potential investors should seek their own independent taxation advice on this issue.

Interest Withholding Tax

Section 128B of the ITAA 36 imposes a liability to withholding tax on certain "interest" payments (as defined in section 128A(1AB)) made to non-residents. Absent a relevant exemption, the payment of interest on the Notes (and other amounts in the nature of interest, such as any accrued interest on redemption to the extent that those proceeds are a substitute for interest) by the Issuer to non-resident Noteholders will be subject to IWT unless the interest is:

- (1) an outgoing wholly incurred by the Issuer in carrying on a business outside Australia at or through a permanent establishment outside Australia (section 128B(2)(b)(i)); or
- (2) derived by the non-resident Noteholder in carrying on business in Australia at or through a permanent establishment of the non-resident Noteholder in Australia (section 128B(3)(h)(ii)).

The rate of IWT is 10% of the gross amount of interest subject to rate limits applicable under any relevant double tax agreement ("DTA") that a Noteholder's country of tax residence may have with Australia. In particular, tax residents of the United Kingdom and the United States who are classified as "financial institutions" may be exempt from IWT under their country's respective DTA with Australia.

Section 128F of the ITAA 36 does however provide an IWT exemption for interest paid on certain public offerings of "debentures" (including convertible notes) by companies. In general terms, the section 128F exemption will be satisfied if:

- (1) the Issuer is a resident of Australia (or a non-resident of Australia carrying on business at or through a permanent establishment in Australia) when it issues the Notes and when the Coupons are paid; and
- (2) the Noteholder is not an "associate" (as defined in section 128F(9)) of the Issuer at the time that an interest payment is made to the Noteholder; and
- (3) the issue of the Notes satisfies the "public offer test".

The issue of Notes will satisfy the "public offer test" if the issue resulted in the Notes being offered for issue under one of the following five methods:

- (1) to at least 10 persons who were each carrying on a business of providing finance, or investing or dealing in securities, in the course of operating in financial markets, where none of the persons was known or suspected by the issuer to be an "associate" of any of the others; or
- (2) to at least 100 persons whom it was reasonable for the Issuer to have regarded as either having acquired debentures in the past or being likely to be interested in acquiring debentures; or
- (3) as a result of being accepted for listing on a stock exchange, where the Issuer had previously entered into an agreement with a dealer, manager or underwriter, in relation to the placement of debentures, requiring the Issuer to seek such listing; or
- (4) as a result of negotiations being initiated in electronic form, or in another form, that was used by financial markets for dealing in debentures; or
- (5) to a dealer, manager or underwriter, in relation to the placement of the Notes, who, under an agreement with the Issuer, offered the Notes for sale within 30 days in a way covered by any of paragraphs (1) to (4) above.

Even if the issue of the Notes satisfies one of the five methods listed above, the "public offer test" will not be satisfied if, at the time of issue, the Issuer knew, or had reasonable grounds to suspect, that a Note, or an interest in a Note, was being, or would later be, acquired (directly or indirectly) by an "associate" of the Issuer who was either:

- (1) a non-resident not carrying on a business in Australia at or through a permanent establishment in Australia; or
- (2) a resident of Australia carrying on a business in a country outside Australia at or through a permanent establishment in that country.

It is expected that the issue of the Notes will satisfy paragraph (3) of the "public offer test" (above). The Issuer will apply for the Notes to be listed on the SGX-ST. The Issuer is required to do this pursuant to clause 2.1(I)(c) of the Underwriting Agreement between the Issuer and the Underwriter. Further, the Issuer does not expect that any person relevantly associated with it will, directly or indirectly, acquire a Note or an interest in a Note.

Capital Gains Tax Treatment of Shares Received on Conversion

Shares received by a Noteholder on the exercise of a conversion right should constitute a capital gains tax ("CGT") asset. A future disposal of the Shares by the Noteholder would constitute a CGT event that may give rise to a taxable capital gain or capital loss to a Noteholder. However, non-residents of Australia for taxation purposes are only liable for CGT, subject to relief under any applicable DTA, on a disposal or other CGT event happening in respect of CGT assets that have the "necessary connection" with Australia (section 136-25 of the ITAA 97). As a general rule, a Noteholder's Shares will only have the "necessary connection" with Australia where the Noteholder and/or its associates were the beneficial owners of not less than ten percent (10%) by value of the shares in the Issuer at any time during the 5 years before the disposal or other CGT event happens or where the Noteholder's Shares were held in connection with the conduct of a business through a permanent establishment in Australia (section 136-25, Categories 2 and 5 of the ITAA 97).

The Treasurer of Australia had announced in May 2005 that amendments will be made so as to narrow the range of assets on which a non-resident is subject to Australian capital gains tax so that it will be limited to Australian real property and the business assets of Australian branches of a non-resident. The Treasurer's statement indicated that capital gains tax would, however, apply to the disposal of non-portfolio interests (i.e. 10% or more) in interposed entities where the value of such an interest is wholly or principally attributable to Australian real property (which will include mining rights). The Treasurer indicated that the changes would take effect in respect of disposals of assets occurring on or after the date of Royal Assent to the relevant amending legislation. At the time of this Offering Circular, no legislation introducing these amendments has been introduced, although the Treasurer stated that legislation implementing the amendments was expected to be introduced before the end of the 2005-06 financial year. These amendments, when they take effect, may result in a non-resident Noteholder not being subject to Australian tax on any capital gains made on disposal of the Noteholder's Shares.

Noteholders should obtain their own independent taxation advice on any subsequent disposal of, or CGT event happening to, their Shares.

Taxation of Profits on Sale or Disposal of Notes

Noteholders that are non-residents of Australia for taxation purposes will be subject to Australian income tax on profits derived on a sale or disposal of their Notes if:

- (1) in the case of Noteholders that are resident in a country that has no DTA with Australia, the profits on the sale or disposal of the Notes have an Australian source; or
- (2) in the case of Noteholders that are resident in a country that has a DTA with Australia, the Notes are held in connection with a business carried on by the Noteholder at or through a permanent establishment in Australia.

Any profit on the sale or disposal of the Notes will be subject to CGT if the Notes are CGT assets that have the "necessary connection" with Australia (section 136-25 of the ITAA 97). The Notes should constitute CGT assets. An "option or a right" to acquire a share in a company that has the necessary connection with Australia (see section entitled "Capital Gains Tax Treatment of Shares Received on Conversion") will itself have the "necessary connection" with Australia (section

136-25, Category 7 of the ITAA 97). The amendments announced by the Treasurer of Australia (see section entitled "Capital Gains Tax Treatment of Shares Received on Conversion") may, when they take effect, result in a non-resident Noteholder not being subject to Australian tax on any capital gains made on Sale or Disposal of the Notes.

Noteholders should obtain their own independent taxation advice on any sale or disposal of their Notes.

Stamp Duty

No stamp duty will be payable in Australia on the issue, redemption, transfer or disposal of the Notes.

GST

The issue of the Notes will be treated as a financial supply for GST purposes. Financial supplies are input taxed for GST purposes. An input taxed supply is not subject to GST. Accordingly, an investor will not be required to pay any GST in addition to the Issue Price. Similarly, the disposal of Notes by an investor is also a financial supply and therefore there will be no GST payable on the disposal.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the consolidated audited short-term and long-term debt and equity capitalisation of the Issuer as at 30 June 2005 as well as the unaudited pro-forma short-term and long-term debt and equity capitalisation as at 30 June 2005 adjusted for the issue of the Notes:

	30 June 2005 A\$000	Pro-forma A\$000¹	Pro-forma A\$000²
Short-term debt ³	179	5,179	5,179
Long-term debt	5,000	27,000	35,000
Equity:			
Contributed equity	51,714	51,714	51,714
Accumulated losses	(35,452)	(35,452)	(35,452)
Total Shareholders' Equity	16,262	16,262	16,262
Total Debt and Equity	21,441	48,441	56,441

¹ Assuming issue of the A\$27,00,000 Notes.

² Assuming the full subscription of (A\$27,000,000) plus oversubscriptions of (A\$8,000,000). The total issue of Notes to the face value of A\$35,000,000 .

³ Excludes trade payables in the ordinary course of business. The long-term debt at 30 June 2005 matures in November 2006 and accordingly is treated as short-term in the pro-forma figures.

SUMMARY FINANCIAL STATEMENTS OF THE ISSUER

The following financial information reflects summary information extracted from the audited financial statements of the Issuer for the years ended 30 June 2004 and 2005 as follows:

- Statements of financial performance of the Issuer for the years ended 30 June 2004 and 2005
- Statements of financial position of the Issuer as at 30 June 2004 and 2005

Consolidated Statements of Financial Performance	Year ended 30 June 2005 A\$000	Year ended 30 June 2004 A\$000
Revenues from ordinary activities	615	734
Expenses from ordinary activities		
Depreciation expense	(123)	(128)
Borrowing costs expense	(340)	(467)
Salaries and employee benefits expense	(2,441)	(2,752)
Revaluation of shares in listed company	(1,143)	—
Reduction in asset carrying value	(7,766)	—
Cost of disposal of property, plant and equipment	(3)	—
Other expenses from ordinary activities	(2,945)	(1,810)
Loss before income tax	(14,146)	(4,423)
Income tax expense	—	—
Net loss for the year	(14,146)	(4,423)
Basic loss per share (cents per share)	(6.21)	(2.35)
Diluted loss per share (cents per share)	(6.21)	(2.35)
Consolidated Statements of Financial Position	As at 30 June 2005 A\$000	As at 30 June 2004 A\$000
Current Assets	13,951	12,711
Non-Current Assets	8,308	23,803
Total Assets	22,259	36,514
Current Liabilities	645	1,141
Non Current Liabilities	5,352	8,114
Total Liabilities	5,997	9,255
Net Assets	16,262	27,259
Shareholders' equity	16,262	27,259

DIVIDEND POLICY

The Directors of the Issuer will give priority to reinvestment of earnings in the construction, development and operation of the Issuer's facilities at Mt Weld, Western Australia and in China. Accordingly, the Directors do not anticipate paying a dividend for the year ending 30 June 2007. The Directors will review the dividend policy on an annual basis.

Price range of Shares

The following table sets out the high and low closing prices, quoted in Australian dollars, of the common shares on the ASX on the last trading day of each period indicated:

	Price range	
	High Cents/share	Low Cents/share
2006		
First quarter	26.0	25.5
2005		
Fourth quarter	15.5	15.0
Third quarter.....	15.0	14.5
Second quarter.....	14.5	13.0
First quarter	31.0	29.0
2004		
Fourth quarter.....	29.0	29.0
Third quarter.....	25.0	24.0
Second quarter.....	41.0	40.0

Source: Australian Stock Exchange

On 5 June 2006, the closing price of the Issuer's shares on the ASX was \$0.32.

SUBSCRIPTION AND SALE

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the same meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

United Kingdom

- (a) *No offer to public:* The Issuer has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to the expiry of a period of six months from the issue date of such Notes except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (b) *Financial Promotion:* The Issuer has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) (received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) *General compliance:* The Issuer has complied with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Australia

- (1) *No offer to public:* the Offering Circular has not been prepared as a disclosure document in accordance with the Corporations Act 2001 (Cth) (the "**Corporations Act**"). Accordingly, the Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Australia other than pursuant to offers that do not need disclosure to investors under section 708 of the Corporations Act;

- (2) *Secondary sales:* the Issuer does not issue the Notes with the purpose of the person to whom they are issued selling or transferring the Notes or granting, issuing or transferring interests in, or options over the Notes. The subscribers to whom the Notes are issued will not acquire them with the purpose of selling or transferring the Notes, or granting, issuing or transferring interests in, or options over, the Notes. The Notes may not be offered for resale within 12 months after their issue to any person in Australia other than pursuant to an offer that does not need disclosure to investors under section 708 of the Corporations Act;
- (3) *Taxation:* as part of the primary distribution of the Notes, the Issuer will not sell Notes to any person if, at the time of such sale, the Issuer knew or had reasonable grounds to suspect that, as a result of such sale, any Notes or an interest in any Notes were being, or would later be, acquired (directly or indirectly) by an associate of the Issuer for the purposes of Section 128F of the Income Tax Assessment Act 1936 (Cth) (except as permitted by Section 128F(5)).

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore and the Notes are offered pursuant to exemptions invoked under Sections 274 and/or 275 of the Securities and Futures Act. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, (ii) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Other Jurisdictions

No action has been or will be taken in any jurisdiction by the Issuer that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer.
2. Save as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting the Issuer, any of its subsidiaries or any of their respective assets, nor is the Issuer aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes.
3. Save as disclosed in this Offering Circular, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer since 30 June 2005 that is material in the context of the issue of the Notes.
4. For so long as any of the Notes are outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of each Paying and Conversion Agent:
 - (a) the Agency Agreement; and
 - (b) the Trust Deed.
5. For so long as any of the Notes are outstanding, copies of the audited consolidated financial statements of the Issuer for the years ended 31 December 2005 and 2004 may be obtained free of charge during normal business hours at the Specified Office of each Paying and Conversion Agent.

The Issuer publishes annual audited consolidated financial statements. The Issuer publishes annual audited financial statements on a non-consolidated basis. The Issuer does not publish quarterly unaudited financial statements on a non-consolidated basis.
6. Application will be made for the listing of the Notes on the SGX-ST within 7 days after the Issue Date. So long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore.
7. Application will be made for clearance of the Notes through Austraclear. The ISIN and Common Code will be notified to Noteholders within 7 days after the Issue Date.

HEAD OFFICE OF THE ISSUER

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Level 7
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Sydney
NSW 2000
Australia

TRUSTEE

J.P. Morgan Trust Australia Limited

**PRINCIPAL PAYING AND CONVERSION AGENT
AND REGISTRAR**

J.P. Morgan Institutional Services Australia Limited

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