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## QUARTERLY REPORT

### FOR THE PERIOD ENDING 31 MARCH 2013

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#### HIGHLIGHTS

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- During the quarter, Lynas achieved first production of separated Rare Earths products for customers and commenced a process of customer product qualification. The Lynas Advanced Materials Plant (LAMP) has now produced the full suite of Rare Earths products and the plant is ramping up towards achieving targeted Phase 1 nominal capacity of 11,000 tonnes per annum REO by the end of Q2 2013.
- In line with the Company's transition from developer to producer, the Lynas Board agreed that it was appropriate to implement their planned CEO succession. Effective 31 March 2013, Mr Eric Noyrez was appointed to the Board as an executive director and as Chief Executive Officer. Mr Nicholas Curtis remains on the Board as non-executive Chairman and in that capacity will continue to focus on strategy development and remain integrally involved in the development and implementation of Lynas' Shared Value program. The Board also determined that Mr Liam Forde be appointed Deputy Chairman.
- The Company remains well funded into the generation of sustainable operating cashflow. Following the capital raising in late 2012 the Company had \$172m of unrestricted available cash on hand as at 31 March 2013. During the period, Lynas received a \$15.2 million payment from the Australian Taxation Office for eligible research and development expenditure in the prior financial year, principally on the development of the Lynas Mt Weld Rare Earths Project.
- Construction of the Phase 2 expansion of the production capacity of the LAMP to 22,000 tonnes per annum REO was near completion at the end of the quarter. The Phase 2 project remains Lost Time Injury free after more than 5.5 million hours worked. Construction of the Phase 2 expansion of the production capacity in Western Australia was completed during the quarter.
- The 12-month rolling Lost Time Injury Frequency Rate for Lynas' global operations in Australia, Malaysia and Malawi (employees and contractors) as at the end of March 2013 was 0.7.

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## CORPORATE

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In February 2013, Lynas achieved first production of separated Rare Earths products for customers and commenced a process of customer product qualification. The Lynas Advanced Materials Plant (LAMP) has now produced the full suite of Rare Earths products and the plant is ramping up towards achieving targeted Phase 1 nominal capacity of 11,000 tonnes per annum REO by the end of Q2 2013.

In line with the Company's transition from developer to producer, the Lynas Board agreed that it was appropriate to implement their planned CEO succession. Effective 31 March 2013, Mr Eric Noyrez was appointed to the Board as an executive director and as Chief Executive Officer. Prior to that, Mr Noyrez was appointed as Chief Operating Officer in February 2010 and given additional responsibility as President in March 2011. Mr Nicholas Curtis remains on the Board as non-executive Chairman and in that capacity will continue to focus on strategy development and remain integrally involved in the development and implementation of Lynas' Shared Value program. The Board also determined that Mr Liam Forde be appointed Deputy Chairman. Mr Forde has been a Director of Lynas since December 2007 and has been the Lead Independent Director.

In Western Australia, the Concentration Plant was handed over to the construction contractor in early March for final tie-ins and commissioning of the Phase 2 circuit. Dry and wet commissioning activities were completed in March in preparation for ore commissioning in April. As at 31 March, 15,593 dry tonnes of concentrate containing 5,540 tonnes REO were bagged ready for export.

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In total, there have been three legal challenges to the Temporary Operating Licence (TOL). The first challenge related to the decision of the Atomic Energy Licensing Board (AELB) in February 2012 to approve the TOL. That challenge has now been dismissed by the Kuala Lumpur High Court, the Malaysian Court of Appeal and the Malaysian Federal Court. There are no further avenues for this challenge to be appealed.

The second challenge relates to the decision of the Minister of Science, Technology and Innovation to dismiss a statutory appeal of the AELB's decision to approve the TOL. That challenge is expected to be heard by the Kuantan High Court during 2013.

The third challenge relates to the decision of the AELB in September 2012 to issue the TOL. That challenge has been dismissed by the Kuantan High Court, subject to any appeals to higher courts.

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## OPERATIONAL UPDATE

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### WESTERN AUSTRALIA OPERATIONS

The Concentration Plant was handed over to the construction contractor at the start of March for the final tie-ins and commissioning of the Phase 2 circuit. Dry and wet commissioning activities were successfully completed during March in preparation for ore commissioning commencing in April. At the end of the quarter, 15,593 dry tonnes of concentrate containing 5,540 tonnes of REO were bagged ready for export.

### MALAYSIA OPERATIONS

In February 2013, Lynas achieved first production of separated Rare Earths products for customers and commenced a process of customer product qualification. The Lynas Advanced Materials Plant (LAMP) has now produced the full suite of Rare Earths products and the plant is ramping up towards achieving targeted Phase 1 nominal capacity of 11,000 tonnes per annum REO by the end of Q2 2013.

Consistent with the ramp up of Rare Earths production at the LAMP, Lynas has now commenced production of synthetic gypsum and aggregate co-products on site. The Company has produced co-product samples for testing and market trials, which are a necessary precursor for commercial off-take contracts.

During the period, Lynas hosted 19 separate site visits for 596 visitors from universities, government agencies, local community groups and neighbouring companies including the Universiti Malaya, Universiti Teknologi MARA, Academy of Sciences Malaysia and the Pahang Skills Development Centre. Lynas is engaged in a large public consultation program involving local residents, community leaders, villagers and their families. Lynas' engagement with the Malaysian community will continue for the life of the plant.



Concentrate loading and gas treatment



Main control room



Leaching, extraction and product finishing areas



Product testing in laboratory



First production of Rare Earths products



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## ENGINEERING AND CONSTRUCTION UPDATE

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

#### LAMPS Up in Western Australia

The overall cumulative progress of the LampsUp Project in Western Australia up to the end of March 2013 was 99.9%. Engineering and procurement activities were completed and construction reached 99.7%. Remaining activities are related to punch lists and final documentation. The mechanical completion certificate was issued on 29 March and the commissioning was completed on 31 March.

**Flotation cell installation**



**Thickener Area**



**Filter Press**



**Switch Room & Control Room**



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## LAMPS Up in Malaysia

The LampsUp Project in Malaysia continues to achieve excellent HSE performance with overall recorded project hours, as of 31 March, of 5.5 million hours, Lost Time Injury (LTI) free. The overall project's cumulative progress achieved 99.5% up to the end of March 2013. Engineering and procurement activities were completed. The construction activities reached 99% complete. Pre-commissioning work status was at 70% complete. Total headcount at site, which peaked at about 2,300 in mid-December 2012, was reduced to 1,515 at end of March, as the project comes to completion and demobilisation starts.

Rotary kiln



Downstream extraction



Calcination



Secondary Leaching



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## SUSTAINABILITY

The 12-month rolling Lost Time Injury Frequency Rate for Lynas global operations in Australia, Malaysia and Malawi (employees and contractors) as at the end of March 2013 was 0.7.

*(Note: Frequency rate definition based on Australian Standard: AS1885.1 – 1990, Workplace Injury and Disease Recording Standard)*

The Lynas Board endorsed the OHS Due Diligence framework for 2013 ensuring that Officers of the Company receive and review information in relation to:

- Major OHS risks,
- OHS legal compliance, and
- The effectiveness of OHS management systems.

### Western Australia

Bureau Veritas (external certification body) conducted their surveillance audit of the Western Australian integrated management system in February 2013. Certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards was maintained during the quarter.

The Western Australian Operation continued to engage with local communities via the Community Consultative Committee (CCC), Laverton Leonora Cross Cultural Association (LLCCA) and through direct support of local Community events.

### Malaysia



In March 2013, the Lynas Board and Lynas Leadership Team visited the LAMP. Among various other activities during the visit, Directors and members of the Leadership Team discussed safety behaviours and practices directly with front line operators.

Lynas Malaysia continues to implement the Lynas Integrated Operational Management System Standards (LIOMSS), which incorporates compliance to OHSAS 18001 (Occupational Health and Safety), ISO14001 (Environment) and ISO9001 (Quality).

Lynas Malaysia is on track to achieve external certification to these standards in 2013.

Lynas Malaysia continued to engage with local communities during the quarter hosting 19 visits to the LAMP. A total of 596 visitors from various stakeholders including local community groups, university students as well as government agencies toured the plant, were provided with factual information and had the opportunity to ask questions of Lynas representatives.

Lynas Malaysia also continued with its Ivory Tower Project and, as at the end of March, a total of 78 students continued their academic lessons and personal development activities.

## RARE EARTHS MARKET

### RARE EARTHS PRICES

Compared with the prior quarter, the average Mount Weld “basket price” decreased by 13% during Q1 2013 to US\$37.22/kg on a China FOB basis. The “basket price” declined by 12% to US\$23.00/kg on a China domestic basis. Prices on both domestic and FOB China basis remain down significantly from the same time last year.

Rare Earths Prices (US\$/kg)						
Rare Earths Oxide	FOB China			China domestic		
	Average Price Over Quarter			Average Price Over Quarter		
Purity 99% min	Q1 2012	Q4 2012	Q1 2013	Q1 2012	Q4 2012	Q1 2013
Lanthanum Oxide	42.31	13.92	11.00	15.13	8.18	7.15
Cerium Oxide	37.92	15.31	11.85	15.99	8.18	7.20
Neodymium Oxide	177.31	87.46	79.15	90.80	60.60	52.64
Praseodymium Oxide	163.08	88.46	85.00	79.33	60.79	58.14
Samarium Oxide	73.85	34.85	25.00	12.69	8.19	7.71
Dysprosium Oxide	1366.15	716.15	630.00	776.79	452.71	345.35
Europium Oxide	3623.08	1853.08	1600.00	1598.80	937.74	838.37
Terbium Oxide	2658.46	1446.15	1300.00	1257.07	709.92	617.81

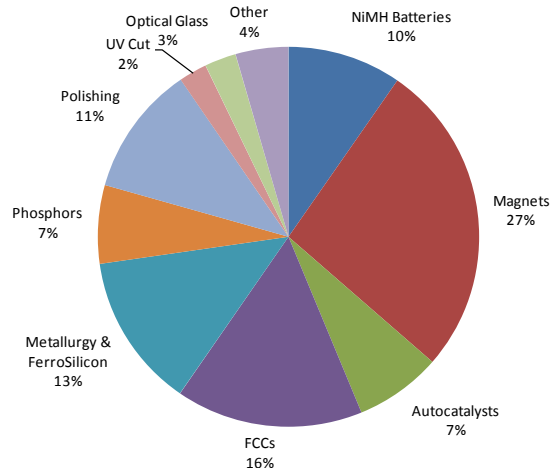
### INDUSTRY OUTLOOK

Lynas has projected Rare Earths demand to grow at above-GDP rates over the medium term driven by increases in demand from key sectors such as Rare Earths permanent magnets, autocatalysts and fluid cracking catalysts (FCCs). These three end markets are projected to account for around half of global Rare Earths demand by 2015.

#### Projected REO demand by sector

Sector	CAGR 2012-2018	Rare Earths used
NiMH Batteries	3.3%	La, Nd
Magnets	10.1%	NdPr, Dy
Autocatalysts	6.0%	Ce
FCCs	8.0%	La
Metallurgy & FerroSilicon	3.4%	CeLa
Phosphors	-1.2%	Eu, Tb, Y, Ce, La
Polishing	4.8%	CeLa
UV Cut	3.0%	Ce
Optical Glass	5.0%	La, Gd
Other	3.0%	La, Ce, Nd, Pr, Sm, Gd, Y
<b>Total demand</b>	<b>5.8%</b>	

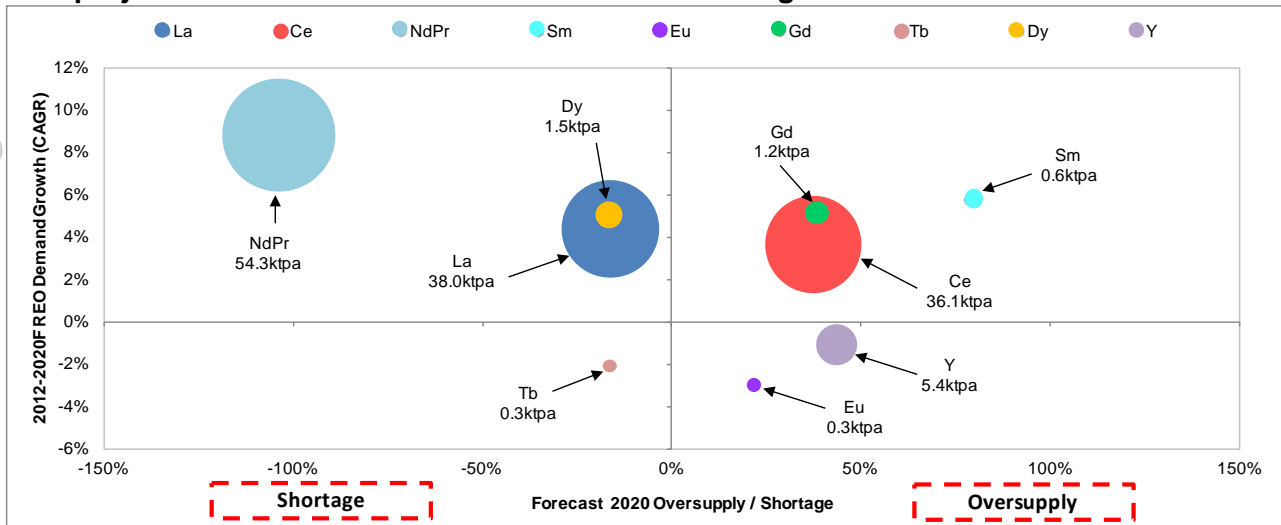
#### 2015 projected REO demand by application



By the end of the decade, Lynas projects that these sector demand growth profiles could create supply shortages in certain Rare Earths element markets, most likely in Neodymium/Praseodymium and to a lesser extent, Lanthanum.



## 2020 projected elemental market balances and demand growth rates



Notes: Bubble size is reflective of 2020 forecast REO demand. Oversupply / Shortage equal to  $(\text{REO Supply} - \text{REO Demand}) / \text{REO Supply}$ ; i.e. 10ktpa Supply, 20ktpa Demand equal to -100% Shortage. Lynas' assumptions in relation to RE supply are Chinese official production remains flat at ~94ktpa to 2020 (no allowance has been made for additional illegal mining supply in China) and that the only additional non-Chinese capacity to come on line is Lynas at 22ktpa and Molycorp at 19ktpa REO.

## Sector outlooks

<b>NiMH Batteries</b>	<ul style="list-style-type: none"> <li>The main growth application for NiMH batteries is in Hybrid Electric Vehicles (~14% CAGR from 2012-2017)</li> <li>Other applications for NiMH batteries also include small electrical appliances</li> <li>Toyota has indicated it will continue with NiMH battery technology until at least 2018</li> </ul>
<b>Magnets</b>	<ul style="list-style-type: none"> <li>High potential growth market driven by automotive, renewable energy generation and electronics industries</li> <li>Dy reduction technologies are ongoing which is easing the cost pressures on NdFeB magnets</li> <li>Stable raw materials prices and supply important to drive future growth</li> </ul>
<b>Autocatalysts</b>	<ul style="list-style-type: none"> <li>Expected 3-4% annual growth in global vehicle sales</li> <li>By 2016, Lynas expects 100% of new cars produced globally to be fitted with autocatalysts (from ~85% today) due to increasingly stringent government regulations</li> </ul>
<b>FCC</b>	<ul style="list-style-type: none"> <li>FCC unit growth expected to be in line with global gasoline demand growth of 1% p.a.</li> <li>Quantity of La used in FCCs impacted by supply stability/visibility of RE raw materials</li> <li>Recent decline in RE content in FCCs (from 3% to 2%) expected to reverse due to improved supply availability</li> </ul>
<b>Polishing</b>	<ul style="list-style-type: none"> <li>Demand for RE-based polishing powders is highly price elastic. Recent price volatility has driven manufacturing productivity and recycling improvements leading to a decline in RE demand</li> <li>Following these manufacturing process changes, Lynas expects ~5% CAGR demand growth driven by a number of end markets such as LCD screens, tablets, HDD and precision optical devices</li> </ul>
<b>Phosphors</b>	<ul style="list-style-type: none"> <li>Demand for RE-based phosphors expected to decline due to market penetration of LED technologies.</li> <li>In the backlighting for LCD screens, LED has already largely replaced RE-based lighting technology</li> </ul>

**Disclaimer:** The Rare Earths market data on pages 8 and 9 have been sourced from independent analysis of end application demand, along with Lynas estimates of quantities of Rare Earths end use in various key applications. Although Lynas believes that the outcomes expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. Forward-looking statements are based on assumptions and contingencies which are subject to change without notice. Factors that could cause actual results to differ materially from those in forward-looking statements include new Rare Earths applications, the development of economic Rare Earths substitutes, and general economic, market or business conditions. While Lynas has made every reasonable effort to ensure the veracity of the information presented, Lynas does not guarantee the accuracy and reliability of the estimates, forecasts and conclusions contained herein. Accordingly, the Rare Earths market data in this presentation should be used for general guidance only. There can be no guarantee that actual outcomes will not differ materially from forward-looking statements.

**FINANCE**

**CASH POSITION**

A summarised cash flow for the quarter ended 31 March 2013 is set out below.

CASH FLOW	A\$M
OPENING CASH BALANCE 1 JANUARY 2013	226.2
<b>INFLOWS</b>	
Interest income	2.0
Research and Development Expenditure Tax Incentive Claim	15.2
<b>TOTAL INFLOW OF FUNDS IN THE QUARTER</b>	<b>17.2</b>
<b>OUTFLOWS</b>	
Mt Weld Concentration Plant – Phase 1	-
Malaysian Advanced Materials Plant – Phase 1	(1.0)
Mt Weld Concentration Plant – Phase 2	(7.0)
Malaysian Advanced Materials Plant – Phase 2	(1.8)
Other capital expenditure	(0.6)
Interest expense and other costs of finance	(8.2)
Ongoing operational, production and administration costs	(31.0)
<b>TOTAL OUTFLOW OF FUNDS IN THE QUARTER</b>	<b>(49.6)</b>
Net exchange rate adjustment	0.0
<b>CLOSING CASH BALANCES 31 MARCH 2013</b>	<b>193.8</b>

<b>Summary of Cash Balance</b>	
Cash on Hand and at Call (incl. Term Deposits)	172.0
Funds for Phase 2 Construction (Restricted Cash)	21.8
<b>CLOSING CASH BALANCES 31 MARCH 2012</b>	<b>193.8</b>

Total cash at 31 March 2013 of A\$193.8m was represented by unrestricted cash of A\$172m plus restricted cash of A\$21.8m (which is available principally to fund the Phase 2 capital expenditure programme related to the Rare Earths Project). Interest income received in the quarter from unrestricted and restricted cash totalled A\$2.0m.

During the quarter A\$15.2m was received by the Group from the Australian Tax Office relating to eligible research and development expenditure incurred during the year ended 30 June 2012. The research and development expenditure principally related to the testing and commissioning of the Mount Weld plant and processes.

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**FOREX**

The currency composition of unrestricted cash at 31 March 2013 was A\$170.2m, US\$0.6m and MYR3.6m, while the currency composition of the restricted cash was A\$7.4m, US\$14.9m and MYR0.4m. During the quarter the Australian dollar depreciated by 1.5% against the US\$ and appreciated by 2% against the Ringgit resulting in a negligible exchange rate adjustment for the quarter.

**EXPENDITURE ON PHASE 1 AND 2 OF THE RARE EARTHS PROJECT**

The forecasted total cost for the respective projects remained unchanged during the quarter.

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