

QUARTERLY REPORT

FOR THE PERIOD ENDING 31 MARCH 2006

HIGHLIGHTS

- Restructured contingent debt facility was negotiated with Ashton Mining (WA) Pty Limited
- Engineering Design of the Mt Weld Rare Earths project commenced
- Three Rare Earths specialist engineers recruited to the operations team
- Rare Earths prices continued to increase; the average price for the distribution of Mount Weld Rare Earths broke through US\$5/kg to end the quarter at US\$5.32/kg
- Outlook of participants at the 2nd International Rare Earths Conference indicates key elements such as Neodymium, Praseodymium, Dysprosium, Terbium and Lanthanum are likely to tighten up further as demand continues to grow

CORPORATE

The Lynas Board advanced the Mt Weld Rare Earths project on two important fronts during the first quarter of 2006; the Board decided to commence the Engineering Design of the Mt Weld Rare Earths project and to arrange the proposed London Alternative Investment Market (AIM) listing and associated capital raising for the project.

CAPITAL RAISING

As mentioned in the December quarterly report the company was seeking a pre-credit approval from Bayerische Hypo-und Vereinesbank AG (HVB) for a project finance facility of US\$15m, which was obtained this quarter. However HVB required forward sale for 5 years of approximately 80% of production, and given the positive outlook for Rare Earths the Board resolved it was not in the best interest of shareholders to proceed with this facility. As a consequence the Board decided to fund the project with a planned placement of equity on AIM and the ASX together with a convertible note facility.



The required capital raising will account for the projected capital cost of the project, the repayment of contingent debt to Ashton, provision for the repayment of the outstanding convertible note due in November of 2006, and associated listing and financing charges as shown in the table below;

Project capital costs		\$65.0m
Mt Weld mine development capital cost	\$16.2m	
Processing plant capital cost	\$40.4m	
Contingency (15%)	\$ 8.4m	
Corporate refinancing costs		\$13.6m
Repayment of Ashton outstanding contingent debt	\$8.6m	
Provision for repayment of convertible note	\$5.0m	
Finance and corporate costs to first production		\$12.3m
less current cash balance		(\$11.3m)
Total capital requirement		\$79.6m

In January, following a successful share placement to RAB Special Situation (Master) Fund, a fund managed by RAB Capital plc (RAB), Transocean Securities Pty Ltd (Transocean) were engaged to advise and assist Lynas with a share placement concurrent with a listing on AIM to complement the company's ASX listing.

Subject to a decision by the Lynas Board to proceed with the proposed capital raising, it was agreed Transocean will receive a fee of 0.75% of the monies raised during the mandate period. Transocean shall also be entitled to a success fee based on the quantum of funds successfully raised by an equity issue pursuant to the proposed AIM listing of Lynas, subject to shareholder approval of the equity issue. The success fee will be paid to Transocean through the issue of up to 20m Lynas options to acquire fully paid Lynas shares at \$0.17 per share with an expiry date of 3 years from the date of issue, in accordance with the strike price of the options which was set on 17 January.

For the forthcoming equity issue and listing on AIM Arbuthnot has been engaged as the UK broker and NOMAD, and Austock Securities Limited has been engaged as the Australian broker. Both companies have excellent people and track records and the Board is very pleased to have such a strong team working on the company's behalf.

On April 27th the company signed an underwriting agreement with RAB Special Situation (Master) Fund for a \$27m convertible note facility successfully arranged by Transocean. Over-subscriptions of an additional \$8m may be accepted at the discretion of Lynas. It is anticipated, subject to shareholder approval of the convertible note, that these funds shall be put towards the development of the Mt Weld Rare Earths project and marks the achievement of a major milestone by the company. The terms of this agreement were announced on April 28th.

REPAYMENT OF ASHTON CONTINGENT DEBT

The negotiation for restructuring the contingent debt facility with Ashton Mining (WA) Pty Limited (Ashton) continued throughout the quarter. A new agreement was signed by Lynas with Ashton on April 27th for the payment of the contingent debt under new terms beneficial for Lynas. The terms were announced on April 28th, and the key implications for Lynas are:



1. An agreed schedule of payments over the next 3 years unless capital raising for the project is completed, removing the end of 2006 repayment or return to Ashton of half the project
2. Upon payment, removal of the \$10.7m CPI indexed royalty on Mt Weld Rare Earths sales

An initial payment of \$3m is due for payment on 18 May 2006, and the current balance of \$5.6m shall be paid to Ashton upon shareholder approval of the RAB convertible note discussed above.

COMMERCIAL DISCUSSIONS

On February 6th the company announced the signing of a Heads of Agreement with Rhodia Electronics and Catalysis ("Rhodia") for the supply of Rare Earths to Rhodia and cooperation with Rhodia for downstream processing of output from Lynas' proposed Shandong Plant.

The company's Mount Weld Rare Earths Project has been reviewed by Rhodia and received positive outcomes from both a technical and comparative industry cost perspective, resulting in Lynas securing Rhodia as a cornerstone customer for the Mount Weld Rare Earths Project. Drafting of the final agreements is underway.

OPERATIONAL UPDATE

AUSTRALIAN OPERATIONS

Australian Operations work resumed this quarter, specifically the grade control strategy was reviewed to introduce a programme of staged drilling and resource modelling which has the potential to reduce by half the grade control drilling costs for the Mt Weld Rare Earths project. In addition documentation for project works approval application was completed.

The preparation of contract documentation for Australian Operation services including mining, ore transportation and others will commence in April.

CHINA OPERATIONS

The focus during the quarter was to advance the feasibility study through the engineering design phase.

In order to achieve this management recommended a project management structure and execution plan for the design and construction of the Rare Earths processing plant to be built in China.

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.



Consistent with normal practice in China, the engineering will follow a sequential process with well defined phases; Process Design Package (PDP), Basic Engineering Design (BED), and Detailed Engineering Design (DED), followed by construction. Lynas is currently negotiating 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;

1. The Concentrator and Site Infrastructure - which includes general site services and the metallurgical processes of comminution and flotation. The BED is complete and following a review the DED work shall commence shortly.
2. The Cracking-Separation stages of the plant. Negotiations for the BED and DED work are ongoing with a chemical CDI. Work is anticipated to commence in May.

Conforming to the sequential nature of the Chinese engineering design and construction execution processes has result in the project development timetable being re-evaluated. However the company believes the plan shall ultimately deliver a better plant in terms of safety, environmental performance, reliability and product quality. The table below outlines the estimated schedule of project development.

STAGE OF DEVELOPMENT	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										

The execution of the project will be managed by an Owner's Team comprised of Lynas personnel and specialist international consultants with proven Chinese industry experience to enhance the interface between the Owner's Team and the Chinese design and construction companies.

Lynas increased the engineering capabilities and capacity of its Owner's Team this quarter with the recruitment of 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 shall be applied as the company commences detailed engineering of the project and together with the General Manager in China will form the management core of the operational team that shall run the plant after construction.

To assist the Cracking-Separation BED some preparatory work for scale testing of the cracking process commenced this quarter. This test work, to be conducted at the SGS Laboratory Western Australia, shall test material handling equipment and kiln parameters for the high temperature sulfuric acid cracking of Rare Earths concentrate. The results will determine equipment selection and sizing.

GLOBAL MARKET ACTIVITY

2ND INTERNATIONAL RARE EARTHS CONFERENCE

The 2nd International Rare Earths Conference organised by Roskill and Metal Events was held at the beginning of March in Hong Kong and attended by Lynas as well as Chinese suppliers and by the major purchasers of Rare Earths.

The reinforcement of the Chinese environmental policy and subsequent disruptions to raw material supply due to plant closures were openly discussed at the conference. Both purchasers and Chinese suppliers highlighted the importance of improving the environmental performance of the industry and acknowledged this would increase the average cost of Rare Earths production.

Forecasts by both industry bodies and individual companies indicated that key elements such as Neodymium, Praseodymium, Dysprosium, Terbium and Lanthanum are likely to tighten up further as demand continues to grow, resulting in a positive impact on pricing.

RARE EARTHS PRICES

Rare Earths Prices FOB China (US\$/kg)				
Rare Earths Oxide Purity 99% min	Mt Weld Composition % Rare Earth Oxide*	Average Price Over Quarter		
		Q1 2005	Q4 2005	Q1 2006
Lanthanum Oxide	25.50%	1.45	1.84	1.92
Cerium Oxide	46.74%	1.31	1.49	1.51
Neodymium Oxide	18.50%	5.88	9.77	9.97
Praseodymium Oxide	5.32%	7.55	9.58	9.69
Samarium Oxide	2.27%	2.60	2.50	2.44
Dysprosium Oxide	0.12%	35.00	50.80	54.10
Europium Oxide	0.44%	293.00	244.00	249.10
Terbium Oxide	0.07%	303.00	325.00	338.60
Av. Mt Weld Composition		4.12	4.96	5.07
* in final product form, other Rare Earths account for 1.04%				

The table shows the average quarterly price for a 'standard' 99% purity of individual elements and for the generic composite of Rare Earths equivalent to the Rare Earths distribution at Mount Weld, on an FOB China basis. Note that higher purity oxides and other value added properties will attract higher prices than those shown.

The Mount Weld composition has increased by 2% since the last quarter, and has increased by 19% over the past 12 months. Furthermore, whilst the quarter average price for the Mount Weld composite stands at US\$5.07/kg, the end price for the period concluded 31 March 2006 was US\$5.32/kg indicating that the upwards trend in Rare Earths prices should continue into the next quarter.

FINANCE

During the quarter:

Lynas opened the quarter with \$10.83m of available cash and closed the quarter with a balance of \$11.26m. The movement in cash of \$0.43m was as follows:

	\$m
Interest received	0.13
Receipts from share placement – RAB Capital plc	1.37
Less	
Net operating costs (including finance charges)	0.98
Upstream Project China costs	0.09

TOTAL	0.43
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