
QUARTERLY REPORT FOR THE PERIOD ENDING 30 SEPTEMBER 2003

HIGHLIGHTS

- The company signed a conditional Heads of Agreement with China Iron and Steel Industry Trade Group Corporation (CSG) of Beijing, China, for the purchase by Lynas of 49% ownership of CMIEC (Channar) Pty Ltd, with the possibility of increasing to 100%.
- Extraordinary General Meeting of Lynas shareholders approved the \$10 mln convertible notes facility.
- The technical feasibility study for the Mt Weld Rare Earths project was completed.
- Community consultation meetings were held in Laverton and Kalgoorlie.
- Marketing discussions continued with customers in Japan, Europe and the USA.

CORPORATE

On 25 September 2003 the Directors of Lynas Corporation Ltd (Lynas) announced that the company had signed a conditional Heads of Agreement with China Iron and Steel Industry Trade Group Corporation (CSG) of Beijing, China, for the purchase by Lynas of up to 100% ownership of CMIEC (Channar) Pty Ltd, an ultimately wholly owned subsidiary of CSG through CMIEC Australia Pty Ltd.

The completion of the acquisition will give Lynas a 49% shareholding in CMIEC (Channar) Pty Ltd, the holder of a 40% interest in the Channar Iron Ore project managed by Hamersley Iron Ltd (Hamersley), a wholly owned subsidiary of Rio Tinto Corporation PLC. Subject to Hamersley agreeing to waive its pre-emptive rights Lynas will be able to move to 100% ownership of CMIEC (Channar) Pty Ltd.

Since the end of the quarter Hamersley has sought an injunction in the Supreme Court of Western Australian to prevent CMIEC (Channar) Pty Ltd and its related companies from providing confidential information regarding the joint venture to Lynas or its advisors. Undertakings have been given and the matter has been deferred for up to 35 days. Lynas presently is not a party to the proceedings.



The Board acknowledges the court action by Hamersley, but remains confident that this will not prevent the transaction from being finalised. During the period of the undertakings approval by the relevant authorities in China to complete the transaction will be actively pursued. As a consequence, the Board does not believe that the Hamersley actions will severely delay the transaction.

The Board is very enthusiastic about the proposed transaction and the consequent relationship with CSG. They see this as a key step in the transformation of the company's longer-term outlook, from a single purpose company, to a diversified resources house based on strong demand in China, accessible through its partnership with CSG.

AUSTRALIAN OPERATIONS

Summary

During the quarter the technical feasibility study for the production of REO concentrate from the Mt Weld deposit was completed. The results are positive and show a high level of recovery and yield. A summary of the results of the study is set out below.

Geology & Mining

Final aspects of mine and infrastructure layout, mine production schedules, stockpile management and grade control were compiled into a final report by mining consultants, AMDAD. Costs and schedules were then integrated into the feasibility study described below.

Progress was made towards granting of a miscellaneous licence for the mine access road with withdrawal of objections by adjacent tenement holders and completion of Aboriginal heritage anthropological and archaeological surveys.

Community

Community consultation meetings were held in Laverton and Kalgoorlie in July. This provided an opportunity for directors and managers of Lynas to discuss various aspects of the Mt Weld project with local residents, service providers, business proprietors and Aboriginal groups.

Engineering and Metallurgy

A review of the engineering study for the concentrator identified significant potential savings in capital and operating costs. A number of optimisation studies were commenced and have confirmed significant cost reductions. Lycopodium will complete the optimisation studies in October, and the engineering study will be incorporated into the bankable feasibility study.

Metallurgical test work continued during the quarter with the following outcomes:

- Bench flotation test work for a range of ore samples returned results consistent with the pilot plant results. Rare Earths recovery was typically greater than 60% for a 40% REO concentrate grade.
- Optimisation of the reagent regime has enabled significant operating cost reductions.



The Board has now satisfied itself on the technical and metallurgical aspects of the project and has now moved on to conduct a detailed examination of the project economics, which are being impacted by the appreciation in value of the A\$, with a view to producing a bankable feasibility study for the purposes of obtaining project finance.

Development at Mt Weld

Lynas continues to plan for development at Mt Weld and is considering the appointment of an EPCM contractor for the concentrator and associated infrastructure.

Compilation of comprehensive documentation for submission of the mining Notice of Intent and Works Approval Application to WA State authorities is being completed under guidance by environmental consultants ENVIRON of Perth. This included an Environmental Management Program, a Radiation Management Plan and various applications for permission to clear scrub for the mine access and infrastructure. The documentation can now be submitted by Lynas and the review process initiated.

An application was made to the Aboriginal Cultural Materials Committee for permission to salvage or remove scattered stone artefacts on the mining area and access route. It is expected that Ministerial Approval for the disturbance will be forthcoming during November and construction of the access road can be initiated shortly afterwards.

Downstream Processing

Process development for the production of Rare Earths Carbonate continued at ANSTO. Process conditions were optimised to improve product quality and reduce capital and operating costs. The Rare Earths carbonate quality meets the specifications of potential customers.

MARKETING

Customer discussions have continued in Japan, Europe and the USA for supply of Australian Mt Weld Rare Earths material. Confidentiality agreements to facilitate sample evaluations and to understand customer specifications in more detail have been signed with European and American customers where samples have been supplied and sensitive information exchanged to help develop a close customer-supply relationship.

The Marketing Strategy section of the Definitive feasibility study has been completed, and the focus of Marketing will now be on continuing to open up further discussions on Letters of Intent for the long term supply of material, with framed of fixed price contracts should the customer desire.

Average Rare Earths prices were maintained from last quarter, dampening the signs of the start of a sustained recovery in demand and prices. However the Chinese government has recently announced reductions in VAT rebates on Rare Earths exports from 1st January 2004, this is rebate reduction is expected to increase prices by approximately 15% in the next 2 to 4 months.



A reported Rare Earths mine closure in Russia and subsequent supply issues for a European processor highlight the increasing dependence of the industry on Chinese Rare Earths. This strengthens the position of Lynas as the alternative for a stable source of supply to the Rare Earths industry.

FINANCE

On 26 September the Extraordinary General Meeting of Lynas shareholders approved the \$10m convertible note facility with clients of Southern Cross Equities. Completion of the issue of the notes is expected shortly.

During the quarter a total of 2,298,000 options (including 203,000 listed options) were exercised into ordinary shares of the company, for a sum of \$605k. There still remain 32,278,164 listed options to be exercised at 40 cents each, before 15 November 2003.

Lynas opened the quarter with \$3.2m available cash.

During the quarter –
the company received:

- Exercise of options \$0.6m

and paid:

- Feasibility study costs of \$0.5m and;
- Operating costs and creditors of \$1.2m were paid leaving a closing balance of \$2.1m.

The cash burn rate for the next quarter is expected to be \$1.2m for operational costs and \$1.1m for exploration and feasibility study activities.

The current cash balance together with the \$10m from the convertible notes facility and the anticipation of a large proportion of the listed options being converted, the company anticipates that it will be in a sound financial position as we prepare for the commencement of development of the Mt Weld project.