



28 February 2012

## Completion of the Convertible Bonds Issue

Lynas Corporation Limited (ASX:LYC, OTC:LYSDY) is pleased to announce the closing today of the second tranche of its US\$225 million unsecured convertible bond issue.

On 24 January 2012, Lynas announced that it had executed binding documentation with Mount Kellett Capital Management LP, a US-based investment firm, for the US\$225 million unsecured convertible bond issue. Lynas received the first tranche amount of US\$50 million on 25 January 2012 and it was agreed that the balance of the US\$175 million convertible bonds would be paid upon the satisfaction of certain conditions precedent, which have now been satisfied. The full terms and conditions of the convertible bonds were attached to Lynas' announcement on 24 January 2012.

The parties have also agreed, pursuant to the terms of the Subscription Agreement, to increase the number of convertible bonds to be issued as part of the second tranche subscription from 175 million to 225 million ("**Tranche 2 Convertible Bonds**") and for the first tranche of 50 million convertible bonds ("**Tranche 1 Convertible Bonds**") to be redeemed early. The redemption of the Tranche 1 Convertible Bonds and the issue of the Tranche 2 Convertible Bonds occurred simultaneously today. Refer to the attached Cleansing Statement for further information.

Attached are the following documents in respect of the Convertible Bonds issue:

1. Appendix 3B; and
2. Cleansing Statement.

**For further information please contact Alistair Reid or Liz Whiteway on +61 2 8259 7100 or visit [www.lynascorp.com](http://www.lynascorp.com)**

**For all media enquires please contact Michael Vaughan from FTI Consulting on +61 2 8298 6100**

# Appendix 3B

## New issue announcement, application for quotation of additional securities and agreement

*Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.*

Introduced 1/7/96. Origin: Appendix 5. Amended 1/7/98, 1/9/99, 1/7/2000, 30/9/2001, 11/3/2002, 1/1/2003.

Name of entity

**LYNAS CORPORATION LTD**

ABN

**27 009 066 648**

We (the entity) give ASX the following information.

### Part 1 - All issues

*You must complete the relevant sections (attach sheets if there is not enough space).*

- |   |   |
|---|---|
| <p>1 +Class of +securities issued or to be issued</p>   | <p>Direct. Senior (until a restrictive covenant is released), unsecured convertible bonds due 2016 ("<b>Bonds</b>").</p>  |
| <p>2 Number of +securities issued or to be issued (if known) or maximum number which may be issued</p>  | <p>US\$225,000,000 in principal of Bonds which are initially convertible into approximately 171,594,000 Ordinary Shares at the Initial Conversion Price as described in the terms and conditions of the Bonds dated 24 January 2012 (based on an exchange rate of US\$1 = AU\$0.9533).</p>  |
| <p>3 Principal terms of the +securities (eg, if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion)</p> | <p>The key terms of the Bonds issue are as set out in the Appendix 3B lodged by the Company on 24 January 2012, subject to the following changes below:</p> <p>Drawdown:</p> <ul style="list-style-type: none"> <li>• Tranche 1 - US\$50.0 million in principal of Bonds was paid on 25 January 2012 ("<b>Tranche 1 CBs</b>").</li> <li>• Tranche 2 – US\$225.0 million in principal of Bonds was received on 28 February 2012 ("<b>Tranche 2 CBs</b>").</li> </ul> |

+ See chapter 19 for defined terms.

The Tranche 1 CBs were redeemed on 28 February 2012 upon closing of the Tranche 2 CBs.

For further details please refer to:

- the full terms attached to the announcement released to ASX on 24 January 2012; and
- the announcement and Cleansing Statement released to ASX on 28 February 2012.

- 4 Do the <sup>+</sup>securities rank equally in all respects from the date of allotment with an existing <sup>+</sup>class of quoted <sup>+</sup>securities?

If the additional securities do not rank equally, please state:

- the date from which they do
- the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment
- the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment

- Prior to release of a restrictive covenant, the payment obligations of the Issuer in respect of the Bonds rank behind or pari passu to the payment obligations of the Issuer under the existing Facility Documents (as defined in the financing agreement dated 30 March 2011) but otherwise at all times rank ahead of, and are senior to, all other present and future unsecured Financial Liabilities of the Issuer.
- Following release of a restrictive covenant, the obligations of the Issuer in respect of the Convertible Bonds will rank at least pari passu with all other present and future unsecured Financial Liabilities of the Issuer (other than any obligations mandatorily preferred by any law applying to companies generally).
- The Bonds will rank parri passu without any preference among themselves.
- On conversion of the Bonds into Ordinary Shares, new Ordinary Shares will be issued which will rank equally with the Ordinary Shares then on issue.

5 Issue price or consideration

<p>Tranche 1 CBs consideration = \$US50.0 million</p> <p>Tranche 2 CBs consideration = \$US225.0 million</p> <p>The Tranche 1 CBs were redeemed on the completion of the issue of the Tranche 2 CBs. An amount of US\$50.0 million of the Tranche 2 CBs was used to redeem in full the Tranche 1 CBs each at their issue price of US\$1.00.</p> <p>Total consideration for all the Bonds now on issue is US\$225.0 million, being US\$1.00 per Bond.</p>
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6 Purpose of the issue  
(If issued as consideration for the acquisition of assets, clearly identify those assets)

<p>To fund operational requirements and the completion of the construction and commissioning of Phase 1 of the Lynas Advanced Materials Plant in Malaysia, and to provide for working capital needs as described in the announcement released to ASX on 24 January 2012.</p>
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7 Dates of entering <sup>+</sup>securities into uncertificated holdings or despatch of certificates

<p>The issue and redemption dates of the Bonds are:</p> <ul style="list-style-type: none"> <li>• Tranche 1 CBs - \$US50.0 million were issued on 24 January 2012;</li> <li>• Tranche 2 CBs - \$US225.0 million were issued on 28 February 2012; and</li> <li>• Tranche 1 CBs - \$US50.0 million were redeemed on 28 February 2012 upon closing of the Tranche 2 CBs.</li> </ul>
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8 Number and <sup>+</sup>class of all <sup>+</sup>securities quoted on ASX (including the securities in clause 2 if applicable)

Number	<sup>+</sup> Class
1,714,396,913	Ordinary shares

<sup>+</sup> See chapter 19 for defined terms.

Number and <sup>+</sup>class of all <sup>+</sup>securities not quoted on ASX (including the securities in clause 2 if applicable)

Number	<sup>+</sup> Class
9,300,000	Employee Options exercisable at \$1.01 on or before 25 June 2012
50,000	Employee Options exercisable at 81 cents on or before 24 August 2012
500,000	Employee Options exercisable at \$1.06 on or before 31 December 2012
1,000,000	Employee Options exercisable at 98 cents on or before 21 July 2013
14,500,000	Employee Options exercisable at 66 cents on or before 24 September 2013
2,700,000	Employee Options exercisable at 81 cents on or before 24 September 2013
1,100,000	Employee Options exercisable at 16 cents on or before 5 January 2014
24,500,000	Employee Options exercisable at 66 cents on or before 8 October 2014
1,000,000	Employee Options exercisable at 66 cents on or before 1 July 2015
23,400,000	Employee Options exercisable at \$1.15 on or before 19 August 2015
1,908,618	Employee Performance Rights exercisable for no further consideration on or before 19 August 2015
1,000,000	Employee Options exercisable at \$1.60 on or before 1 October 2015
200,000	Employee Options exercisable at \$2.36 on or before 31 December 2015
420,000	Employee Performance Rights exercisable for no further consideration on or before 6 June 2016
9,165,000	Employee Options exercisable at \$1.69 on or before 22 September 2016
30,232	Employee Performance Rights exercisable for no further consideration on or before 22 September 2014

<sup>+</sup> See chapter 19 for defined terms.

20,245	Employee Performance Rights exercisable for no further consideration on or before 22 September 2015
955,323	Employee Performance Rights exercisable for no further consideration on or before 22 September 2016
2,000,000	Employee Options exercisable at \$1.57 on or before 12 December 2016
225,000,000	2.75% Convertible Bonds due 2016

10 Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests) N/A

## Part 2 - Bonus issue or pro rata issue

11 Is security holder approval required?

12 Is the issue renounceable or non-renounceable?

13 Ratio in which the <sup>+</sup>securities will be offered

14 <sup>+</sup>Class of <sup>+</sup>securities to which the offer relates

15 <sup>+</sup>Record date to determine entitlements

16 Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?

17 Policy for deciding entitlements in relation to fractions

18 Names of countries in which the entity has <sup>+</sup>security holders who will not be sent new issue documents

Note: Security holders must be told how their entitlements are to be dealt with.

Cross reference: rule 7.7.

+ See chapter 19 for defined terms.

- |    |   |  |
|----|---|--|
| 19 | Closing date for receipt of acceptances or renunciations  |  |
| 20 | Names of any underwriters   |  |
| 21 | Amount of any underwriting fee or commission  |  |
| 22 | Names of any brokers to the issue   |  |
| 23 | Fee or commission payable to the broker to the issue  |  |
| 24 | Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of <sup>+</sup> security holders                             |  |
| 25 | If the issue is contingent on <sup>+</sup> security holders' approval, the date of the meeting  |  |
| 26 | Date entitlement and acceptance form and prospectus or Product Disclosure Statement will be sent to persons entitled  |  |
| 27 | If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders |  |
| 28 | Date rights trading will begin (if applicable)  |  |
| 29 | Date rights trading will end (if applicable)  |  |
| 30 | How do <sup>+</sup> security holders sell their entitlements <i>in full</i> through a broker?   |  |
| 31 | How do <sup>+</sup> security holders sell <i>part</i> of their entitlements through a broker and accept for the balance?                                    |  |

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+ See chapter 19 for defined terms.

32 How do <sup>+</sup>security holders dispose of their entitlements (except by sale through a broker)?

33 <sup>+</sup>Despatch date

### Part 3 - Quotation of securities

*You need only complete this section if you are applying for quotation of securities*

34 Type of securities  
(tick one)

(a)  Securities described in Part 1

(b)  All other securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

#### Entities that have ticked box 34(a)

#### Additional securities forming a new class of securities

*Tick to indicate you are providing the information or documents*

35  If the <sup>+</sup>securities are <sup>+</sup>equity securities, the names of the 20 largest holders of the additional <sup>+</sup>securities, and the number and percentage of additional <sup>+</sup>securities held by those holders

36  If the <sup>+</sup>securities are <sup>+</sup>equity securities, a distribution schedule of the additional <sup>+</sup>securities setting out the number of holders in the categories  
1 - 1,000  
1,001 - 5,000  
5,001 - 10,000  
10,001 - 100,000  
100,001 and over

37  A copy of any trust deed for the additional <sup>+</sup>securities

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<sup>+</sup> See chapter 19 for defined terms.

**Entities that have ticked box 34(b)**

38 Number of securities for which  
+quotation is sought 

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39 Class of +securities for which  
quotation is sought 

--

40 Do the +securities rank equally in all  
respects from the date of allotment  
with an existing +class of quoted  
+securities?

If the additional securities do not  
rank equally, please state:

- the date from which they do
- the extent to which they  
participate for the next dividend,  
(in the case of a trust,  
distribution) or interest payment
- the extent to which they do not  
rank equally, other than in  
relation to the next dividend,  
distribution or interest payment

--

41 Reason for request for quotation  
now

Example: In the case of restricted securities, end of  
restriction period

(if issued upon conversion of  
another security, clearly identify that  
other security)

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	Number	+Class
42	Number and +class of all +securities quoted on ASX ( <i>including</i> the securities in clause 38)	

+ See chapter 19 for defined terms.

## Quotation agreement

1 +Quotation of our additional +securities is in ASX's absolute discretion. ASX may quote the +securities on any conditions it decides.

2 We warrant the following to ASX.

- The issue of the +securities to be quoted complies with the law and is not for an illegal purpose.
- There is no reason why those +securities should not be granted +quotation.
- An offer of the +securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any +securities to be quoted and that no-one has any right to return any +securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the +securities be quoted.
- We warrant that if confirmation is required under section 1017F of the Corporations Act in relation to the +securities to be quoted, it has been provided at the time that we request that the +securities be quoted.
- If we are a trust, we warrant that no person has the right to return the +securities to be quoted under section 1019B of the Corporations Act at the time that we request that the +securities be quoted.

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+ See chapter 19 for defined terms.

- 3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.
- 4 We give ASX the information and documents required by this form. If any information or document not available now, will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are true and complete.

Sign here:



Secretary

Date: 28 February 2012

Print name:

Andrew Arnold



## CLEANSING STATEMENT

28 February 2012

Issued under section 708A(12C)(e) of the Corporations Act 2001 (Cth)  
(as inserted by ASIC Class Order [CO 10/322])

*This Cleansing Statement has been prepared for the purposes of section 708A(12C)(e) of the Corporations Act 2001 (as inserted by ASIC Class Order [CO 10/322]) to enable fully paid ordinary shares in the capital of Lynas Corporation Ltd ("the Company") to be issued on conversion of convertible bonds issued by the Company.*

*This Cleansing Statement is important and should be read in its entirety.*

### 1. GENERAL

#### 1.1 About this document

This Cleansing Statement has been lodged with the Australian Securities Exchange (ASX) on 28 February 2012.

Neither this Cleansing Statement nor any other disclosure document in relation to the Convertible Bonds or Shares has been lodged with ASIC.

None of ASIC, the ASX nor their respective officers take any responsibility for the contents of this Cleansing Statement or the merits of an investment in the Convertible Bonds. The fact that ASX has quoted the Shares and may quote the Shares into which the Convertible Bonds are converted is not to be taken in any way as an indication of the merits of the Shares, the Convertible Bonds or the Company.

In this Cleansing Statement, unless otherwise specified, references to US\$ or US dollars are to United States dollars and references to AU\$ are to Australian dollars.

#### 1.2 No representations or recommendations

No representation or warranty, express or implied, is made by any person other than the Company as to the accuracy or completeness of the information contained or incorporated in this Cleansing Statement. Nothing contained or incorporated in this Cleansing Statement is, or shall be relied upon, as a promise or representation by any person other than the Company.

This Cleansing Statement should not be considered as a recommendation by the Company or any other person that any recipient of this Cleansing Statement should purchase the Convertible Bonds. Each potential purchaser of Convertible Bonds should determine for itself the relevance of the information contained in this Cleansing Statement and its purchase of Convertible Bonds should be based upon such investigations as it deems necessary.

The information provided in this Cleansing Statement is not advice to investors or potential investors and has been prepared without taking into account the investment objectives, financial circumstances, taxation position or particular needs of investors. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and seek appropriate legal, financial and taxation advice.

### **1.3 No offer**

This Cleansing Statement does not constitute an offer or invitation to subscribe for or purchase any Convertible Bonds or Shares and is not intended to be used in connection with any such offer or invitation.

### **1.4 Restrictions in foreign jurisdictions**

This Cleansing Statement must not be distributed in any place in which, or to any person to whom, or in any circumstances in which, it would not be lawful to distribute this Cleansing Statement or to make an offer or invitation to purchase Convertible Bonds.

The distribution of this Cleansing Statement and the offering, sale and delivery of Convertible Bonds and the Shares to be issued on conversion of the Convertible Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Cleansing Statement comes are required to inform themselves about and to observe any such restrictions.

### **1.5 Risk factors**

Prospective purchasers of Convertible Bonds should carefully consider the risks and uncertainties described or referred to in this Cleansing Statement. An investment in the Convertible Bonds should be considered speculative due to various factors, including the nature of the Company's business. See the risk factors outlined in section 3.

### **1.6 Cautionary statement regarding forward-looking statements**

This document may contain or refer to forward-looking statements concerning anticipated developments in the Company's operations in future periods, planned exploration activities, the adequacy of the Company's financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as **expects, anticipates, believes, intends, estimates, potential, targeted, plans, possible** and similar expressions, or statements that events, conditions or results will, may, could or should occur or be achieved. Information concerning the interpretation of drill results and mineral resource estimates also may be deemed to be forward-looking statements, as such information constitutes a prediction of what mineralisation might be found to be present if and when a project is actually developed.

To the extent that this document contains forwarding-looking statements, these statements are about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this document under the heading **Risk Factors**. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and, except as required by law, the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

## **2. EFFECT OF THE ISSUE OF THE CONVERTIBLE BONDS ON LYNAS CORPORATION**

### **2.1 Background**

On 24 January 2012, Lynas Corporation Limited (**Company**), Mount Kellett Capital Partners (Ireland) II Limited (**MKCPI**), Lantau (Ireland) Limited (**LIL**) and Vista Asset Funding (Ireland) Limited (**VAFIL**, and together with MKCPI and LIL, the **Original Investors**) and the Guarantors (as defined in the Glossary to this Cleansing Statement) entered into a convertible bond subscription agreement (**Subscription Agreement**) pursuant to which the Company agreed to issue 225 million convertible bonds (**Convertible Bonds**), each with an issue price (or face value) of US\$1.00 (**Subscription Amount**).

The Convertible Bonds were initially intended to be subscribed for in two tranches by funds managed by Mount Kellett Capital Management, a US-based investment firm.

MKCPI and LIL initially subscribed for 50 million Convertible Bonds on an unconditional basis on 25 January 2012 (**Tranche 1 CBs**). However, it was subsequently agreed (as contemplated under clause 6.4 of the Subscription Agreement) that the issue of the balance of 175 million Convertible Bonds would be increased to 225 million Convertible Bonds (**Tranche 2 CBs**) and US\$50 million of the Tranche 2 CBs would be used to redeem the Tranche 1 CBs as described below. The conditions precedent to the issue of the Tranche 2 CBs have been satisfied.

An outline of the rights and liabilities attaching to the Convertible Bonds is set out in section 4 of this Cleansing Statement. An outline of the rights and liabilities attaching to the ordinary shares in the Company to be issued to the holder of the Convertible Bonds on conversion (**Conversion Shares**) is set out in section 5 of this Cleansing Statement.

### **2.2 Issue of the Convertible Bonds and consideration payable**

The Company issued the Tranche 1 CBs to MKCPI and LIL on 25 January 2012.

The obligation of the Original Investors to subscribe for the Tranche 2 CBs was subject to specific conditions precedent, including the completion of technical due diligence in relation to the Group to the satisfaction of the Original Investors. The conditions precedent have been satisfied. The Company will issue the Tranche 2 CBs on or about the date of this Cleansing Statement.

MKCPI and LIL paid US\$50 million to the Company on 25 January 2012 in consideration for the issue of the Tranche 1 CBs. Upon the issue of the Tranche 2 CBs, which will occur on or about the date of this Cleansing Statement, the Company will receive an amount equal to US\$225 million.

An amount of US\$50 million of the Tranche 2 CBs will be used to redeem in full all of the Tranche 1 CBs each at their issue price of US\$1.00. The Company will also set-off all accrued but unpaid interest on the Tranche 1 CBs, for a total of approximately US\$128,082.19 payable to MKCPI and LIL, against the amounts to be received by the Company from MKCPI and LIL for the subscription of the Tranche 2 CBs. The Tranche 1 CBs will then be cancelled.

### **2.3 Use of proceeds**

The Company must only use the Subscription Amount for specific approved purposes which are outlined in the Subscription Agreement. The purposes include the construction and commissioning of Phase 1 of the Lynas Advanced Materials Plant (**LAMP**) in the State of Pahang in Malaysia, operating expenditure, working capital, maintenance capital expenditure and other items as agreed. Phase 1 of the LAMP will have a production capacity of 11,000 tonnes per annum rare earths oxide (**REO**). The construction of Phase 2 of the LAMP and Phase 2 of the Concentration Plant at Mount

Weld, Western Australia is being funded by the Sojitz/JOGMEC facility that was announced on 30 March 2011. Phase 2 of the LAMP will increase overall production capacity at the LAMP to 22,000 tonnes per annum REO.

The Directors consider that the issue of the Convertible Bonds is in the best interests of the Company as it secures, on acceptable terms and at an important time, funding for operational requirements and the construction and commissioning of Phase 1 of the LAMP in Malaysia. In addition, the Directors consider the issue of the Convertible Bonds to be a more attractive financing method than the unutilised working capital facility previously in place with J.P. Morgan and Sumitomo Mitsui Banking Corporation because of its principal amount, term and cost. The unutilised working capital facility has been retired.

## **2.4 Effect of the issue of the Convertible Bonds on the Company**

The principal effects of the issue of the Convertible Bonds on the Company will be to:

- (a) increase the Company's cash reserves by US\$225 million (before deducting the Company's estimated expenses associated with the issue of the Convertible Bonds);
- (b) give rise to an obligation on the part of the Company to pay interest on each Convertible Bond at the rate of 2.75% per annum, payable on the last Business Day of each quarter plus where applicable interest withholding tax;
- (c) give rise to an obligation on the part of the Company to pay to a Bondholder, in respect of each Convertible Bond held by the Bondholder, an amount equal to US\$1.00, plus all accrued but unpaid interest until the date of redemption, upon redemption of the Convertible Bonds (if they are not converted early) on 25 July 2016, or earlier upon an event of default occurring; and
- (d) give rise to an obligation on the part of the Company to pay to a Bondholder, in respect of each Convertible Bond held by the Bondholder, an amount generating an Internal Rate of Return of 15% in the period from the relevant subscription date to the Redemption Date if:
  - (i) there is a change in control of any member of the Group;
  - (ii) the Company is removed from ASX's Official List; or
  - (iii) the Company's ordinary shares cease to be quoted.

The Convertible Bonds will be treated as debt for tax purposes.

The effect of the issue of the Convertible Bonds and the financial position of the Company is described below.

## **2.5 Effect of the issue of the Shares on the Company**

The Convertible Bonds have a principal amount of US\$225 million, which if converted immediately would result in the issue of approximately 171,594,000 Shares at the Initial Conversion Price of AU\$1.25 (based on an exchange rate of US\$1 = AU\$0.9533).

The Initial Conversion Price is subject to certain adjustments, as set out in the full terms of the Convertible Bonds, which were disclosed to ASX on 24 January 2012.

On the date of this Cleansing Statement, the Company has on issue the following securities:

Type of security	No. of securities
Shares (ASX Code: LYC)	1,714, 396,913
Unlisted Employee Options and Unlisted Employee Performance Rights	93, 749,418

If any of the Convertible Bonds are converted into Shares, the effect would be to dilute the share holding of existing shareholders. The Market Price of the Company's Shares during the term of the Convertible Bonds will normally determine whether or not bondholders convert their Convertible Bonds into Shares. At the time any Convertible Bonds are converted into Shares, the Company's ordinary shares may be trading at a price which is higher than the conversion price of the Convertible Bonds.

The highest closing price for fully paid ordinary shares in the Company trading on ASX during the past 12 months was AU\$2.55 which occurred on 12 April 2011 and the lowest closing price of shares in the Company trading on ASX during the past 12 months was AU\$0.875 which occurred on 26 September 2011. The most recent closing price of shares in the Company trading on the ASX prior to the date of this Cleansing Statement was AU\$1.23 which occurred on 27 February 2012.

The number of new Shares to be issued to Bondholders (if any) will depend on whether the Convertible Bonds are converted in whole or in part and the applicable Conversion Price. By way of example, if all of the Tranche 2 CBs are converted in whole by all of the Bondholders at a time when the relevant Conversion Price is AU\$1.25, the number of new Shares to be issued would be 171,594,000.

The issue of 171,594,000 new Shares to Bondholders would give the Bondholders an aggregate relevant interest in the Company of approximately 9.1% based on the total number of Shares on issue as of the date of this Cleansing Statement and the issue of the new Shares to the Bondholders pursuant to the Convertible Bonds, being 1,885,990,913 Shares. It is, however, important to note that this is an illustration only based on full conversion of the Convertible Bonds and the example referred to above. The actual outcome, if the Bondholders elect to convert the Convertible Bonds in whole or in part, will depend on the timing of the election and the Conversion Price.

In addition, the ability to convert by any Bondholder under the terms of the Deed Poll is conditional on compliance by that Bondholder with any applicable laws, including (without limitation) compliance with the notice and no objection provisions of the *Foreign Acquisition and Takeovers Act 1975* (Cth) and Chapter 6 of the Corporations Act.

## **2.6 Pro forma Statement of Financial Position of the Group taking account of the issue of the Convertible Bonds**

Set out in Table 1 below is an unaudited pro-forma consolidated Statement of Financial Position as at 31 December 2011 for the Group, based on the unaudited half-year consolidated Statement of Financial Position as at 31 December 2011, adjusted to reflect the Tranche 1 CBs issued on 25 January 2012 and the Tranche 2 CBs planned to be issued on or around the date of this Cleansing Statement and the redemption of the Tranche 1 CBs. This has been prepared on the basis of the accounting policies normally adopted by the Group and the assumptions set out in Table 1.

The Company considers that the inclusion of information relating to the financial position of the Group as at 31 December 2011 provides more relevant information for investors than information relating to the financial position of the Group as at 30 June 2011.

The Company is due to release its half-yearly reviewed consolidated financial statements for the period ending 31 December 2011 on or before 15 March 2012.

The unaudited pro-forma consolidated Statement of Financial Position set out below has been prepared on the basis and assumption that there has been and will be no material movements in the assets and liabilities of the Group between 1 January 2012 and 25 January 2012 when the Tranche 1 CBs were issued and again on the date of this Cleansing Statement.

The pro forma financial information is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

**Table 1 - Pro-forma consolidated Statement of Financial Position as at 31 December 2011 for the Group**

<b>LYNAS CORPORATION LIMITED AND SUBSIDIARY COMPANIES</b>			
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>			
	<b>Actual [Unaudited]</b>	<b>Proceeds from Convertible Bonds less interest &amp; estimated transaction costs</b>	<b>Pro-forma on completion</b>
	<b>31-Dec-11</b>	<b>Adjustments</b>	<b>31-Dec-11</b>
	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	35,315	209,565	244,880
Restricted cash	180,233		180,233
Trade and other receivables	603		603
Prepayments	2,647		2,647
Inventories	45,116		45,116
<b>TOTAL CURRENT ASSETS</b>	<b>263,914</b>	<b>209,565</b>	<b>473,479</b>
<b>NON-CURRENT ASSETS</b>			
Inventories	13,683		13,683
Property, plant and equipment	532,355		532,355
Deferred exploration, evaluation and development	23,282		23,282
Intangible assets	284		284
Other non-current assets	18,182		18,182
Other investments	5,059		5,059
<b>TOTAL NON-CURRENT ASSETS</b>	<b>592,845</b>	<b>0</b>	<b>592,845</b>
<b>TOTAL ASSETS</b>	<b>856,759</b>	<b>209,565</b>	<b>1,066,324</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	41,775		41,775
Provisions	2,841		2,841
<b>TOTAL CURRENT LIABILITIES</b>	<b>44,616</b>	<b>0</b>	<b>44,616</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	4,197		4,197
Interest bearing liability	221,152		221,152
Convertible bonds		169,588	169,588
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>225,349</b>	<b>169,588</b>	<b>394,937</b>
<b>TOTAL LIABILITIES</b>	<b>269,965</b>	<b>169,588</b>	<b>439,553</b>
<b>NET ASSETS</b>	<b>586,794</b>	<b>39,977</b>	<b>626,771</b>
<b>EQUITY</b>			
Issued capital	820,810	40,109	860,919
Retained earnings	(237,841)	(132)	(237,973)
Share-based payment reserve	29,631		29,631
Foreign currency translation reserve	(28,109)		(28,109)
Investment revaluation reserve	2,303		2,303
<b>TOTAL EQUITY</b>	<b>586,794</b>	<b>39,977</b>	<b>626,771</b>

The estimated fair value of the debt component of the Convertible Bonds at issue date is US\$182 million (or 81% of the principal amount), with the equity component estimated at US\$43 million (or 19% of the principal amount). However, the actual fair value will be measured at the issue date of the Convertible Bonds, and hence this allocation may change by the issue date.

The estimated AU\$0.8 million of transaction costs directly related to the issue of the Convertible Bonds will be deducted from either debt or equity on the same proportional basis (i.e. 81% debt, 19% equity). The portion which is deducted from debt will then be amortised over the 4.5 year term of the Convertible Bonds.

The Convertible Bond initially gives rise to a deferred tax liability of AU\$12.3 million. This deferred tax liability has not been reflected in the pro-forma consolidated statement of financial position as the Group has unutilised carry forward tax losses that could be offset against the deferred tax liability. If the deferred tax liability had been reflected it would reduce Issued Capital by AU\$12.3 million and increase Provisions by the same amount.

## **2.7 US\$/AU\$ Exchange Rate**

As the Convertible Bonds are denominated in US\$, the exchange rate between US\$ and AU\$ at any given time will be relevant.

Specifically the cash redemption price is denominated in US\$ and the interest payable by the Company is based on this, consequently the exchange rate between US\$ and AU\$ at any given time will be relevant in determining the AU\$ amount owing to the Bondholders.

Further, as the Convertible Bonds are denominated in US\$ and any conversion will result in the issuance of AU\$ denominated shares, the rate of exchange was fixed at the time of signing the Deed Poll as AU\$0.9533 per Convertible Bond in order to calculate the number of Conversion Shares to be issued on any subsequent conversion.

As at 27 February 2012 (the last business day prior to the issue of this Cleansing Statement), the US\$/AU\$ exchange rate equated to approximately US\$1.00 = AU\$0.9355 or AU\$1 = US\$1.0689.

## **2.8 Functional currency**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates, which should reflect the economic substance of the underlying events and circumstances relevant to the Company.

The Directors have determined that the issue of the US\$225 million Convertible Bonds and the resultant economic circumstances of the Company would result in a change in the functional currency of the Company to US\$. In making this determination the Directors have also considered that the Company has a US\$225 million loan from Japan Australia Rare Earths B.V. to be used exclusively for capital expenditure required for the Phase 2 expansion of the Mount Weld Concentration Plant and the LAMP. The loan is fully drawn down and is repayable no later than March 2017.

The change in functional currency will take effect from the issue date of the Convertible Bonds.

## **3. RISK FACTORS**

A number of risks and uncertainties, which are both specific to the Company and of a more general nature, may affect the future operating and financial performance of the Company and the value of the Shares. The risks and uncertainties described below are not the only ones facing the Company.

Additional risks and uncertainties that the Company is unaware of, or that it currently considers to be immaterial, may also become important factors that adversely affect the Company's operating and financial performance.

### **3.1 Operational risks**

The Company is investing a significant amount of capital on a single project, the Rare Earths Project. The Rare Earths Project may be further delayed or be unsuccessful for many reasons, including unanticipated financial, operational or political events, cost overruns, decline in Rare Earths commodity prices and demand, equipment and labour shortages, technical concerns including possible reserves and deliverability difficulties, environmental impacts, increases in operating cost structures, community or industrial actions or other circumstances which may result in the delay, suspension or termination of the Company's capital projects, the total or partial loss of the investment and a material adverse effect on the Company's results of operations and financial condition.

(a) Nature of mineral exploration and production

Mineral exploration and production involves risks, which even with a combination of experience, knowledge and careful evaluation may not be able to be adequately mitigated. Mining operations are subject to hazards normally encountered in exploration and production. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment, which may cause a material adverse impact on the Company's operations and its financial results. Commissioning of production at all projects may not proceed to plan with potential for delay in the timing of targeted production, and the Company may not achieve the level of targeted production. Production levels may also be affected by factors beyond the Company's control.

(b) Mineral and ore reserves

No assurance can be given that the anticipated tonnages and grades of ore will be achieved during production or that the indicated level of recovery will be realised. Material price fluctuations, as well as increased production costs or reduced recovery rates, may render ore reserves containing relatively lower grades uneconomic and may ultimately result in a restatement of such ore reserves. Moreover, short-term operating factors relating to ore reserves, such as the need for sequential development of ore bodies and the processing of new or different ore types or grades may cause a mining operation to be unprofitable in any particular accounting period.

(c) Construction risks

Whilst the current cost estimates and timelines regarding the development of Phases 1 and 2 are the best estimates currently available, there is no guarantee that final costs or completion timing will equal current estimates. The Company has previously disclosed to the market where costs have exceeded original expectations as well as changes to the completion schedule.

(d) Processing risks

Whilst Phase 1 of the concentration plant has been completed, there is no certainty that scale-up to Phase 2 of the concentration plant will perform to design specifications.

The Rare Earths cracking section of the LAMP has been pilot plant tested, however, there is no certainty on the time it will take to achieve steady state operation, due to scale-up and other potential commissioning issues.

The solvent extract and finishing section of the LAMP is based on well understood industry accepted technology but there can be no certainty of achieving design capacity.

(e) Project developments

Project developments in which the Company is, or may become, involved are subject to risks, including technical risk. Changes in reserves, commodity prices, exchange rates, constructions costs, design requirements and delays in construction may adversely affect the commerciality and economics of project development.

(f) Other operational and litigation risks

In addition, industrial and labour disputes, work stoppages and accidents, shortages of key inputs, logistical and engineering difficulties may also have an adverse effect on the Company's profitability and share price. Like any other business the Company is at risk of disruption to its business and operations and its planned development as a consequence of disputes or litigation.

Although, the Company has complied, and will continue to comply, with the requirements of the Malaysian regulatory authorities in relation to the LAMP, it has recently received service of various documents relating to the decision of Malaysia's Atomic Energy Licensing Board to grant the LAMP a temporary operating licence. The application seeks the court's permission to apply for review of the decision and to delay operational start up of the LAMP, pending the determination of the proceedings.

### **3.2 Rare Earths market demand and price risks**

The Group's business relies primarily on the production and sale of Rare Earths products to a variety of buyers. Fluctuations in the global Rare Earths market may materially affect the Group's financial performance. Demand for, and pricing of, Rare Earths products remain sensitive to external economic and political factors, many of which are beyond the Group's control, including: worldwide Rare Earths supply and demand; the level of economic activity in the markets the Group serves; regional political developments in Rare Earths-producing countries and regions (in particular China as the major producer of Rare Earths); the weather; the price and availability of new technology; recycling and the availability and cost of Rare Earths substitutes. Accordingly, it is impossible to predict future Rare Earths price movements with certainty. Any sustained low Rare Earths prices or further declines in the price of Rare Earths will adversely affect the Group's business, results of operations and its ability to finance planned capital expenditures, including development projects.

Sales contracts with various counterparties have been, and are further expected to be, entered into in relation to the Rare Earths Project. While the contracts are generally entered into for a fixed term, they may be subject to renegotiation or cancellation (including for delays). The conditionality and ability of the counterparties to meet their commitments under such arrangements may impact on the Group's investment in the Rare Earths Project. The contracts usually set the price of the Rare Earths Products by reference to an agreed market price over a period of 3 months at the time the goods are delivered, however in some cases the parties may agree on a fixed price. In those circumstances, the profitability of the contract will be influenced by whether the market price at the time of delivery is greater than or less than the price agreed between the parties.

### **3.3 Credit and market risks**

(a) Currency risk

The Group's operations incur expenditures principally in the local currencies of Malaysia and Australia. Revenue from operations and certain other capital and operating costs are in US dollars. Accordingly, and as described in sections 2.7 and 2.8 above, the Group is exposed to foreign exchange rate fluctuations which may materially affect its financial position and operating results.

(b) Counterparty risk

As part of its ongoing commercial activities, the Group enters into sales contracts with various third parties for the supply of chemicals and other materials. The ability of counterparties to meet their commitments under such an arrangement may impact on the Group's business and financial condition.

(c) Access to capital risk

The Group's business and, in particular, development of large scale projects, relies on access to debt and equity financing. There is a risk that the Group may not be able to access capital from these markets which could impact the ability to develop these projects.

(d) Competition

The Group's Rare Earths supply contracts and profits may be adversely affected by the introduction of new mining and development facilities and any increase in competition in the global Rare Earths market either of which could increase the global supply of Rare Earths and thereby potentially lower prices.

### **3.4 Regulatory and environmental risks**

(a) General regulatory risks

The Group's business is subject, in each of the countries in which the Group operates, to various national and local laws and regulations relating to the development, production, marketing, pricing, transportation and storage of the Group's products. Permits from a variety of regulatory authorities are required for many aspects of mine operation and processing. A change in the laws which apply to the Group's business or the way in which it is regulated could have a material adverse effect on the Group's business and financial condition. Other changes in the regulatory environment (including applicable accounting standards) may have a material adverse effect on the carrying value of material assets or otherwise have a material adverse effect on the Group's business and financial condition.

(b) Environmental risks

The Group's activities are subject to extensive laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment and interests of local communities. In addition, the Group's licences to conduct its operations contain various conditions that must be complied with in order for those licences to remain valid. In the context of obtaining environmental permits, including the approval of reclamation plans, the Group must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are

implemented by the permitting authority. With increasingly heightened government and public sensitivity to environmental sustainability, environmental regulation is becoming more stringent, and the Group could be subject to increasing environmental responsibility and liability, including laws and regulations dealing with air quality, water and noise pollution and other discharges of materials into the environment, plant and wildlife protection, the reclamation and restoration of certain of its properties, greenhouse gas emissions, the storage, treatment and disposal of wastes and the effects of its business on the water table and groundwater quality.

Sanctions for non-compliance with these laws and regulations may include administrative, civil and criminal penalties, revocation of permits and corrective action orders. These laws sometimes apply retroactively. In addition, a party can be liable for environmental damage without regard to that party's negligence or fault.

(c) Emissions trading scheme

Increased regulation of mining of mineral resources and government policy designed to mitigate, abate or adapt to climate change may cause the Group to be exposed to additional operating costs which will have an adverse impact on its financial performance.

The *Clean Energy Act 2011* (Cth) establishes a carbon pricing mechanism which will commence on 1 July 2012, and a subsequent cap-and-trade emissions trading scheme commencing on 1 July 2015. The legislation is currently being implemented, and therefore the impact of the scheme on the Group's business and financial condition is uncertain.

(d) Government actions

The Group's operations could be affected by government actions in Australia, Malaysia and other countries or jurisdictions in which it has interests. These actions include government legislation, guidelines and regulations in relation to the environment, the Rare Earths sector, competition policy, native title and cultural heritage. Such actions could impact on land access, the granting, withdrawal or renewal of licences and other tenements, the approval of developments and freedom to conduct operations.

The possible extent of introduction of additional legislation, regulations, guidelines or amendments to existing legislation that might affect the Group's business is difficult to predict. Any such government action may require increased capital or operating expenditures and could prevent or delay certain operations by the Company, which could have a material adverse effect on the Group's business and financial condition.

(e) Temporary Operating Licence for the LAMP

The Malaysian Government has announced its approval of a Temporary Operating Licence (**TOL**) for the LAMP. The TOL will be valid for two years from the date of issuance, during which time the Malaysian Government may grant a permanent operating licence (**POL**).

The POL will only be issued if the Group complies with certain conditions, including:

- the submission of all details of a permanent disposal facility, including plan and location, and the approval of that plan and location within 10 months from the date of issuance of the TOL;
- the Group paying to the Malaysian Government US\$50 million in instalments over a five year period commencing in 2013; and

- the Group paying the cost of any independent consultant appointed to evaluate compliance with the standards and regulations that have been set.

(f) **Security of Tenure**

The maintaining of tenements, obtaining renewals, or getting tenements granted, often depends on the Group being successful in obtaining required statutory approvals for proposed activities. While the Group anticipates that subsequent renewals will be given as and when sought, there is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection with such renewals.

### **3.5 Tax risks**

The Group is subject to taxation and other imposts in Australia, Malaysia and Malawi. Future changes in taxation laws in those countries, including changes in interpretation or application of existing laws by the courts or taxation authorities in those jurisdictions, may affect taxation treatment of the Shares or the Convertible Bonds.

In addition to the normal level of income tax imposed on all industries, some companies in the resources sector are required to pay government royalties, direct and indirect taxes and other imposts. The profitability of companies in these industries can be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies.

In relation to Western Australian royalties, the Group is in the process of finalising its arrangements with the Department of Mines and Petroleum who have indicated that new regulations will be applied to all producers of Rare Earths in Western Australia in determining the amount of the royalty payable to the State of Western Australia on the sale of Rare Earths concentrate.

### **3.6 Political risks**

The Group has operations in Australia, Malaysia and Malawi. The Group is subject to a risk that it may not be able to carry out its overseas operations as it intends to and ensure the security of its assets located outside Australia, and is subject to risks of, among other things, loss of revenue, property and equipment as a result of hazards such as expropriation, war, insurrection and acts of terrorism and other political risks and increases in taxes and government royalties. The effects of these factors are difficult to predict and any combination of one or other of the above may have a material adverse effect on the Group.

### **3.7 Dividend policy**

The Company has paid no dividends on Shares since its date of incorporation nor does it anticipate paying dividends on Shares during the current financial year. The Company expects to retain all earnings and other cash resources in the short term for the future operation and development of its business. Payment of any future dividends will be at the discretion of the Company's board of directors after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

### **3.8 Risks relating to equity investments and markets**

Investors should be aware that there are risks associated with any investment listed on ASX. The value of the Shares may rise above or fall below the market price, depending on the financial condition and operating performance of the Company. Further, the price at which the Shares trade on ASX may be affected by a number of factors unrelated to the financial and operating performance of

the Company and over which the Company and its directors have no control. These external factors include:

- economic conditions in Australia and overseas;
- investor sentiment in the local and international stock markets;
- changes in fiscal, monetary, regulatory and other government policies; and
- geo-political conditions such as acts or threats of terrorism or military conflicts.

Investors should note that the historic share price performance of the Shares provides no guidance as to its future share price performance.

#### **4. RIGHTS AND LIABILITIES ATTACHING TO THE CONVERTIBLE BONDS**

The following is a broad summary of the rights, privileges and restrictions attaching to all Convertible Bonds. The summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Bondholders. Further information is set out in the full terms of both the Tranche 1 CBs and the Tranche 2 CBs as disclosed to ASX on 24 January 2012.

##### **4.1 General terms and interest**

Each Convertible Bond:

- (a) is issued at Face Value and bears interest at the Interest Rate;
- (b) constitutes a separate and individual acknowledgement of the indebtedness of the Company to the Bondholder in respect of the Redemption Amount for the Convertible Bond; and
- (c) may be redeemed or converted into Shares in accordance with the terms of the Deed Poll.

The Company must pay interest on the Convertible Bonds at the Interest Rate. Interest is payable on the last Business Day of each quarter until the earlier of redemption, conversion or maturity.

##### **4.2 Ranking of Convertible Bonds**

Prior to the Restrictive Covenant Release, the payment obligations of the Company and the Guarantors in respect of the Convertible Bonds rank behind or pari passu to the payment obligations of the Company under the Senior Debt Agreement, but otherwise at all times rank ahead of, and are senior to, all other present and future Financial Liabilities of the Company and the Guarantors (other than Permitted Financial Liabilities, Permitted Security Interests and other than any obligations mandatorily preferred by any law applying to companies generally).

Following the Restrictive Covenant Release, the obligations of the Company and the Guarantors in respect of the Convertible Bonds will at all times rank at least pari passu with all other present and future unsecured Financial Liabilities of the Company and the Guarantors other than any obligations mandatorily preferred by any law applying to companies generally.

##### **4.3 Redemption of Convertible Bonds by Bondholder**

Subject to the right of the Company to redeem the Convertible Bonds, a Bondholder may, at any time following the occurrence of a Redemption Event (as set out in section 7.3), require the

Company to redeem some or all of the Convertible Bonds held by the Bondholder on the Redemption Date.

#### **4.4 Redemption of Convertible Bonds by the Company**

Subject to the right of the Bondholders to convert the Convertible Bonds at any time, if at any time during the Redemption Period the 30-day VWAP of the Shares is equal to or exceeds 160% of the Conversion Price, the Company may give notice of its intention to redeem all of the Convertible Bonds on issue by delivering a redemption notice to Bondholders.

On the Maturity Date, the Company must redeem all Convertible Bonds held by Bondholders that have not otherwise been redeemed or converted by paying the Redemption Amount to each Bondholder in immediately available funds.

#### **4.5 Conversion of Convertible Bonds**

A Bondholder may convert some or all of the Convertible Bonds held by the Bondholder into Shares at any time during the Conversion Period by delivering to the Company an executed conversion notice specifying the number of Convertible Bonds to be redeemed and converted and Convertible Bond certificates in respect of the number of Convertible Bonds to be redeemed and converted.

The Company must comply with the conversion notice by redeeming the number of Convertible Bonds specified in the conversion notice for the Conversion Amount and applying the Conversion Amount as subscription funds for the Conversion Shares which are to be issued to the Bondholder at the Conversion Price.

#### **4.6 Matters requiring Bondholders Consent**

For so long as the Investors hold Convertible Bonds, the parties agree that the Company must not, and must procure that any other Group Company or any officer or employee of a Group Company does not:

- (a) except with the prior written consent of the Investors, make an amendment to or replace the constitution of the Company or any Subsidiary or any variation (whether directly or indirectly) to the rights attached to any Share or other securities issued in the Company where such amendment, replacement or variation is reasonably likely to adversely affect the Convertible Bonds and/or the rights of the Convertible Bonds; or
- (b) except with the prior written consent of the Investors (not to be unreasonably withheld or delayed) and subject to law, authorise the Company or any Subsidiary to:
  - (i) undertake a creditors scheme of arrangement;
  - (ii) appoint an administrator;
  - (iii) wind up the Company or any Subsidiary voluntarily; or
  - (iv) make an application to the court seeking the appointment of a liquidator.

### **5. RIGHTS AND LIABILITIES ATTACHING TO SHARES ISSUED ON THE CONVERSION OF THE CONVERTIBLE BONDS**

The new Shares to be issued upon conversion of the Convertible Bonds will rank equally in all respects with all of the existing Shares of the Company. The rights attaching to Shares, including the

new Shares to be issued on the conversion of the Convertible Bonds, are set out in the Constitution and, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, and the general law.

Full details of the rights and liabilities attaching to Shares are set out in the Company's constitution, a copy of which can be inspected, free of charge, at the Company's registered office during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

## **5.1 Voting rights**

Subject to the ASX Listing Rules and any rights or restrictions for the time being attached to any class or classes of Shares at general meetings of Shareholders of the Company:

- (a) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (b) 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
- (c) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid Shares, shall have a fraction of a vote for each partly paid Share. The fraction shall be equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable, excluding amounts credited, provided that amounts paid in advance of a call are ignored when calculating a true proportion.

## **5.2 Rights on winding up**

Subject to the rights of holders of Shares with special rights on winding up (if any) and the Constitution, on the winding up of the Company all assets that may be legally distributed among members will be distributed in proportion to the number of Shares held by them, irrespective of the amount paid-up or credited as paid up on the Shares.

## **5.3 Transfer of shares**

Subject to the Constitution of the Company, the Corporations Act, the ASX Listing Rules and any other laws, the Shares are freely transferrable.

## **5.4 Future increases in capital**

The allotment and issue of any Shares is under the control of the Directors. Subject to the Corporations Act, the ASX Listing Rules and the Constitution, the Directors may at any time and from time to time issue such number of Shares either as ordinary Shares or Shares of a named class or classes.

## **5.5 Variation of rights**

Subject to the ASX Listing Rules, if at any time the share capital of the Company is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may be varied, whether or not the Company is being wound up,

with the consent in writing of the holders of three quarters of the issued Shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of Shares of that class.

## **5.6 Dividend rights**

The Directors may from time to time declare a dividend to be paid to the Shareholders entitled to the dividend. Subject to the rights of any preference Shareholders and to the right of the holders of any shares created or raised under any special arrangement as to dividend, the dividend as declared shall be payable on all Shares in accordance with Section 254W of the Corporations Act.

## **5.7 Meetings and notice**

Each Shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the ASX Listing Rules.

## **5.8 ASX Listing Rules**

While the Company is admitted to the official list of the ASX, if the ASX Listing Rules prohibit an act being done, the act must not be done despite anything in the Constitution. Nothing in the Constitution prevents an act being done that the ASX Listing Rules require to be done. If a provision of the Constitution is or becomes inconsistent with the ASX Listing Rules, the Constitution is deemed not to contain that provision to the extent of any inconsistency.

## **6. SUMMARY OF OTHER KEY TERMS OF THE CONVERTIBLE NOTE SUBSCRIPTION AGREEMENT**

The terms of issue of the Convertible Bonds are governed by the Subscription Agreement. To the extent that the key terms of the Subscription Agreement are not addressed in sections 4 and 5 above, a broad summary of other terms of the Subscription Agreement is given below. The summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities under the Subscription Agreement.

### **6.1 Matters requiring Investors consent**

Any matter under the Subscription Agreement which requires the consent of, or a decision to be made by, the Investors will be deemed to be made where such consent is given or a decision is made by the Investor Majority.

### **6.2 Guarantee**

The Guarantors guarantee the observance, performance and discharge of all the obligations of the Company under the Subscription Agreement and the punctual payment to the Investors by the Company of the Guaranteed Money.

If the Company fails to perform its obligations, the Guarantors must immediately on demand from the Investors cause the Company to perform its obligations or, failing that, immediately on demand from the Investors pay the whole amount of the Guaranteed Money to the Investors.

### **6.3 Indemnity**

The Guarantors indemnify the Investors against all demands, claims, suits, actions, damages, liabilities, losses, costs and expenses which may be made or brought against or suffered or incurred by the Investors if:

- (a) the Company fails to perform any of its obligations;
- (b) the Guaranteed Money:
  - (i) is not recoverable or has never been recoverable by the Investors from the Company or from a Guarantor as surety; or
  - (ii) is not paid to the Investors; or
- (c) a Transaction Document cannot be enforced against the Company or against a Guarantor as surety.

#### **6.4 Governing law**

The Subscription Agreement is governed by and interpreted in accordance with the laws of the State of New South Wales.

### **7. SUMMARY OF OTHER KEY TERMS OF THE CONVERTIBLE BOND DEED POLL**

The terms of issue of the Convertible Bonds are governed by the Deed Poll. To the extent that the key terms of the Deed Poll are not addressed in sections 4 and 5 above, a broad summary of the Deed Poll is given below. The summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities under the Deed Poll.

#### **7.1 Terms of issue of the Convertible Bonds**

Each Convertible Bond:

- (a) is issued at Face Value and bears interest at the Interest Rate;
- (b) constitutes a separated and individual acknowledgement of the indebtedness of the Company to the Bondholder in respect of the Redemption Amount for the Convertible Bond; and
- (c) may be:
  - (i) redeemed in accordance with clause 5.1 of the Deed Poll, outlined in section 7.3; or
  - (ii) converted into Shares in accordance with clause 6 of the Deed Poll, outlined in section 7.4.

#### **7.2 Register of Convertible Bonds**

The Company must establish and maintain a register and enter onto the register details of the Convertible Bonds held for each Bondholder including the name and address of the Bondholder, number held, details concerning the issue date, maturity date, face value, interest rate, conversion rate and details of all transfers.

#### **7.3 Redemption Events**

Each of the following is a Redemption Event:

- (a) non-payment by the Company of money due;
- (b) failure by the Company to maintain ranking of Financial Liabilities as set out in the Deed Poll;

- (c) non-compliance with a material obligation of the Company under a Transaction Document which is not remedied within ten Business Days;
- (d) any Group Company makes a representation, warranty or statement made or deemed to be made is untrue;
- (e) any Transaction Document is void, voidable or otherwise unenforceable;
- (f) it is unlawful for a Group Company to comply with any of its material obligations under a Transaction Document, or is claimed to be so by a Group Company;
- (g) an Insolvency Event occurs in relation to a Group Company;
- (h) a default or event of default that is material occurs under a Transaction Document and, if that default is rectifiable, it has not been rectified within ten Business Days;
- (i) financial indebtedness of a Group Company in excess of US\$15 million becomes due for payment or capable of being declared due for payment before its stated maturity other than by the exercise of an option of the Group Company to pay it before its maturity, or a Group Company fails to pay when due for payment (or within any applicable grace period) any financial indebtedness in excess of US\$15 million;
- (j) a Group Company ceases or threatens to cease to carry on its business or a substantial part of its business which is likely to be materially adverse to the Group as a whole;
- (k) any step is taken by any person, including a government agency:
  - (i) to effect any moratorium on, or delay in the performance of, any of the obligations of a debtor or other counterparty of a Group Company that are likely to be materially adverse to the Group as a whole;
  - (ii) with a view to the seizure, compulsory acquisition, expropriation, confiscation, requisition, destruction or nationalisation of all or a material part of the assets of the Group; or
  - (iii) to effect the imposition on the Group of any restrictions which have a materially adverse effect on the business of the Group;

and is not set aside within 20 Business Days of the relevant act occurring by the government agency;
- (l) a change in control of any member of the Group; and
- (m) the removal of the Company from the ASX's Official List or ending of quotation of the Shares.

#### **7.4 Conversion of Convertible Bonds**

A Bondholder may convert some or all of the Convertible Bonds held by the Bondholder into Shares at any time during the Conversion Period by delivering to the Company:

- (a) an executed conversion notice specifying the number of Convertible Bonds to be redeemed and converted; and

- (b) Convertible Bond Certificates in respect of the number of Convertible Bonds to be redeemed and converted,

at which point the Company must comply with the conversion notice by:

- (c) redeeming the number of Convertible Bonds specified in the conversion notice for the Conversion Amount; and
- (d) applying the Conversion Amount as subscription funds for the Conversion Shares which are to be issued to the Bondholder at the Conversion Price.

The Conversion Shares will be calculated in accordance with the following formula:

$$CS = \frac{A}{B}$$

where:

- CS = number of Conversion Shares to be issued to a Bondholder.
- A = the aggregate Conversion Amount for the number of Convertible Bonds being converted by the Bondholder.
- B = the Conversion Price.

## **7.5 Issue of Conversion Shares**

On the Conversion Date, the Company must:

- (a) issue the Conversion Shares to the Bondholder;
- (b) apply for Official Quotation of the Conversion Shares in accordance with the Listing Rules and ensure within three Business Days approval has been given for official quotation conditional only on the usual conditions required by the ASX;
- (c) provide the ASX with a Cleansing Notice in respect of the relevant Conversion Shares, such notice to confirm that the Company has not withheld any excluded information for the purposes of section 708A(6)(e) of the Corporations Act (except a Cleansing Notice will not be required to the extent the relevant Conversion Shares can be immediately on-sold to retail investors without disclosure to investors as a result of either (i) the satisfaction of the requirements set out under section 708A(12C) of the Corporations Act and ASIC Class Order [CO 10/322] as modified or varied by ASIC; or (ii) the Company has obtained specific ASIC relief);
- (d) issue to the Bondholder a holding statement for its Conversion Shares; and
- (e) deliver to the Bondholder a Convertible Bond certificate in respect of any Convertible Bonds which have not been converted but were included in the Convertible Bond certificates delivered to the Company.

## **7.6 Further obligations**

For so long as any Convertible Bonds are outstanding, the Company must ensure that it is in a position to comply with the requirements of section 708A(12C) of the Corporations Act and ASIC

Class Order [CO 10/322] including ensuring that the Shares remain continuously quoted on the ASX without suspension for more than five trading days in any 12 month period or otherwise issues a Cleansing Notice or obtains ASIC relief so that Conversion Shares can be immediately on-sold to retail investors following their issue.

## **7.7 Amendments, decisions and consents**

Any amendment proposed by the Company or a Bondholder to the Deed Poll or any matter under the Deed Poll which requires the consent of the Bondholders will not be effective unless made by the decision or consent of the Bondholder Majority, except:

- (a) an amendment in the reasonable opinion of the board of directors of the Company which is of a formal or technical nature or is necessary to comply with the provisions of any statute or statutory authority and in such case that amendment can be made by the Company; or
- (b) a decision of any Bondholder to redeem some or all of the Convertible Bonds under clause 5.1 of the Deed Poll or convert some or all of the Convertible Bonds under clause 6.1 of the Deed Poll.

## **8. ADDITIONAL INFORMATION**

### **8.1 The Company is a "disclosing entity"**

The Company is a "disclosing entity" under the Corporations Act and, accordingly, is subject to regular reporting and disclosure obligations under both the Corporations Act and the ASX Listing Rules.

These obligations require the Company to notify ASX of information about specific events and matters as they arise. In particular, the Company has an obligation under ASX Listing Rule 3.1 and section 674 of the Corporations Act (subject to certain limited exceptions) to notify ASX immediately once it is or becomes aware of information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Shares.

The Company is also required to prepare and lodge with ASIC yearly and half-yearly financial statements accompanied by a Directors' statement and report, and an audit report or review. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office (refer to section 8.2).

### **8.2 Copies of documents**

The Company will provide a copy of each of the following documents, free of charge, to any person on request:

- (a) the annual financial report most recently lodged by the Company with ASIC, being the financial report of the Company for the year ended 30 June 2011 (**2011 Financial Report**); and
- (b) any continuous disclosure documents given by the Company to ASX after the lodgement of the 2011 Financial Report (i.e., on 28 October 2011) and before the lodgement of this Cleansing Statement with the ASX.

A list of the continuous disclosure documents given by the Company to ASX after the lodgement of the 2011 Financial Report and before the lodgement of this Cleansing Statement with ASX is set out in

the table below.

<b>Date</b>	<b>Headline</b>
23/02/2012	Claims made in Malaysia
16/02/2012	Appendix 3B
14/02/2012	Investor Presentation – February 2012
13/02/2012	Appendix 3B
08/02/2012	Appendix 3B
07/02/2012	Appendix 3B
02/02/2012	AELB Approves Temporary Operating Licence
01/02/2012	Change in substantial holding
31/01/2012	Quarterly Cashflow Report
31/01/2012	Quarterly Activities Report
25/01/2012	Letter to Shareholders - Quarterly Report Call
24/1/2012	Appendix 3B
24/1/2012	New Funding Facility and Project Update
23/1/2012	Trading Halt
18/1/2012	Increase in Mt Weld Resource Estimates
11/1/2012	Change in substantial holding
5/1/2012	Update – Temporary Licence for Malaysia Plant
23/12/2011	FGE: NOA for Lynas Lamps Up WA \$36M Contract
21/12/2011	Appendix 3B
14/12/2011	Change in substantial holding – Amendment
07/12/2011	Change in substantial holding
30/11/2011	Change of Directors' Interest Notice
30/11/2011	Appendix 3B
30/11/2011	Results of AGM – 30 November 2011
30/11/2011	Chairman's Address to Shareholders – AGM 30 November 2011

30/11/2011	Presentation to Shareholders – AGM 30 November 2011
16/11/2011	Presentation at Roskill Rare Earths Conference
10/11/2011	Malawi Update
31/10/2011	Quarterly Activities Report
31/10/2011	Quarterly Cashflow Report

### **8.3 Information included from continuous Cleansing Statement**

Other than as set out in this Cleansing Statement, there is no information about the Convertible Bonds that has been excluded from a continuous Cleansing Statement in accordance with the ASX Listing Rules, which is information that investors would reasonably expect to be included in this Cleansing Statement.

### **8.4 Consents**

There are a number of persons referred to in this Cleansing Statement who are not experts and who have not made statements in this Cleansing Statement nor are there any statements made in this Cleansing Statement on the basis of any statements made by those persons. These persons did not consent to being named in this Cleansing Statement and did not authorise or cause the issue of this Cleansing Statement.

## Glossary

**2011 Financial Report** means the annual financial report lodged by the Company with ASIC in respect of the year ended 30 June 2011.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited ACN 008 624 691.

**ASX Listing Rules** means the listing rules of ASX.

**AU\$** means Australian Dollars.

**Bondholder** means a person recorded in the register as a holder of a Convertible Bond.

**Business Day** means a day which is not a Saturday, Sunday or bank or public holiday in Sydney, Australia and New York, the United States of America.

**Cleansing Statement** means this cleansing statement issued on 28 February 2012 under section 708A(12C)(e) of the Corporations Act (as inserted by ASIC Class Order [CO 10/322]).

**Company** means Lynas Corporation Limited ACN 009 066 648.

**Completion of Phase 1** means the time at which:

- (a) the Group has achieved an average level of production (over a period of six consecutive months) of not less than 650 metric tonnes per month of Rare Earth Products from the LAMP; and
- (b) the cash operating costs (excluding depreciation and overheads) in respect of the production referred to in paragraph (a) of this definition and over the same six month period are not more than 75% of the revenue from the sale of Rare Earth Products referred to in paragraph (a) of this definition.

**Constitution** means the constitution of the Company at the date of the Cleansing Statement.

**Conversion Amount** means in respect of each Convertible Bond, AU\$0.9533 per Convertible Bond.

**Conversion Period** means the period beginning on the date which is 6 months after the Tranche 1 Subscription Date and ending on the date occurring 54 months after the Tranche 1 Subscription Date.

**Conversion Date** means in respect of a Convertible Bond, the date 5 Business Days after the date on which the Bondholder exercises its conversion right in accordance with the Deed Poll.

**Conversion Price** means:

- (a) if a Reset Event has not occurred, AU\$1.25 (**Initial Conversion Price**);
- (b) if a LAMP Rejection Event has occurred, the lower of:
  - (i) 120% of the VWAP for the 30 trading days commencing on the date of the LAMP Rejection Announcement; and

- (ii) the Initial Conversion Price (as adjusted, if relevant, before the LAMP Rejection Announcement); or
- (c) if a LAMP Non-Approval Event has occurred, the lower of:
  - (i) 120% of the VWAP for the 30 trading days commencing on 16 October 2012; and
  - (ii) the Initial Conversion Price (as adjusted, if relevant, before 16 October 2012),as adjusted under the Deed Poll.

**Conversion Shares** means such number of Shares to be issued to the Bondholder upon conversion of the Convertible Bonds.

**Convertible Bond** means a convertible bond issued by the Company on the terms set out in the Deed Poll.

**Convertible Bond Issue** means the issue of Convertible Bonds on the terms set out in the Deed Poll.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Deed Poll** means the Convertible Bond Deed Poll dated 24 January 2012 between the Company and the Guarantors.

**Face Value** means US\$1.00 per Convertible Bond.

**Financial Liabilities** means, in respect of any person, any financial liability or indebtedness (whether present or future, actual or contingent) of that person to another person.

**Group** means the Company and its Subsidiaries, including, for the avoidance of doubt, each of the Guarantors.

**Group Company** means any member of the Group.

**Guaranteed Money** means all money:

- (a) which now or in the future is owing (actually or contingently) by the Company to the Investors under or in relation to any of the Transaction Documents;
- (b) which now or in the future becomes owing (actually or contingently) by the Company to the Investors under or in relation to any of the Transaction Documents, ceases to be owing by reason of law relating to insolvency and remains unpaid by the Company and unreleased by the Investors; and
- (c) that now or in the future there is a prospect may become owing (actually or contingently) by the Company to the Investors under or in relation to any of the Transaction Documents.

**Guarantors** mean Lynas Services Pty Ltd, Mt Weld Holdings Pty Ltd, Mt Weld Mining Pty Ltd, Mt Weld Rare Earths Pty Ltd, Lynas Malaysia Sdn Bhd, Lynas Africa Holdings Pty Ltd and Lynas Africa Limited.

**Immediately Available Funds** means a bank cheque or telegraphic transfer of cleared funds to an account nominated by the payee at least two Business Days prior to drawdown.

**Insolvency Event** has the definition set out in the Deed Poll.

**Interest Rate** means 2.75 per cent per annum.

**Investor Majority** means an Investor or Investors who together hold more than 50% of all Convertible Bonds held by Investors.

**Investors** means:

- (a) the Original Investors;
- (b) any member of the Original Investor Group; and
- (c) any other entity designated by the Original Investors,

which subscribes for Convertible Bonds under the Subscription Agreement.

**JPM/Sumitomo Working Capital Facility** means the AU\$125 million loan facility dated 22 September 2011 between the Company, JP Australia Limited, Sumitomo Mitsui Banking Corporation, Sydney Branch and Sumitomo Mitsui Banking Corporation.

**LAMP** means the Lynas Advanced Materials Plant in the State of Pahang in Malaysia.

**LAMP Non-Approval Event** means the Malaysia Pre-Operating Permit not being obtained by the Group on or before 15 October 2012.

**LAMP Rejection Event** means the occurrence of a LAMP Rejection Announcement.

**LAMP Rejection Announcement** means the announcement by the applicable governmental agency in Malaysia or notice to any member of the Group on or before 15 October 2012 of its decision to refuse to grant the Malaysia Pre-Operating Permit or any communication by the applicable governmental agency in Malaysia to the Company or any member of the Group having a similar effect.

**Market Price** means for any date, the quoted price for the Shares on the ASX.

**Maturity Date** means in respect of each Convertible Bond, the date that is 54 months after the Tranche 1 Subscription Date.

**Operating Expenditure** means the operating expenditure of the Group from time to time.

**Original Investors** means Mount Kellett Capital Partners (Ireland) II Limited, Lantau (Ireland) Limited and Vista Asset Funding (Ireland) Limited.

**Permitted Financial Liabilities** means:

- (a) any Financial Liabilities of a Group Company under the financing and supply agreements entered into between the Company and the Senior Lender;
- (b) any intra-group Financial Liabilities;
- (c) any foreign exchange and interest rate hedging entered into in the ordinary course of business;
- (d) any Financial Liabilities of a Group Company in respect of the Convertible Bond Issue; and
- (e) any other Financial Liabilities up to a maximum aggregate amount of US\$80 million.

**Permitted Security Interests** means:

- (a) any security interest created under or in connection with the financing agreement entered into between the Company and the Senior Lender;
- (b) any security interest arising by operation of law in the ordinary course of business and which secures an amount which is not a Financial Liability;
- (c) any contractual right of set-off (other than in respect of a Financial Liability) arising under a contract entered into in the ordinary course of ordinary business;
- (d) banker's liens, netting or rights of set-off arising by operation of law in respect of bank accounts in the ordinary course of ordinary business;
- (e) retention of title arrangements in respect of goods acquired in the ordinary course of ordinary business on normal commercial terms,
- (f) a security interest in respect of any asset acquired by a Group Company after 24 January 2012 or a security interest in respect of any asset of an entity which becomes a Group Company after 24 January 2012, provided such security interest is discharged within six months of the relevant date;
- (g) any security interest provided for by a transfer of an account or chattel paper, a commercial consignment or a lease which does not secure payment of an obligation; and
- (h) any other security interest approved by the Original Investors.

**PPS** means the *Personal Property Securities Act 2009* (Cth).

**Rare Earths** mean the fourteen lanthanides plus yttrium.

**Rare Earths Products** means the fourteen lanthanides plus yttrium produced at the LAMP.

**Rare Earths Project** means the Central Lanthanide and Duncan Mineral deposits in Western Australia, the Mt Weld Concentration Plant in Western Australia and the LAMP.

**Redemption Amount** means in respect of each Convertible Bond, the amount equal to:

- (a) US\$1.00; plus
- (b) all accrued but unpaid interest on the Convertible Bond up to and including the Redemption Date.

**Redemption Date** means in respect of a Convertible Bond:

- (a) in the event of redemption by a Bondholder, the date five Business Days after the date on which the Bondholder exercises its redemption right, by giving a redemption notice to the Company;
- (b) in the event of a redemption by the Company, the proposed date on which the Company intends to redeem such Convertible Bonds as set out in the redemption notice; and
- (c) in the event of a mandatory redemption, the Maturity Date.

**Redemption Period** means the period commencing on the date occurring 42 months after the Tranche 1 Subscription Date and ending on the date occurring 54 months after the Tranche 1 Subscription Date.

**Reset Event** means the earlier to occur of a LAMP Rejection Event or a LAMP Non-Approval Event, as the case may be.

**Restrictive Covenant** means the restrictive covenant granted by the Company and the Guarantors in favour of the Bondholders in clause 7.2 of the Deed Poll.

**Restrictive Covenant Release** means the date which is five Business Days after the Company has:

- (a) notified the Bondholders that Completion of Phase 1 has occurred; and
- (b) provided evidence of the Completion of Phase 1 to the satisfaction of the Bondholders (acting reasonably).

**Senior Debt Agreement** means the financing agreement between the Senior Lender, the Company and the Senior Debt Agreement Guarantors dated 30 March 2011.

**Senior Debt Agreement Guarantors** means Lynas Services Pty Ltd, Mt Weld Holdings Pty Ltd, Mt Weld Mining Pty Ltd, Mt Weld Rare Earths Pty Ltd and Lynas Malaysia Sdn Bhd.

**Senior Lender** means Japan Australia Rare Earths B.V.

**Share** means a fully paid, ordinary share in the capital of the Company.

**Shareholder** means a holder of ordinary shares in the Company.

**Subscription Agreement** means the Convertible Bond Subscription Agreement dated 24 January 2012 between the Company, the Original Investors and the Guarantors.

**Subsidiary** has the meaning given to that term in the Corporations Act.

**Tranche 1 Subscription Date** means 25 January 2012.

**Tranche 2 End Date** means 30 April 2012.

**Tranche 2 Subscription Date** means the date of the Tranche 2 Subscription, which shall be two Business Days after the Tranche 2 conditions precedent have been satisfied or waived.

**Transaction Costs** means third party legal and other due diligence costs and expenses of negotiating, preparing, executing the Transaction Documents and the finalisation of the transactions contemplated under the Subscription Agreement.

**Transaction Document** means

- (a) the Subscription Agreement;
- (b) the Deed Poll;
- (c) any document which the Original Investors and the Company agree in writing is a Transaction Document for the purposes of the Subscription Agreement;
- (d) any agreement or instrument created under any of them; and
- (e) any document entered into for the purpose of amending, novating, restating or replacing any of them.

**Working Capital** means the working capital of the Group from time to time.