
QUARTERLY REPORT

FOR THE PERIOD ENDING 30 JUNE 2006

HIGHLIGHTS

- \$75 million funding secured for development of the Mt Weld Rare Earths project, subject to shareholder approval at the 4 August Extraordinary General Meeting (EGM)
- Mt Weld Rare Earths composition average quarterly price increased dramatically over the quarter to US\$5.50/kg, an 8.5% jump
- Ashton Mining (WA) Pty Ltd (Ashton) contingent debt restructured with initial \$3 million payment completed
- Engineering Design institutes appointed and Basic Engineering design underway
- Pilot plant tests for 'cracking section' of the process plant successfully completed
- Behre Dolbear Australia (BDA) complete an independent technical review on the Mt Weld Rare Earths project, with no significant technical issues raised
- BCC Research complete Rare Earths market report, and forecast Rare Earths price rises
- Imposition of Rare Earths production quotas and restriction of export quotas by Chinese authorities

CORPORATE

CAPITAL RAISING

During the quarter the company was successful in securing commitments to raise the capital required for the development of the Mt Weld Rare Earths project, a total of \$75 million.

Following the decision to not use bank finance to fund the project due to the excessive forward hedging requirements, the company decided to fund the project through a placement of equity and a convertible note facility.



On 28 April the company announced that it had secured the underwriting for a convertible note issue of up to \$27 million from RAB Capital, introduced by the company's advisor Transocean Securities Pty Ltd (Transocean).

The terms of the Convertible Notes were agreed as follows:

- Five year term
- 40 cent conversion price into Lynas Fully Paid Ordinary Shares
- 8.25 % coupon paid quarterly in arrears
- The company has the right to force conversion of the notes into Lynas Fully Paid Shares if the shares trade for 30 days with a volume weighted average price over 80 cents for the first year or \$1.20 for any subsequent year
- The Convertible Notes will be listed on the Singapore Stock Exchange

The proposed issue was subsequently oversubscribed and the company accepted subscriptions subject to shareholder approval at the forthcoming EGM on 4 August for a total of \$35 million.

Transocean and Patersons Securities Limited (Patersons) were appointed to co-manage the convertible note placement.

The company had intended to raise the equity capital in conjunction with a listing on the London AIM market, however during May the company was approached by Transocean and Patersons to consider a share placement to US institutional clients of Patersons.

Following an extensive due diligence by the investor group, the company announced on 15 June that it had secured a \$40 million share placement at \$0.31 per share subject to shareholder approval at the forthcoming EGM on 4 August.

This issue was subscribed as to \$38 million by affiliates of Goldman Sachs and Ospraie Management, and the balance to Mr Nicholas Curtis, Executive Chairman of Lynas, and to clients of Transocean.

The company still intends to proceed with its AIM listing at a later date, subject to overall market conditions.

The Board is delighted at the support the project has received from such strong international financial institutions. The company is now well funded to proceed with development of the project.

It is intended that the funds raised will be used towards the repayment of the outstanding debt payable by Lynas to Ashton (\$5.6 million approximately), for the development of the project (estimated at \$65 million) and for the repayment of the outstanding debt to Sinosteel Australia Pty Ltd (Sinosteel) due on maturity of the convertible note of \$5 million.

INDEPENDENT REPORTS

As part of the due diligence process necessary for the successful capital raising, the Board released two independent expert reports;



The first was completed by Behre Dolbear Australia (BDA). The Scope of Work of BDA's technical review included:

- An independent assessment of the technical aspects of the project
- Preparation of a summary report and risk assessment of the geology, drill and sample data, resource and reserve estimates, proposed mining plans and mining operations, metallurgical testwork, planned process flowsheet, plant design and proposed processing operations, infrastructure and environmental issues
- Review of the capital and operating cost estimates
- Review of the proposed Rare Earths products

BDA reviewed Lynas' mining and processing plans and testwork; the resources and reserves; the proposed production schedule; and estimated capital and operating costs. BDA also reviewed the Feasibility Study documents and development proposals. BDA visited the Mt Weld project site, the proposed trucking route from Mt Weld to Laverton, the Laverton rail loading facility and the Esperance port facility. BDA also visited the Zibo City plant site, the Chinese Design Institutes preparing the detailed plant designs, the relevant infrastructure facilities and reviewed the environmental proposals.

The review raised no significant technical issues. A copy of the report is available from the company.

The USA based research company BCC Research (BCC) were commissioned to conduct a custom research study for Lynas 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 .

BCC concluded that from the date of the report, June 2006, "...the value of a ton of ore from Mt Weld will increase by approximately 40% to 80% by 2008."

ASHTON CONTINGENT DEBT

Following the restructure of the Ashton contingent debt announced on 28 April the company paid Ashton the agreed initial payment of \$3 million. Assuming finalisation of the capital raising, it is intended to pay Ashton the outstanding balance of \$5.6 million, giving Lynas the unencumbered title to the Mt Weld Rare Earths tenements.



SINOSTEEL CONVERTIBLE NOTE

During the quarter the company formally agreed with Sinosteel to repay the \$5 million November 2006 convertible note at face value, with Sinosteel accepting this as full consideration for the notes, including any apparent conversion rights.

CHINESE GOVERNMENT RARE EARTHS REGULATIONS

On 4 April the Chinese Government announced the imposition of production quotas on the mining of Rare Earths in China in conjunction with detailed reporting requirements from the local governments through to the Central Government. These quotas amount to a total of 86,000 tonnes REO in concentrate, which after processing recoveries produces 74,000 tonnes REO of Rare Earths products. China represents over 97% of global production of Rare Earths. This compares to global consumption last year reported at approximately 100,000 tonnes REO of Rare Earths products.

In conjunction with the tightening of the supply through the imposition of production quotas outlined above, the National Development Reform Commission (NDRC) and the Ministry of Commerce (MofCom) have reduced the tonnage in the existing export quota system and are restricting the trading of these quotas. As a consequence a tightening of Rare Earths available outside China has been reported.

Following the tightening of export quotas Lynas has resubmitted to MofCom its formal application for exemption from export quotas on the basis that Lynas' raw material will be imported into China from Australia.

OPERATIONAL UPDATE

ENGINEERING DESIGN

Good progress was made during the quarter with the planning and the commencement of engineering work in China.

The process design package (PDP) for the cracking-separation plant was completed in June by a team of Lynas and AMEC personnel in Shanghai.

Following an intensive selection process in May, two experienced, well qualified Chinese Design Institutes were appointed for the basic and detailed engineering design of the processing plants, and contracts have been negotiated. The Metallurgical Design Institute of Shandong (SDM) was appointed for the Metallurgical Plant and general site infrastructure, and the Eastern China Engineering Science and Technology Co. (ECEC), a Shanghai based chemical engineering design group, was appointed for the cracking-separation plant.

Basic Engineering Design (BED) is underway. Following completion of the relevant BEDs the institutes will undertake detailed design for construction. Detailed design is expected to be completed mid first quarter of 2007.



OWNER'S TEAM

The company continued to build a small but strong owner's team in China for the management of engineering, procurement and construction. Lynas is currently considering proposals from organisations in China that can assist with procurement and construction management and intends to make appointments during the September quarter.

CRACKING PROCESS PILOT PLANT

To collect specific design information for the cracking section of the process plant, a pilot plant was run at the laboratories of SGS Lakefield in Perth, Western Australia during the quarter, where concentrate was processed through a sulfuric acid bake.

The plant comprised of a 4 metre rotary kiln and tested waste gas treatment equipment and hydrometallurgical equipment, as well as providing data specifically related to materials handling, waste gas treatment and continuous operation of the sulfuric acid bake process.

Kiln operation and leaching was successfully completed in early July. Issues with gas treatment for the removal of sulfuric acid fume were identified and overcome by the installation of different equipment. In addition the plant optimised the configuration of equipment for mixing and conveying of the concentrate-acid slurry.

AUSTRALIAN OPERATIONS

The mining proposal for Rare Earths mining at Mt Weld has been completed and is ready for submission to the Department of Industry and Resources Western Australia. This is the final formal approval required prior to commencement of mining at Mt Weld.

PRELIMINARY GRADE CONTROL DRILLING PLANNED FOR JULY

In advance of the pre-strip mining, a preliminary grade control drilling program will be undertaken in July this year to infill drill on a selected area of the resource and produce data on 10m x 10m pattern.

MINING CONTRACT

The company will be inviting selected mining contractors to submit proposals with a view to a contract being negotiated by October 2006.

GLOBAL MARKET ACTIVITY

COMMERCIAL DISCUSSIONS

Substantial ground has been covered this quarter with Rhodia Electronics and Catalysis (Rhodia) in advancing final documentation following on from the Heads of Agreement signed last quarter for the supply of Rare Earths to Rhodia in both France and China. The relationship of the company with Rhodia remains strong, and both parties are working towards completing the documentation in the very near term.



RARE EARTHS PRICES

The Mt Weld composition average quarterly price has increased dramatically over the three months of the quarter to US\$5.50/kg, an 8.5% jump. The impact of tightening supply discussed in the Corporate section together with very strong demand, especially for magnet and battery related elements, is driving the price continually higher.

Both the mixed Rare Earths carbonate raw material is being affected as are the separated Rare Earths products, as evidenced by the end of quarter Mt Weld composition price of US\$5.90/kg indicating the quarterly average price will continue to rise next quarter. As at the end of the quarter neodymium oxide had risen to US\$12.75/kg, a rise of 28% from the Q1 2006 average price. As previously explained many of these elements have no substitutes and are vital for applications in the consumer electronics and the automotive industry.

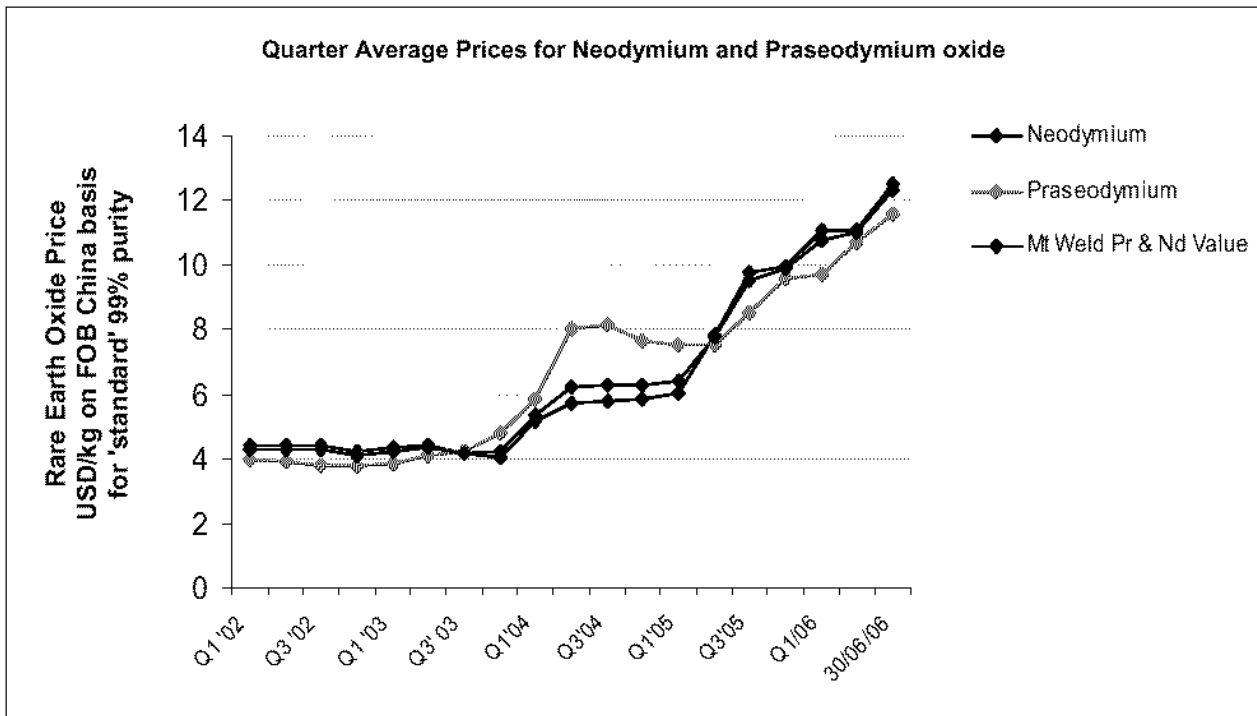
Rare Earths Prices FOB China (US\$/kg)				
Rare Earths Oxide Purity 99% min	Mt Weld Composition % Rare Earth Oxide*	Average Price Over Quarter		
		Q2 2005	Q1 2006	Q2 2006
Lanthanum Oxide	25.50%	1.45	1.92	2.15
Cerium Oxide	46.74%	1.36	1.51	1.65
Neodymium Oxide	18.50%	6.05	9.97	11.07
Praseodymium Oxide	5.32%	7.55	9.69	10.70
Samarium Oxide	2.27%	2.60	2.44	2.40
Dysprosium Oxide	0.12%	36.40	54.10	70.44
Europium Oxide	0.44%	286.20	249.10	240.00
Terbium Oxide	0.07%	300.00	338.60	433.00
Av. Mt Weld Composition		4.15	5.07	5.50

* 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 Mt Weld, on an FOB China basis. Note that higher purity oxides and other value added properties will attract higher prices than those shown.

The quarterly average price for the Mt Weld composition of Rare Earths has increased 32% over the last twelve months from US\$4.15/kg for Q2 2005 to US\$5.50/kg for Q2 2006.

The chart below captures the significant change in prices for featured elements neodymium and praseodymium and the increase in value this has relative to the distribution of these elements at Mt Weld.



NEW LYNAS WEBSITE

A revised website for Lynas was launched in late June. The new site will be regularly updated with company and market information including the most recent Rare Earths prices.

FINANCE

During the quarter:

Lynas opened the quarter with \$11.26 million of available cash and closed the quarter with a balance of \$7.19 million. The movement in cash of -\$4.07 million was as follows:

	\$M
Interest received	0.10
Receipts from exercise of options	0.75
Less	
Net operating costs (including finance charges)	1.36
Upstream Project China costs	0.56
Payment to Ashton Mining	3.00
Movement in cash	(4.07)
TOTAL CLOSING CASH	7.19

