INITIATION
4 May 2011

Lynas Corporation Limited

Initiating Coverage With A BUY Recommendation

Materials | Metals & Mining | Australia

BUY

Event:

- We are initiating coverage of Lynas Corporation Ltd (LYC). **Please see the FULL Initiation Report available separately**.

Key Take-Outs:

- LYC is developing the Mt Weld Rare Earths project in Australia and Malaysia.
- Lynas Gold NL transformed from a gold explorer (Western Australian) in 2001 to the developer of the Mt Weld Rare Earths Project and changed its name to Lynas Corporation Limited (LYC).
- Following a change of control in 2001 and a new management team and board being installed, the potential of the deposit was fully recognised and became the focus of the company. LYC had earlier entered into a JV with Ashton Mining by funding a feasibility study to earn a 35% interest with an option to move to a controlling equity position.
- In May 2002, LYC moved to 100% ownership of Mt Weld, giving it control of the whole of the carbonatite system other than rights to the phosphate mineralisation, which at the time belonged to CSBP Limited (a subsidiary of Wesfarmers).
- Following the completion of a Definitive Feasibility Study (DFS) and a number of different funding arrangements, LYC finally moved to full development of the project in 2009 with an equity raising of $450m.
- Most recently, in April 2011, LYC raised $100m and $225m of additional debt (225bp over LIBOR) to allow the acceleration of Phase II and to provide further contingency for Phase I.
- The Malaysian government has recently appointed an independent panel of international experts to conduct a one-month review of the health, safety and environmental aspects of the Lynas Advanced Material Plant (LAMP), currently under construction in Gebeng Industrial Estate, Kuantan, Malaysia.

Earnings and Valuation Impact:

- We forecast first positive earnings for LYC in FY12 on the commissioning of Mt Weld/LAMP. Our strong forecast earnings growth is driven by both increasing volumes and the favourable pricing environment.
- Our base valuation includes the production of Rare Earth Oxides (REO) mined from Mt Weld and processed in Malaysia. We include potential of the Kangankunde Project in Malawi in our upside case only.

Investment View:

- We initiate coverage with a BUY recommendation and a 12-month target price of $3.75 (based on a ~15% discount to our base valuation to take account of the risks at this stage of development).
- Our strong view on the positive fundamental outlook for REO is reflected in our favourable pricing outlook.
- **We highlight LYC as an above-average risk investment, but see risks declining as final approvals are given & production starts.**

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Key Information

Stock Code	LYC
Share Price	$2.03
12 Month Target Price	$3.75
Expected 12M Total Return	84.7%

Investment Data

Issued Capital	1,690.8m
Market Capitalisation	$3432m
% of S&P 200 Index	0.3%
Free Float	100%
Turnover	$423.9m/month
12 Month Price Range	270¢-38¢
Debt/Equity	-31.1%

Investment Arithmetic

Jun year end	10A	11E	12E	13E
Net Profit Rep. ($m)	-43.0	-34.9	463.0	2266
NPAT Pre-NRI's ($m)	-22.7	-28.1	463.0	2266
EPS Adj. (¢)	-1.7	-1.7	27.1	132.5
EPS Growth (%)	nm	nm	nm	389
PER (x)	**nm**	**nm**	**7.5**	**1.5**
Relative PER (%)	nm	nm	-28.0	-83.8
Dividend (¢)	0.0	0.0	10.0	53.0
Yield (%)	**0.0**	**0.0**	**4.9**	**26.1**
Franking (%)	0	0	0	0
FCFPS (¢)	-2.1	-0.9	27.8	135.3
P:FCFPS (x)	nm	nm	7.3	1.5
EV/EBITDA (x)	na	na	5.6	0.6
BV (¢)	45	39	65	163
P/BV (x)	4.5	5.2	3.1	1.2
Av. Full Dil. Shares (m)	1333	1666	1710	1710

Share Price Chart

Relative Price Performance

	1m	3m	12m
vs. S&P 200:	-9.9%	15.6%	286.6%
vs. MSCI - World:	-10.1%	18.2%	288.9%

Source: Company data, IRESS, and GS&PA Research estimates

RECOMMENDATION - Our Thinking

RECOMMENDATION:	BUY			
Stock Code: LYC	**Rationale:**	**-ve**	**Neut**	**+ve**
Share Price: $2.03	Industry Structure:		✓	
Valuation: $4.37	EVA Trend:			✓
	Earnings Momentum:		✓	
	Price / Valuation:			✓
	Catalysts:			✓

We highlight that LYC is an above-average risk investment, but we see this risk declining as final approvals are given and production commences.

We are initiating coverage with a BUY recommendation and a 12-month target price of $3.75 (based on a ~15% discount to our base valuation of $4.37 to reflect the risks at this stage of development). We use a WACC of 14.3% (reflecting an equity-only position) and a 1.3x Beta. Phase II includes the provision of $225m of debt funding.

There is potential further upside to our base valuation as the operation moves to production, the capital spend rolls off and we lower the WACC.

We highlight that the key driver for LYC is the prevailing REO prices, which have risen consistently as China has imposed further export restrictions on REO exports. However, a reversal of this policy could result in a material decrease in REO prices and LYC profitability.

Our positive view on REO is driven by our estimate that the market is in an ongoing deficit position that will require higher prices for both greenfield and then brownfield western world developments – to allow lower grade and less profitable greenfield projects to be developed over time and to destroy some demand from those areas where substitution can take place.

LYC controls a significant area of mineralisation at the Mt Weld Carbonatite which is one of the largest known potential sources globally and is the highest known grade resource of REO.

This project was originally owned by Ashton Mining before being acquired by LYC, initially through a JV arrangement and then through the purchase of the remaining interests from Ashton and, more recently, the phosphate rights from Wesfarmers.

LYC is currently in the commissioning stage of the Mt Weld concentrator and the final stages of construction for the LAMP in Malaysia.

The key risks that we can identify are:

1. Any remaining local 'licence to operate' issues. The most critical concerns perceived 'radioactivity' issues of the monazite (secondary) contained in the concentrate, which will be transported and disposed of in Malaysia.

   The Malaysian government has recently appointed an independent panel of international experts to conduct a one-month review of the health, safety and environmental aspects of the Lynas Advanced Material Plant (LAMP), currently under construction in Gebeng Industrial Estate, Kuantan, Malaysia.

2. Normal project execution and ramp-up issues can be particularly difficult in complex metallurgical operations. Whilst the process has been pilot plant tested and is normal industry practice, the ramp-up and recovery rates may take longer to achieve than we have assumed. Further mitigation of this risk is through the technical cooperation agreement between LYC and Rhodia Group.

3. Potential safety aspects with the transportation of product on national roads and/or rail. Importantly, the concentrate is not classified as a dangerous good under any legislation; thus, if there a spillage, there are no requirements for any special safety precautions.

4. A reversal by the Chinese government of the export quotas for REO, which could result in a material decline in REO prices.

Background

The company was incorporated in Western Australia as Yilgangi Gold NL, changed its name to Lynas Gold NL and listed on the ASX in 1986. It later changed its name to Lynas Corporation Limited (LYC).

In July 1999, LYC entered into a JV with Ashton Mining Ltd for the Mt Weld Rare Earths Project. At the time of the JV, Ashton had spent ~$25m on exploration/evaluation drilling.

Following a change of control in 2001 and a new management team and board being installed, the potential of the REO was fully recognised and became the focus of the company. LYC had entered into the JV by funding a Feasibility Study to earn a 35% interest with an option to move to a controlling equity position. LYC gained 100% control in May 2002.

The control of 100% of Mt Weld gave LYC ownership of the entire Mt Weld carbonatite system other than the right to the phosphate mineralisation, which was owned by CSBP Limited (CSBP), a subsidiary of Wesfarmers. LYC acquired all of the rights of CSBP in relation to the mining leases located at Mount Weld, Western Australia in late 2009. The rights acquired by LYC relate to the apatite at Mount Weld which can be used in the production of phosphatic fertiliser or phosphoric acid. LYC is now the registered holder of all (four) relevant tenements at Mount Weld and has the rights to all minerals within those tenements.

Since the completion of the CSBP acquisition, LYC has progressively moved to commercialise Mt Weld through the completion of a Feasibility Study and a number of capital raisings and proposed JVs.

The key breakthrough for LYC was in FY06 when it was able to sign a Letter of Intent for an off-take agreement with a customer for ~30% of planned production, which was converted to an off-take agreement in 2007. This agreement allowed for a successful capital raising of $35m of convertibles and $75m of equity to further the development of the Mt Weld Project. As part of the funding, LYC paid Ashton $5.6m to fully redeem outstanding debt and future claw back rights and royalty obligations.

During 2006, LYC made the decision to move the processing facility from the planned site in China to another location owing to restrictions imposed by China (and the potential for further restrictions) on the export of rare earths from the country.

LYC elected to move the processing facility to Gebeng on the east coast of Malaysia, where the project was granted "Strategic Pioneer Status" with an exemption from tax for 12 years and exemption from import duty and sales tax. The Malaysian site was chosen due to the available flat land, deep water ports, skilled labour and, importantly, the availability of industrial chemicals and a 12-year tax holiday.

All government approvals for the development of the mining and concentrating operations at Mt Weld were received in May 2007 and site construction for the mining operation commenced.

Site construction at the processing facility at Gebeng in Malaysia commenced in 2008 with a projected capital cost of US$220m for the Phase I production of 10,500t of REO.

During 2008, LYC raised US$95m through a convertible note, US$154.5m through equity issuance and signed a project loan facility for US$105m. Owing to the Global Financial Crisis (GFC), the convertible note holders exercised their right to withdraw funding (US$95m), citing LYC's failure to meet certain conditions. The cancellation of the convertible bond resulted in the cancellation of the project debt facility of US$105m. These actions resulted in all project work being suspended.

Subsequently, a potential change of control of LYC to China Nonferrous Metal Mining Group Co Ltd (CNMC) was proposed but, following the Foreign Investment Review Board (FIRB) ruling that CNMC could only hold <50% of LYC, this lapsed.

In November 2009, LYC successfully raised $450m through a fully underwritten rights issue and placement, allowing the development of the project to be restarted.

Most recently, in April 2011, LYC raised $100m through a placement and Share Purchase Plan which, together with a US$225m loan agreement with Sojitz, will allow the acceleration of Phase II expansion (to 22t REO).

Environmental, Social and Governance (ESG)

Environmental Issues

- Carbon regulation exposure: Most of the emissions (even after ramp-up) will be in Malaysia, which provides LYC some reprieve with respect to Australian carbon tax uncertainty. Longer term, heightened global carbon regulation is pushing up demand for green technology (hybrid cars, etc). This is a positive for rare earth demand.

Social Issues

- Human capital management: Exposure to skills shortages in Australia is particularly concerning (similar to many Australian mining operations). LYC moves to the production phase over the next few years, making these risks even more important.
- Safety performance: This has been solid in LYC's Malaysian operations.
- Stakeholder management: Increasingly an issue as LYC deals with the Forge issue (discussed below in 'Corporate Governance').

Corporate Governance

- Board: While the board contains a majority of independent non-executive directors, the presence of an executive chairman means the board does not meet generally accepted corporate governance guidelines. However, the presence of an elected independent non-executive director (William Forde), appointed as lead independent director, is a positive.
- Audit: It appears to us that non-audit-related fees were greater than audit-related fees in 2009 and 2010, which is a negative (compromises the independence of the auditor).
- Remuneration: As the company is still in the development phase, it is difficult to link incentives to performance hurdles; however, the company has stated that it pays a short-term and long-term incentive for key management personnel, although there is no disclosure as to how these incentives are paid.
- Forge Resources: Having the executive Chairman as a chairman of Forge Resources has three (negative) governance implications:

– Time commitments – his limited time is split between a number of directorships (in this case, one executive role and (presumably) two non-executive roles).

– This is materially more of an issue given the role in question is that of Chairman.

– The recent related-party transaction with Forge given: (1) Mr Curtis sits on the board of both Lynas and Forge; (2) Mr Curtis stands to benefit personally from the deal; and (3) the labelling of the Crown and Swan deposits as "non-core" assets.

"COMMODITIES: Rare Earths: Too Late To The Party?", 4 May 2011

Our commodity analysts outlined the economics of supply and demand for Rare Earth Elements in, "Commodities: Rare Earths: Too Late to the Party?", 4 May 2011. This section contains extracts from that report, including the following key highlights:

- The 'Rare Earths' comprise a suite of 17 somewhat obscure chemical elements that are used in a wide range of high-tech applications, generally for their chemical, optical or magnetic properties.
- Annual global demand is c.130,000 tonnes and supply is dominated by China, which currently accounts for more than 95% of global production. Rising demand for these elements in China, a desire to add value at home, and concerns about resource life and the environment have led China's government to cut export quotas and impose severe reductions over the past 12 months. This has resulted in exponential price increases and availability problems for Western consumers.
- The good news is that the rare earths are not particularly scarce geologically, although the number of economically viable concentrations is limited. New sources of supply are under development and we expect market conditions to ease in the medium term.
- The bad news – for consumers – is that over the next two years we expect little relief in the way of improved availability or easier prices. Indeed, further cuts to China's export quotas look likely, which would suggest yet further upside price risk in the short term.
- But higher prices will incentivise the scramble for new capacity outside of China: we see two projects in particular – Mt Weld in Australia and Mountain Pass in the US – bringing the market back into balance beyond 2013, when prices should soften somewhat.

Market Balance And Price Outlook

We have deliberately chosen not to attempt a modelling of supply, demand, and price for individual REEs, but rather to focus on a composite balance in terms of total REO equivalent. On the one hand, this approach cannot identify potential shortages (or surpluses) of individual REEs but, on the other hand, it is notable that the light REEs (lanthanum, cerium, neodymium, praseodymium) are very much more abundant than the heavies (samarium, europium, dysprosium, etc.) and therefore have a much larger weighted influence on "basket pricing" for most rare earths producers. Therefore while an overall surplus in terms of REO equivalent might mask a continuing shortage of, for example, dysprosium, we believe it a reasonable assumption that the move to generic surplus would be reflected in a declining "basket price".

Table 1:

Rare Earths: Global Market Summary (tonnes REO equiv.)

	2005	2006	2007	2008	2009	2010	2011f	2012f	2013f	2014f	2015f	CAGR ('10-'15)	CAGR ('05-'10)
Consumption by Region													
China	52000	60000	70000	75000	60000	83000	91000	100000	109500	119500	130000	9.4	9.8
% annual growth rate	*57.6*	*15.4*	*16.7*	*7.1*	*-20.0*	*38.3*	*9.6*	*9.9*	*9.5*	*9.1*	*8.8*		
Other Asia (incl. Japan)	23000	24650	25000	24750	15000	23925	25262	26627	28329	30433	33010	6.6	0.8
% annual growth rate	*-19.3*	*7.2*	*1.4*	*-1.0*	*-39.4*	*59.5*	*5.6*	*5.4*	*6.4*	*7.4*	*8.5*		
USA	14720	15776	16000	15750	9600	15312	16168	17042	18131	19477	21126	6.6	0.8
% annual growth rate	*-19.3*	*7.2*	*1.4*	*-1.6*	*-39.0*	*59.5*	*5.6*	*5.4*	*6.4*	*7.4*	*8.5*		
Rest-of-World	8280	8874	9000	10000	5400	8613	9094	9586	10199	10956	11884	6.6	0.8
% annual growth rate	*-19.3*	*7.2*	*1.4*	*11.1*	*-46.0*	*59.5*	*5.6*	*5.4*	*6.4*	*7.4*	*8.5*		
Global	**98000**	**109300**	**120000**	**125500**	**90000**	**130850**	**141524**	**153255**	**166159**	**180366**	**196020**	8.4	6.0
% annual growth rate	*8.9*	*11.5*	*9.8*	*4.6*	*-28.3*	*45.4*	*8.2*	*8.3*	*8.4*	*8.6*	*8.7*		
Consumption by Application													
Catalysis	19000	21500	24500	26500	18000	28000	29540	31165	32879	34687	36595	5.5	8.1
% annual growth rate	*5.6*	*13.2*	*14.0*	*8.2*	*-32.1*	*55.6*	*5.5*	*5.5*	*5.5*	*5.5*	*5.5*		
Glass Additives	13500	13000	12500	12000	5500	7500	7650	7803	7959	8118	8281	2.0	-11.1
% annual growth rate	*-3.6*	*-3.7*	*-3.8*	*-4.0*	*-54.2*	*36.4*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*		
Polishing Powders	12500	14000	15000	15000	12000	18200	19747	21425	23247	25223	27367	8.5	7.8
% annual growth rate	*8.7*	*12.0*	*7.1*	*0.0*	*-20.0*	*51.7*	*8.5*	*8.5*	*8.5*	*8.5*	*8.5*		
Battery Metal Alloys	16000	17000	17000	18500	14000	18700	21318	24303	27705	31584	36005	14.0	3.2
% annual growth rate	*6.7*	*6.3*	*0.0*	*8.8*	*-24.3*	*33.6*	*14.0*	*14.0*	*14.0*	*14.0*	*14.0*		
Other Metal Alloys	8500	10000	11000	11500	8000	11700	11934	12173	12416	12664	12918	2.0	6.6
% annual growth rate	*6.3*	*17.6*	*10.0*	*4.5*	*-30.4*	*46.3*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*		
Magnets	16000	20500	25000	27000	22000	33500	37185	41275	45816	50855	56449	11.0	15.9
% annual growth rate	*28.0*	*28.1*	*22.0*	*8.0*	*-18.5*	*52.3*	*11.0*	*11.0*	*11.0*	*11.0*	*11.0*		
Phosphors	7000	7800	8500	9000	6000	7750	8293	8873	9494	10159	10870	7.0	2.1
% annual growth rate	*16.7*	*11.4*	*9.0*	*5.9*	*-33.3*	*29.2*	*7.0*	*7.0*	*7.0*	*7.0*	*7.0*		
Ceramics & Other	5500	5500	6500	6000	4500	5500	5858	6238	6644	7076	7535	6.5	0.0
% annual growth rate	*10.0*	*0.0*	*18.2*	*-7.7*	*-25.0*	*22.2*	*6.5*	*6.5*	*6.5*	*6.5*	*6.5*		
Production:													
Australia	0	0	0	0	0	0	846	8984	15300	21100	24500		
China	99000	110000	100000	115000	110000	115000	112000	115360	118821	122385	126057		
USA	0	0	0	1000	1400	2000	3000	12000	25000	35000	39000		
Other (incl. recycling)	3500	5500	6500	7000	6500	9000	9450	10000	12500	13500	15000		
Disruption allowance (%)	--	--	--	--	--	--	*2.0*	*3.0*	*3.0*	*3.0*	*3.0*		
Disruption allowance (t)	0	0	0	0	0	0	-2506	-4390	-5149	-5760	-6137		
Global Production	**102500**	**115500**	**106500**	**123000**	**117900**	**126000**	**122790**	**141954**	**166472**	**186226**	**198420**	9.5	4.2
% annual growth rate	*12.6*	*12.7*	*-7.8*	*15.5*	*-4.1*	*6.9*	*-2.5*	*15.6*	*17.3*	*11.9*	*6.5*		
Notional Surplus / (Deficit)	**4500**	**6200**	**-13500**	**-2500**	**27900**	**-4850**	**-18734**	**-11301**	**313**	**5860**	**2401**		
"Basket Prices" (US$/kg REO)													
Mt Weld	**5.00**	**6.66**	**11.42**	**14.39**	**10.54**	**31.81**	***160***	***227***	***196***	***113***	***82***		
Mountain Pass	2.92	4.25	7.78	10.18	7.21	27.06	n.f.	n.f.	n.f.	n.f.	n.f.		
Baotou	3.94	5.81	10.37	12.58	8.65	29.73	n.f.	n.f.	n.f.	n.f.	n.f.		
Long Nan	12.28	16.02	21.41	30.85	25.26	47.55	n.f.	n.f.	n.f.	n.f.	n.f.		

Source: IMCOA; Company Data; GS&PA Research estimates

Our market summary is presented in Table 3, and it is appropriate to comment that the accuracy of historical numbers is considerably weaker, in our opinion, than for the base metals or bulk commodities, where we believe the processes for gathering primary data are somewhat more established. Thus we regard the consumption breakdowns - both by application and by geography - as informed estimates. Similarly, the confidence limits around the production data are wide, partly because of the significant amount of illegal mining and processing in China that doesn't get caught in the official statistics. That said, we believe that this exercise provides a useful snapshot of the global market for rare earth elements.

Our demand forecasts are based on growth assumptions for the main first-use applications as shown in Table 3. For some of these applications the projected growth rates may appear to err on the side of caution, but we believe this to be appropriate given that the rare earth market is likely to remain severely supply-constrained at least through to 2013. Our production forecasts draw on our estimate of likely start-up times and commissioning profiles for new projects (refer Table 2), and an assumption that there will still be some modest growth (c. 3% p.a.) in Chinese production; reactivation of operations in Sichuan province

will, in our view, more than offset the reduction in illegal mining in southern China. We apply an annual disruption allowance of 3% (2% in 2011) to our production forecast.

Table 3 shows four historical price series based on the compositional "baskets" for major producers / potential producers. These "basket price" histories are weighted average prices calculated from the prices of individual REOs (US$/kg, fob China) published by Metal Pages and the weight-percent of production attributable to each element for each producer. Theoretical "basket" compositions for a selection of sources are shown in Fig. 8. We show a price forecast only for the Mt Weld "basket", based on our modelling of annual supply / demand imbalances, and on our view that US$60/kg (Mt Weld basket; REO equiv.) is a reasonable equilibrium price assumption taking into account (a) the difficulty of identifying new potential projects and (b) the technical issues and capital requirements associated with their development.

On the basis of our supply/demand modelling, we expect the global rare earth market deficit to peak this year with a shortfall in the order of 18,730 tonnes. We project a narrower 2012 deficit in the order of 11,300 tonnes due mainly to production ramp-ups at Mt Weld and Mountain Pass, but of course this implies a continuing widening of the cumulative deficit and in no way suggests that prices would soften; indeed we suggest that the peak of the price cycle in annual average terms will occur in 2012. We project a return to modest annual surplus only from 2013 and, in our opinion, this will depend critically on the timing of commissioning and the ramp-up of Phase II operations at Mountain Pass. We note that Molycorp has recently approved the Phase II investment and we believe it is reasonable to assume that the expanded production begins to kick in from 2013.

Lynas Corporation Limited

LYC has the fully permitted Mt Weld mine and concentrating facility in Western Australia. The first mining campaign has been successfully completed and some ~773,000 tonnes of ore have been stockpiled pending completion of construction of the concentrator.

The Lynas Advanced Material Plant (LAMP) located in Gebeng, Malaysia is fully permitted for construction and on-site waste storage. LYC has submitted the data required for a Pre-Operational Licence which, when granted, lasts for three years – during which time the relevant authorities complete final inspections before issuing a Permanent Operating Licence.

The Malaysian Atomic Energy Licensing Board is currently evaluating the Pre-Operational Licence submission and has up to six months to complete this analysis; if the evaluation takes this long, there is a risk to the start up of the LAMP operation. The Operating Licence can only be issued once the plant has been completed and is running at steady state so that a full analysis of the operation, including the treatment of waste products, can be assessed.

The Malaysian government has recently appointed an independent panel of international experts to conduct a one-month review of the health, safety and environmental aspects of the Lynas Advanced Material Plant (LAMP), currently under construction in Gebeng Industrial Estate, Kuantan, Malaysia.

LYC completed the acquisition of all of the rights of CSBP Limited (CSBP) in relation to the mining leases located at Mount Weld, Western Australia in late 2009. The rights acquired by LYC relate to the apatite at Mount Weld which can be used in the production of phosphatic fertiliser or phosphoric acid. LYC is now the registered holder of all (four) relevant tenements at Mt Weld and has the rights to all minerals within those tenements.

LYC has recently completed the acquisition of the fully permitted Kangankunde Rare Earths Resource in Malawi, Africa for the contract sum of US$4.5 million.

The Kangankunde Carbonatite Complex (KGK), Malawi, Africa has an Inferred Resource of 107,000 tonnes of Rare Earths Oxide (REO) at an average grade of 4.24% REO using a 3.5% REO cut-off grade. At a 3% REO cut-off grade, the resource increases to 180,000 tonnes REO and remains open at depth. The deposit also contains strontianite and phosphate minerals. Importantly, the deposit has extremely low natural radiation levels for a Rare Earths deposit, with an average of 11ppm thorium oxide per percentage of REO content. Completed test work shows the deposit is amenable to a low cost gravity separation concentration process producing a 60% REO concentrate.

More recently, LYC entered into an agreement to sell the Swan and Crown Deposits at Mt Weld to Forge Resources, of which Mr Nicholas Curtis is Chairman. These deposits are considered to be non core, containing potential Tantalum/Niobium and Phosphate as well as minor amounts of Rare Earths. LYC will receive a $20.7 million cash consideration plus an option to acquire up to seven million ordinary shares in Forge ("Forge Shares"). LYC will receive ongoing royalty payments from Forge should the latter successfully develop the Crown deposit or the Swan deposit.

If the Crown/Swan deposits are developed, LYC has the right to purchase at international market prices any REEs that are produced as a by-product from the Crown/Swan deposits, with no associated development costs to Lynas. Forge is required to complete a capital raising that raises not less than $30 million.

LYC shareholders are due to vote on the proposed transaction ("the Transaction") at an Extraordinary General Meeting likely to be held in June 2011. An Explanatory Memorandum setting out detailed information in relation to the Transaction was sent out in April and a further update is expected to be dispatched to shareholders in May 2011. The Independent Board Committee has engaged an Independent Expert, who has opined that the Transaction is fair and reasonable to Lynas shareholders who are not associated with Forge or Mr Nicholas Curtis. The Independent Directors recommend that shareholders voted in favour of the Transaction.

Mt Weld Rare Earths Project (Key Data - Various Technical Reports)

Highlights

The Mt Weld Project is located some 35km south of Laverton in Western Australia. This area of Western Australia is arid, with sparse vegetation, annual rainfall of 1,230mm and annual evaporation of 3,070mm. Temperatures range from a winter minimum of ~5^0C to a summer maximum of ~36^0C.

The Mt Weld complex comprises four Mining Leases (tenements) covering REO and Ta/Nb deposits developed within the Mt Weld Carbonatite – an intrusive pipe approximately 3km in diameter.

Introduction

Mt Weld was discovered in 1988 and extensively drilled by Ashton Mining, which spent in excess of $25m on drilling and evaluation studies. Within the Mt Weld Carbonatite, the most important source of Rare Earth Oxides (REO) is the central Lanthanide Deposit (CLD) which is located in the centre of the carbonatite, with the Ta/Nb deposits on the fringes of the carbonatite.

The majority of the REO is contained within the secondary phosphate minerals which have similar chemistry to monazite, but with lower levels of Thorium (44ppm per 1% REO). Note, the lower levels of Th + U_3O_8 are due to this being secondary monazite in comparison to the monazite associated with Mineral Sands deposit. Importantly, the ore zones have lower levels of deleterious elements such as fluorine and calcium.

The key to the commercialisation of Mt Weld has been the change in the Chinese government's exports of Rare Earths.

Historically, China operated a monopoly situation in Rare Earths based on the large but relatively low grade Baotou mine in Inner Mongolia. This production is a by-product from the iron ore mining. As a consequence of the government support, significant over-capacity was developed, which had the effect of depressing prices for REO. With China entering the World Trade Organisation, the state monopoly in REO production was disbanded in 2001, asset ownership was decentralized and China has been applying restrictions on the quantity of REO that can be exported as its resource base has diminished.

Location

The Mt Weld deposit is ~ 1,000km from the port at Fremantle, from which concentrate is planned to be shipped to the Lynas Advanced Material Plant (LAMP) located in Gebeng, Malaysia.

Resources and Reserves

Both the current resources and reserve estimates for Mt Weld have been used as a base input for the completion of studies by LYC.

Resources

This resource has been generated from drilling associated with the BFS.

Deposit	Tonnes (mt)	Grade (%)	Tonnes REO (kt)
CLD	9.88	10.70	1,057
Duncan	7.62	4.80	366
Total	**17.50**	**8.13**	**1,423**

Note: Thorium 44ppm / 1% REO

Source: Company data

Reserves

The Mt Weld reserve estimate is shown below:

Category	Tonnes (kt)	Grade (%)	REO Contained (kt)
Proven	831	16.73	139.0
Probable	1,249	14.60	182.4
Total	2,080	15.45	321.4

Source: Compnay data

The REO distribution is shown below:

Table 1 Mt Weld ore Rare Earths distribution

Rare Earths Oxides	Atomic Symbol	Atomic #	Grade Weight %	REO Distribution %
Lanthanum oxide	La_2O_3	57	4.38	25.60
Cerium oxide	CeO_2	58	7.82	45.74
Praseodymium oxide	Pr_6O_{11}	59	0.93	5.42
Neodymium oxide	Nd_2O_3	60	3.18	18.62
Samarium oxide	Sm_2O_3	62	0.42	2.44
Europium oxide	Eu_2O_3	63	0.094	0.55
Gadolinium oxide	Gd_2O_3	64	0.166	0.97
Terbium oxide	Tb_4O_7	65	0.015	0.09
Dysprosium oxide	Dy_2O_3	66	0.027	0.16
Holmium oxide	Ho_2O_3	67	0.003	0.01
Erbium oxide	Er_2O_3	68	0.004	0.02
Thulium oxide	Tm_2O_3	69	0.000	0.00
Ytterbium oxide	Yb_2O_3	70	0.002	0.01
Lutetium oxide	Lu_2O_3	71	0.000	0.00
Yttrium oxide	Y_2O_3	39	0.063	0.37
Total Rare Earth Oxides			**17.1**	

Source: Company data

Development Plan

Development Plan Mining Inventory

The development plan is based on mining 4.7mt of ore @ 13.6% REO for 608kt.

Environment

Mt Weld carbonatite contains two distinct aquifers. The upper unconfined aquifer is between 7m and 17m from the surface with high salinity. Dewatering of this aquifer may be required ahead of mining. The second, lower aquifer contains ~50Mt of water, reportedly of lower salinity 1,600-3,000mg/L and will be used in the concentrator plant.

The Mt Weld flora and vegetation is typical for the region, comprising mulga woodland, localized mallee and spinifex communities. There are reportedly no rare or restricted plant species.

Infrastructure

Power Supply

Given the very modest scale of operations, site power of ~2MW for Phase I is provided by diesel generators.

Water Supply

All water is drawn for the upper aquifer in the carbonatite pipe and water is also supplied to Barrick Gold's Granny Smith mine. At this stage there is no recycling of water from the tailings storage facility or the evaporation ponds.

The water table for the upper aquifer is below the planned mining levels in the near term.

Roads

Mt Weld is well serviced, with access from the Leonora-Laverton highway which connects through to Perth on the west coast.

Mining and Concentrator

The development plan is based on campaign mining at Mt Weld such that there is a stockpile of ore ahead of the concentrator plant which will run on a normal 24/7 basis to process at 120-150kt/a in the Phase I development and will be expanded to ~300kt/a for the Phase II development.

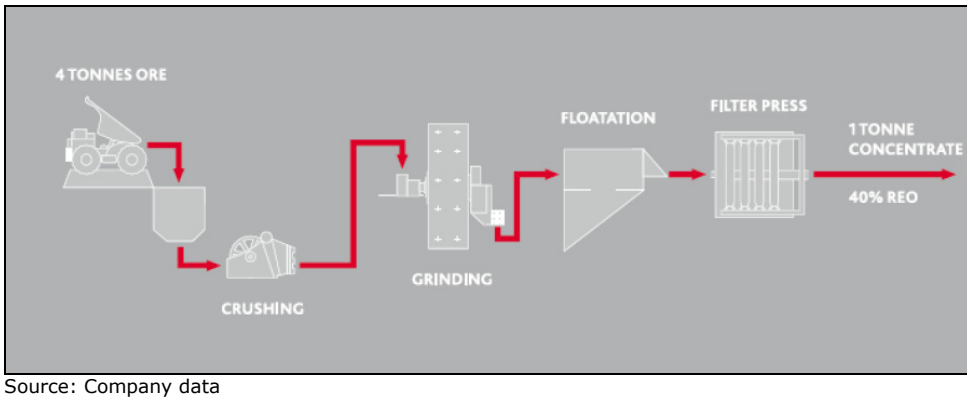
The mining is conventional open pit with 2.5m flitches, based on close space grade control drilling.

The mining is essentially only the regolith in the CLD and then DD deposits which vary between 20m and 100m in thickness. The mine plan requires ~25m of overburden to be stripped before mining of the regolith commences.

Following the initial mining campaign, there is ~770kt of ore stockpiled for processing through the concentrator plant when complete. The strip ratio is ~6.7:1 over the deposit. The development plan is based on mining 4.7mt of ore @ 13.6% REO for 608kt of REO.

The final pit is planned to be ~600m X 300m to a depth of 70m to be mined over ~20 years.

Schematically, the mining and concentrator operations at Mt Weld site are shown below:



Source: Company data

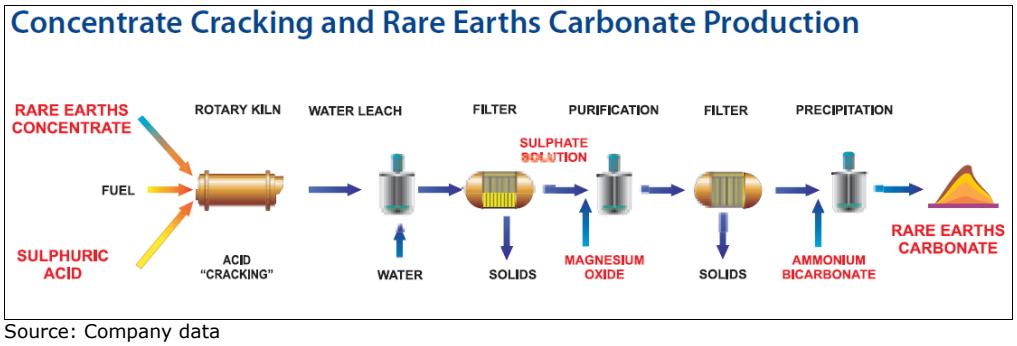
Lynas Advanced Mineral Plant (LAMP)

The concentrate from the Mt Weld plant will be containerized and trucked from Mt Weld ~1,000km to the port of Fremantle. From there, the containers will be shipped to the LAMP in Gebeng, Malaysia.

The process of separation of the REO from the concentrate involves:

Cracking

This is the process whereby the REO are made more amenable to dissolution in a weak acid solution. In the case of Mt Weld, test work has indicated that separation of the REO from the waste iron and other impurities is best achieved through a combination of pyro-metallurgy and acid – a "sulphuric acid bake" followed by water leaching, purification of the leach liquor and then precipitation of the REO as a carbonatite solid.



Source: Company data

The concentrate from Mt Weld is mixed with sulphuric acid and roasted in a rotary kiln at 400^{0}C-600^{0}C which is designed to give +95% decomposition of the REO. Both the temperature and retention time in the kiln are critical in this process to ensure the maximum decomposition of the REO to soluble sulphates, with many of the impurities reporting as insoluble waste products, including the low levels of Th + Uranium.

The roasted product reports to a series of water leach reactors where the pulp is screened and filtered to recover the leachate (RE sulphate solution).

The leachate is neutralized using magnesium oxide (MgO) before reporting to the Solvent Extraction section of the LAMP.

Solvent Extraction of Individual REO

Solvent extraction is a common metallurgical process whereby individual elements can be selectively removed from a liquor stream with the unwanted elements left behind.

In the case of REO, the feed liquid is an aqueous base and is mixed with an organic liquid (kerosene) which absorbs the heavy rare earths (HRE) and medium or SEG rare earths (SEG). The loaded organic is washed in weak acid solution.

The SEG and HRE are first stripped from the organic using concentrated hydrochloric acid (HCL). The Lanthanum, cerium, neodymium and praseoymium remain in the liquor and are converted from a sulphate to a chloride solution.

The lanthanum and cerium are then separated from the dysprosium and praseodymium. In Phase I, there are no plans to separate the dysprosium or praseodymium, but there will be some separation of the Lanthanum and Cerium.

In Phase II, there are plans are to separate neodymium and praseodymium to take advantage of a broader customer base.

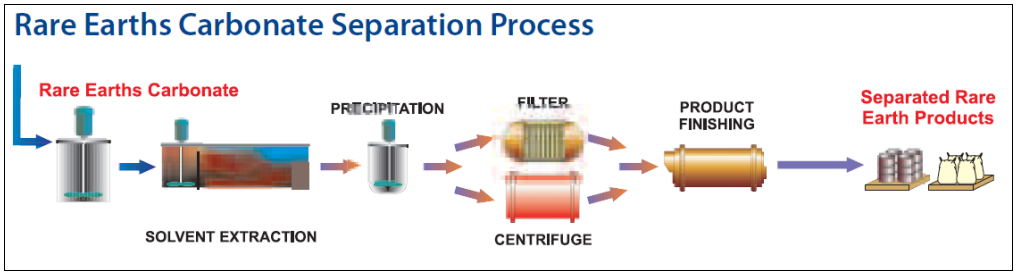
Impurities such as calcium and manganese remain in the waste aqueous phase.

Equipment known as mixer-settlers is employed to contact the aqueous and organic phases. Due to the similar chemical behaviour of the Rare Earths elements, many stages of counter current contacting are required to achieve high quality separation of the elements and it is common to have several hundred mixer-settler stages in a Rare Earths separation plant.

Finishing of Rare Earths Products

The morphology of Rare Earths compounds and metals is important for many products such as polishing powders, catalytic compounds and metal powders for magnet materials. Important physical characteristics include particle size, specific surface area and colour. Properties are controlled by the chemical process conditions and the heat treatment and milling of oxide and metal powders. LYC will precipitate with sodium carbonate rather than ammonium carbonate which is more environmentally acceptable but a higher cost process.

Schematically, the process is shown below:



Source: Company data

Recoveries

LYC estimates that the initial concentrator at Mt Weld will allow a ~67% recovery of REO into the concentrate at a grade of 40%. The recovery through the LAMP is ~92% in the cracking stage and ~95% in the Solvent Extraction, implying an overall ~57% recovery from in-situ to finished product.

Grade of Product

In the LAMP, the REO concentration of individual REO and groups of REO from concentrate varies as shown from LYC test work below:

- SEG (mixed REO of Samarium, Eurpoium and Gadolinium 97.5%
- HRE (mixed REO of Terbium, Dysprosium and other heavy REO 97.5%
- LPN RECI (RE chloride of Lanthanum, Praseodymium and Neodymium 45%
- CeCl (Cerium Chloride) 45%

At the planned Phase I level, ~121kt of ore grading 14.8% will be processed to 31.5ktpa of concentrate grading 40% REO which will produce ~11kt of REO.

Note that no new processes are proposed. It is rather the fine tuning of actual individual elements of the process that will be required in order to obtain the throughput rates and recoveries used in the feasibility studies. Capital Cost

The overall capital cost estimate for the Mt Weld concentrator and the LAMP in Gebeng, Malaysia is $535m of which some ~$292m had been spent by 31 January 2011. In addition to the plant capital equipment, LYC estimate a further ~$46m is required in ramp-up costs before commercial production levels are reached.

CONSTRUCTION AND OTHER CAPITAL COSTS	TOTAL A$mm	TO 31/1/11 A$mm	FUTURE SPEND A$mm
Mount Weld Concentration Plant	70.86	56.36	14.50
Lynas Advanced Materials Plant, Malaysia	237.32	91.39	145.93
Engineering and Project Management Costs	138.31	107.81	30.50
Other Capex including Land in Malaysia	65.24	48.95	16.29
Contingency	28.60	-	28.60
Total Capital Costs[1]	**$540.33**	**$304.51**	**$235.82**
PRODUCTION RAMP-UP COSTS			**SPEND TO FIRST PRODUCTION A$mm**
Mount Weld Concentration Plant			14.71
Lynas Advanced Materials Plant, Malaysia			20.32
Finance, Admin, Marketing, Technical and Corporate Overheads			11.24
Total Operating Costs[1]			**$46.27**
TOTAL BUDGETED CASH REQUIREMENTS TO START OF PRODUCTION[1]			**$282.09**
Cash on Hand 31 January 2011			264.42
OCBC Working Capital Facility			21.30
TOTAL CASH PLUS WORKING CAPITAL FACILITY			**$285.72**
HEADROOM INCLUDING CONTINGENCY			**$32.23**

Source: Company data

We see the key risk in the capital as the estimate for the ramp-up of the LAMP with a combination of lower recoveries and a longer time period the key risk areas.

LYC has established a facility of US$325m (equity and debt), of which US$250m is dedicated to the expansion of Phase II (22kt REO) with Sojitz of Japan, which will undertake exclusive joint marketing of products into Japan from both Phase I (8 500t +/- 500t) for 10 years and Phase II.

Construction & other capital costs	Total (A$mm)	Capex spent to date (A$mm)	Future capex (A$mm)
Phase 2 plant & equipment for the Concentration Plant	$28.0	-	$28.0
Phase 2 plant & equipment for the LAMP	$148.0	-	$148.0
Phase 2 engineering and project management costs	$34.0	-	$34.0
Contingency	$25.0	-	$25.0
Other capital expenditure	$28.4	-	$28.4
Total	**$263.4**	**-**	**$263.4**

Working capital & production ramp-up costs	Future spend (A$mm)
Concentration plant	$33.4
LAMP	$63.9
HO costs, operations, finance, IT, etc	$21.0
Total	**$118.3**

Total expenditure (before cash receipts from sales)	$381.7

Source: Company data

Operating Cost

- LYC has provided minimal detail in terms of the breakdown of costs.
- The most recent cost estimate (16 March 2011) for the operation at steady state Phase II (22,000t/a REO) is A$10/kg. This figure includes all cash costs (including administration costs in Western Australia and Malaysia); however, it excludes corporate overheads.
- The updated estimate includes the following highlights:

  a. Approximately 62% of these cash costs are generated in Malaysia with the balance in Australia.

  b. Chemicals account for approximately 44% of total cash costs.

  c. Energy accounts for approximately 18% of total cash costs.

  LYC has previously guided to the cost breakdown as:

  – Mining 4%

  – Concentrator 21%

  – Transport and Shipping 9%

  – LAMP 66%

Transport and Waste Disposal

During the beneficiation process, the low-level-radioactive, non-hazardous concentrate is stored before being transported in containers to Fremantle for shipping. The slurry residue, the tailings from the concentrator plant, is pumped to the residue pond where water is reclaimed and returned to the concentrator plant.

The key issue in transport is the level of Thorium and Uranium in the concentrate.

The Mount Weld Rare Earths concentrate is:

- Not classified as Dangerous Goods under the Australian Dangerous Goods Code (ADG Code) for transport by road or rail.
- Not classified as Dangerous Goods for transport by sea (International Maritime Dangerous Goods Code 2006).

The Mount Weld Rare Earths concentrate is not considered a radioactive material. The level of naturally occurring thorium is so low in the concentrate that the material is:

- Not regulated for transport as classified by the Australian Code of Practice for the Safe Transport of Radioactive Material 2001.
- Not regulated for transport as classified by the International Atomic Energy Agency's (IAEA) Safe Transport of Radioactive Material regulations.

The 44ppm/1% REO level in the ore is low. Thus, on average, the ore contains 660ppm Th + 25ppm U (238) and the specific activity for the ore is 3.0 Becquerels/g. We understand that the concentrate from Mt Weld would have an estimated specific activity of $5.4X10^4$ @ 15% moisture based on concentration of 0.15% Th and 0.004% U on a dry weight basis which translates to 6.4Bq/g.

At these levels of radiation, the level is sufficiently low that the concentrate would not be classified as a radioactive substance under current Australian or Western Australian Code of Practice (which are in line with International Best Practice). We understand that the levels are ~30% below the threshold at which the concentrate would be classified as a radioactive substance. We understand that the concentrate would need to have an activity >10 Bq/g to be classified as a radioactive substance in terms of legislation.

In the LAMP, LYC has plans for the disposal of thorium, involving the mixing of thorium with lime, to neutralize (rather than dilute) the material into an iron-phosphate-gypsum product. Due to the introduction of the reagents, there is no concentration of the Th + uranium in the waste product. This product is currently planned to be disposed of in storage cells on site with the Th + Uranium in the Fe-Phosphate-Gypsum product.

The two waste products which do not contain the naturally occurring radiation have been identified for gypsum applications. For the residues (including the iron-phosphate-gypsum containing the Th + uranium), LYC has already embarked on a programme of research and development to use the residues in safe by-products.

The LAMP will also produce three Synthetic Mineral Products: Synthetic Gypsum, Magnesium Rich Gypsum and Iron Phosphate Gypsum. LYC is advancing development of commercial applications for all three products, achieving significant progress in the past 12 months.

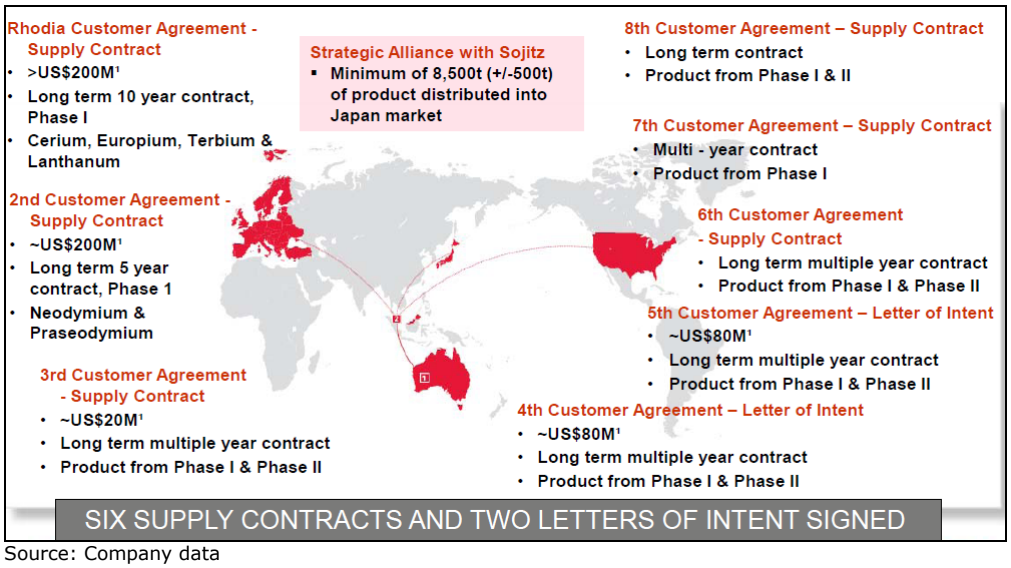
1. For Synthetic Gypsum, LYC has entered into commercial discussions with plasterboard and cement manufacturers.
2. For Magnesium Rich Gypsum, test work has been successful for conversion of Magnesium Rich Gypsum into a product called Magnesium Fertiliser Booster. Field trials have demonstrated improved plant yield, improved soil structure, reduced fertiliser consumption and prolonged plant life.
3. For Iron Phosphate Gypsum, test work has also been successful in converting this into an environmentally stable form suitable for commercial application as a concrete aggregate in a concrete road base (The legislation requires the Th=U levels to be <500ppm IAEA). There are precedents in Europe for this type of product.

Sales

LYC has successfully negotiated a number of long-term off-take agreements with customers as part of the development, which should lower the sales risk. Unfortunately, whilst the magnitude of these contracts is unknown – either in terms of the annual kg of off-take or the overall value of the contract – the specific terms of any discount to prevailing market prices for individual REO is not disclosed.

In our estimates we assume that there is a 10% discount to the prevailing spot price to account for the Rhodia collar contract.

A summary of the off-take agreements entered into to date is shown below:



Source: Company data

There are two key agreements:

1. **Rhodia agreement**, which has two key elements:

⇒ Rhodia is contracted to an off-take of product from Phase I. We understand that this contract contains both a floor and collar arrangement on pricing for the first five years for half of the planned sales. At the current spot REO basket price, we believe this translates to a ~10% discount on the overall Phase I sales revenue.

⇒ The second aspect of the Rhodia contract is a Technical Co-Operation Agreement. We understand that under the terms of this agreement, Rhodia will (and is) providing training to plant operators in the LAMP operation and will provide a number of engineers during the commissioning of the LAMP operation.

2. Sojitz agreement

Of particular importance is the sales and strategic alliance agreement with Sojitz. This agreement covers the planned sale of product into Japan and is for an initial 10-year period, providing exclusivity for Sojitz which has undertaken to provide up to US$250m of funding for the expansion to 22kt/a ROE Phase II development.

Project Timeline

LYC is nearing the commissioning of the Mt Weld concentrator with ~770kt of ore stockpiled ahead of the plant. The first ore feed commenced April 2011 and the project remains within budget.

Following the ramp-up of the Mt Weld concentrator, the 1firt concentrate should be available at the LAMP for feed into the kiln in September. LYC plans to load the solvent extraction cells with product (loaned from customers) in order to accelerate the ramp-up. We understand that, from introducing concentrate to the kiln, it will take about six weeks for the first product to be produced. LYC estimates a 4.5-6 month ramp-up to full Phase I production levels. LYC plans to operate at Phase I levels for around six months before increasing throughput rates to lift overall production to Phase II levels in late 2012.

The next approval for the LAMP is obtaining the Pre-Operational Licence. We understand that LYC has submitted all information required for consideration and approval, in accordance with the staged approval process in Malaysia. There is potential for a delay in the issue of this licence as the Malaysian government is conducting an independent one-month review of the health, safety and environmental aspects of the Lynas Advanced Material Plant (LAMP), currently under construction in Gebeng Industrial Estate, Kuantan, Malaysia.

Any delay in the granting of the Pre-Operational Licence will delay the start of production.

GS&PA Mt Weld Project Profile

Base Case

Our current base case for LYC assumes both Phase I and Phase II for Mt Weld/LAMP production. The initial mining rate is ~125ktpa, increasing to ~285ktpa production at the increased rate for Phase II. We have allowed for an initial REO grade of 14.8%, declining to 13.6% as production increases for Phase II.

We have not made any allowances for additional debt funding for Phase I as LYC is essentially fully funded for Phase I. We assume Phase II is funded from internal cash flows and from the debt facility established by LYC with Sojitz.

We have assumed a capital cost to completion of $300m for Phase I, which is slightly greater than the current company estimates (inclusive of contingencies) of $290m. We estimate an additional capital cost of US$400m for the expansion to 22kt/a REO for Phase II which, again, is slightly higher than the $282m estimated by LYC.

We note that the $282m estimate for Phase II by LYC is inclusive of all costs from the start up to steady state of Phase II and takes no account of any revenue received during this period.

LYC estimates the operating costs from the start of Phase I, inclusive of working capital and production ramp-up costs, to the start of Phase II as:

- Concentration Plant $33.4m
- LAMP $63.9m
- HO cost, operations, finance etc. $21m
- **TOTAL** **$118.3m**

Our early estimates are in line with these costs.

We have based our longer-term estimates term (Phase II) on the latest estimate of A$10/kg (using US$:A$ parity) at Phase II production levels of 22kt/a REO.

- Our base case profile is thus:

BASE CASE		>>Forecasts								
Mt Weld/LAMP		**Jun-10**	**Jun-11**	**Jun-12**	**Jun-13**	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**
Tons Milled	(kt)	0.00	0.00	42.8	146.3	232.0	250.0	285.0	285.0	285.0
Grade - REO	(%)	14.80	14.80	14.80	14.80	14.80	14.80	13.60	13.60	13.60
Production - REO	**(kt)**	**0**	**0**	**2.8**	**12.0**	**19.5**	**21.0**	**21.4**	**21.4**	**21.4**
Cash Costs (incl royalty)	(US$/kg)	n.a.	n.a.	16.04	12.31	12.67	13.26	10.85	10.85	10.85
CAPEX	(A$m)	30.5	236.5	175.3	393.0	35.3	36.2	30.8	30.8	30.8

Source: Company data, GS&PA Research estimates

Upside Case

Our upside case simply assumes production from Kangankunde (KGK) project in Malawi.

Upside										
		>>Forecasts								
Kangankunde		**Jun-10**	**Jun-11**	**Jun-12**	**Jun-13**	**Jun-14**	**Jun-15**	**Jun-16**	**Jun-17**	**Jun-18**
Tons Milled	(kt)			0.0	0.0	0.0	0.0	50.0	150.0	200.0
Grade - REO	(%)			4.0	4.0	4.0	4.0	4.0	4.0	4.0
Production - REO	(t)							517	1,551	2,068
Cash Costs (incl royalty)	(A$/kg)							23.72	18.51	18.51
CAPEX	(A$m)		0.0	0.0	0.0	100.0	400.0	4.1	9.5	12.7

Source: Company data, GS&PA Research estimates

Risks

Radiation

We consider the potential disruption from perceived levels of radioactivity to be the single greatest risk to the operations.

Neither the ore nor the concentrate produced by Mt Weld, LAMP is classified as Dangerous Goods for road or sea transport; the concentrate is not classified as radioactive by the International Atomic Energy Agency (IAEA).

Based on the in-situ levels of Th (44ppm/1% REO), there should be no issue with the mining and processing in Australia. Despite the concentration of the contained Th + U in the concentrate, the associated Th+U is still well below (-30%) the levels which would have the concentrate designated as a radioactive substance; thus, there should be no issue in either the road/rail or shipping of the concentrate.

The Th + U is removed from the REO in the Separation Process. Thorium is mixed with lime to neutralize the material and is then bound in the iron-phosphate-gypsum product. This product is currently planned to be disposed of in storage cells on site. However, test work has shown that this can be incorporated into a cement aggregate for road base construction.

Licensing & Government Legislation

LYC is yet to receive the Permanent Operating Licence for the LAMP facility in Malaysia. This can only be granted once the plant is fully operational. The granting of the Pre-Operational Licence should materially lower the risk of obtaining the Operating Licence.

However, given the increased global focus on potential accidents at any plant where there is Th + U, one cannot rule out more stringent legislation which could have a material impact on the costs structure for LYC (and indeed all REO producers) in the future.

The Malaysian government has recently appointed an independent panel of international experts to conduct a one-month review of the health, safety and environmental aspects of the Lynas Advanced Material Plant (LAMP), currently under construction in Gebeng Industrial Estate, Kuantan, Malaysia.

Operational Risks

We see the risks as the variability in grade, Th + U levels and the Solvent Extraction Process.

Campaign mining should ensure that LYC is able to blend ores to obtain a consistent ore feed to the concentrator and hence to the LAMP.

LYC has constructed pilot plants for both the concentration and 'cracking' sections of the plant. The solvent extraction technology is well understood and accepted industry practice, but achieving design throughput and extraction efficiencies may take longer than planned.

The technical cooperation agreement with Rhodia should help mitigate this risk.

Product Risk

Theoretically, following Solvent Extraction, purifying, drying, etc, the REO should meet the required specifications. In our view, given the current severe market shortages of a number of REO, any small deviation form the required specification should only have a minor impact on the prices received.

Given the test work and known technology being used in the LAMP, we do not see product quality as being an issue once the plant is fully bedded down.

Single-Commodity, Single-Mine Company Risk

As with all companies moving to producer status, LYC has single-mine and process risk. We view the risks to LYC as greater than many other companies in our coverage that have successfully transitioned due to the complex nature of solvent extraction and the potential issues around U + Th.

China

Given the dominance of China in the global REO markets, a positive change in the export quotas for REO from China could have a material and negative impact on prevailing REO prices. Whilst this seems improbable at this stage, it would negatively impact the returns that LYC can achieve.

However, in our view, a positive from China's dominance in the REO markets is that customers will not want all supply to come from China; thus, LYC should benefit from being an alternative supplier.

Risk Mitigation

We view the technical cooperation agreement with Rhodia group as very significant. Under the terms of this agreement, LYC is able to undertake initial training of LAMP operators at Rhodia operations, which use the same technology as that proposed by LYC.

In addition, Rhodia will incorporate a number of engineers in the LAMP commissioning team.

Investment Case

LYC uses AUD as its functional currency, although we expect the LAMP to operate in USD. The financial year end is June.

Earnings

We allow for a royalty at Mt Weld of 5% of the estimated FOB costs plus a margin of 20%. We further allow for an initial 10% corporate tax rate (LYC is guiding to 8%) at current REO prices, increasing to 30% in FY23 and an $80m assessed loss.

Profit & Loss ($Am) Year end June		2010a	2011e	2012e	2013e	2014e
Sales Revenue (excl JV & Assoc.)		**0**	**0**	**603**	**2754**	**3499**
Operating costs		31	36	80	210	348
Operating EBITDA		**-31**	**-36**	**524**	**2544**	**3151**
D&A		1	2	17	66	94
Operating EBIT		**-32**	**-38**	**506**	**2478**	**3056**
JV & Assoc.		0	0	0	0	1
EBIT		**-32**	**-38**	**506**	**2478**	**3057**
Mt Weld		-1	0	540	1088	1699
Other (Icl prior period price adj)		-31	-38	-34	1390	1358
Net Interest Exp./(Rev)		-9	-11	-6	-40	-103
PreTax Profit (pre ab's)		**-23**	**-27**	**512**	**2518**	**3159**
Tax Expense (pre abs)		0	1	49	252	316
OEI		0	0	0	0	0
NET PROFIT (Pre NRI's)1		**-23**	**-28**	**463**	**2266**	**2844**
Abnormal Items (after Tax)		-20	-7	0	0	0
Reported NPAT (post ab's)		**-43**	**-35**	**463**	**2266**	**2844**
Sales Growth	(%)				357%	27%
Op. EBITDA Growth	(%)	N/A	N/A	N/A	386%	24%
NPAT (Adj.) Growth	(%)	N/A	N/A	N/A	389%	25%
EPS (Adj.) Growth	**(%)**	**-64%**	**-1%**	**-1706%**	**389%**	**25%**
Op.EBITDA Margin	(%)			86.8%	92.4%	90.1%
Interest Cover - EBITDA	**(X)**	**3.4**	**3.4**	**-86.1**	**-64.1**	**-30.7**
Return on Equity 5	**(%)**	**-4%**	**-4%**	**42%**	**82%**	**63%**

Source: Company data, GS&PA Research estimates

Investments Statistics Year end	June	2010a	2011e	2012e	2013e	2014e
Net Profit (Reported)	($Am)	**-43.0**	**-34.9**	**463.0**	**2,266.3**	**2,843.5**
- EPS (Reported) 1	(¢)	-3.2	-2.1	27.1	132.5	166.3
- PER (Reported) 1	**(X)**	-63.2	-97.5	7.5	1.5	1.2
NET PROFIT (Adj.) 2	**($m)**	**-22.7**	**-28.1**	**463.0**	**2,266.3**	**2,843.5**
- EPS (Adj.) 2	**(¢)**	-1.7	-1.7	27.1	132.5	166.3
- EPS Growth	(%)	-64%	-1%	-1706%	389%	25%
- PER (Adj.) 2	**(X)**	**-119.9**	**-121.0**	**7.5**	**1.5**	**1.2**
Dividend	(¢)	0.0	0.0	10.0	53.0	67.0
- Yield	**(%)**	**0.0%**	**0.0%**	**4.9%**	**26.0%**	**32.8%**
- Franking	(%)	0%	0%	0%	0%	0%
Free Cash Flow	($m)	-9	-32	501	2,343	2,895
- P/FCF 4	**(X)**	**-312.0**	**-104.7**	**7.0**	**1.5**	**1.2**
EV(Adj.)/EBITDA 3	**(X)**	**-75.5**	**-87.9**	**5.6**	**0.6**	**-0.1**
Avg. Shares (diluted)	(mill)	1,333	1,666	1,710	1,710	1,710

Source: Company data, GS&PA Research estimates

Balance Sheet

LYC is already an ASX 100 company with a company-making project available. LYC is fully funded for the development of both Phase I and the expansion to Phase II.

Balance Sheet Year end	($m) June	2010a	2011e	2012e	2013e	2014e
Cash		405	201	532	1902	3680
Property, Plant, Equip		179	394	552	880	821
Other Assets		57	59	33	5	17
Debt		0	0	0	0	0
Shareholders Equity		619	648	1111	2779	4511
Net Debt/EBITDA	(%)	1322%	554%	-102%	-75%	-117%
Net Debt / Equity	**(%)**	**-65%**	**-31%**	**-48%**	**-68%**	**-82%**
Net Debt / (D+E)	(%)	-189%	-45%	-92%	-217%	-443%

Source: Company data, GS&PA Research estimates

Cash Flow

As is normal for a development company, operating cash flow is currently negative and will remain so until production commences in FY12. On our estimates, LYC is cash break-even after all capital in FY13. We include the remaining A$300m pre-production capital expenditure in our estimates to FY11.

Cash Flow Analysis Year end	($m) June	2010a	2011e	2012e	2013e	2014e
Operating EBITDA		**-31**	**-36**	**524**	**2544**	**3151**
change in working cap.		13	-3	0	0	0
Gross Cashflow		**-18**	**-39**	**524**	**2544**	**3151**
Net Interest Paid		9	11	6	40	103
Tax Paid (inc. abs)		0	0	-16	-218	-323
Exploration		0	-4	-8	-5	-5
Operating Cash Flow		**-9**	**-32**	**506**	**2361**	**2925**
Maintenance Capex		0	0	-5	-18	-30
FREE CASH FLOW		**-9**	**-32**	**501**	**2343**	**2895**
Dividends Paid		0	0	0	-599	-1112
Expansionary Capex		-30	-236	-170	-375	-5
Acquisitions		0	-2	0	0	0
Asset Sales		0	0	0	0	0
Dividends Received/ Other		0	0	0	0	0
Share Issues/Repurchases		432	99	0	0	0
Increase in Net Cash/(Debt)		**392**	**-172**	**331**	**1369**	**1778**
Gross CF / Op. EBITDA	(X)	0.58	1.08	1.00	1.00	1.00
Maint. Capex / Sales	(%)			0.9%	0.7%	0.9%
Total Capex / Sales	(%)			0.9%	0.7%	0.9%
Maint. Capex / D&A	(X)	0.00	0.00	0.31	0.27	0.32
Total Capex / D&A	(X)	26.30	155.36	10.13	5.97	0.38
Maint. Capex / GCF	(%)	0.0%	0.0%	1.0%	0.7%	1.0%

Source: Company data, GS&PA Research estimates

Valuation

- Our base case assumes development of both Phase I and Phase II for Mt Weld/LAMP.
- For our upside case, we allowed $227m for the Kangankunde(KGK) project in Malawi.
- We have included a summary of our valuation below.

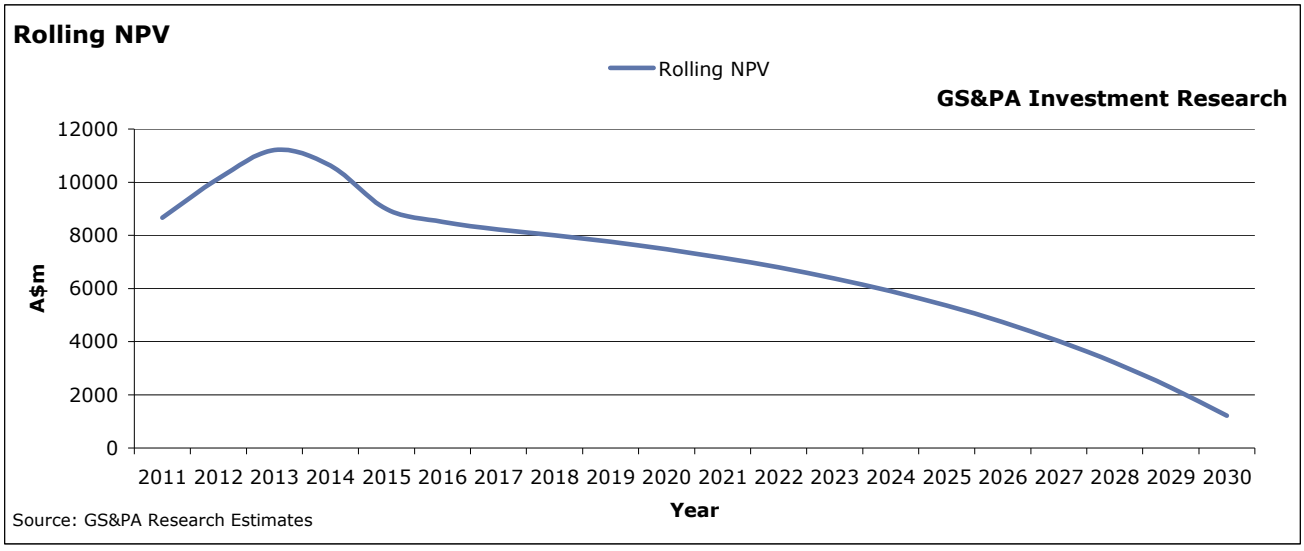
LYNAS CORPORATION LIMITED		DISCOUNTED CASH FLOW VALUATION	
Discount Rate Used	%	14.3%	
Issued Shares	*millions*	1,794.6	
		A$m	**$ per share**
Mines			
Mt Weld		8,664	$4.83
Sub Total Mines		**8,664**	**$4.83**
Exploration Assets		50	$0.03
NPV of Tax		(1,177)	($0.66)
NPV of Hedge Book		–	$0.00
Net Cash		405	$0.23
Corporate		(214)	($0.12)
Franking Credits		–	$0.00
Option Dilution		12	$0.01
Other			
Equity raising		97	$0.05
Sub Total Corporate/Other		**(827)**	**($0.46)**
NET PRESENT VALUE		**7,837**	**$4.37**
Upside Options			
Kangankunde		191	$0.11
UPSIDE VALUATION		**8,029**	**$4.47**

Source: Company data, IRESS, GS&PA Research estimates

The following scenarios highlight NPV sensitivity to the commodity price and exchange rate:

Scenario 1 ($2.69): Currency as per our estimates but long-term basket price of $60 into perpetuity.
Scenario 2 ($3.36): Basked price as per GS&PA estimates but 1.00 AUD/USD rate into perpetuity.
Scenario 3 ($1.98): $60 long-term basket price and 1.00 AUD/USD rate into perpetuity.

The table below is LYC's rolling NPV from year to year. It is evident that as we move into production in FY12 the NPV per share rises and then starts to diminish in the later years.



Financing

LYC is fully funded for Phase I ($292m capital remaining, including contingency) with $292m of cash available.

LYC has obtained funding of US$325m (debt and equity) of which US$250m is specifically for the Phase II expansion from Sojitz which, on our estimates, together with internal cash generation should limit any requirement for additional debt for this expansion.

Comparisons to Peer Group

Earnings Multiples

Our only direct comparative for LYC is Molycorp Inc (MCP). The following tables compare our estimates for LYC with Bloomberg estimates for MCP.

PER

PE (x)	*Price*	2013	2014
LYC	*2.04*	1.5	1.2
MCP	*71.77*	7.1	8.0
Average		**4.3**	**4.6**

Source: GS&PA Research estimates, Bloomberg

EV/EBITDA

EV/EBITDA (x)	*Price*	2013	2014
LYC	*2.04*	0.6	-0.1
MCP	*71.77*	3.5	na
Average		**2.1**	**-0.1**

Source: GS&PA Research estimates, Bloomberg

EV/Resource ($/tonne)

EV/ Reserve/Resource ($/mlb)	*Price*	EV/ Reserve	EV/ Resource
LYC	*2.04*	4.9	1.1
MCP	*71.77*	2.5	1.2
Average		**3.7**	**1.2**

Source: GS&PA Research estimates, Bloomberg

Financial Summary | LYC

Lynas Corporation Ltd						Recommendation:	BUY
Current Price A$:	$2.01	Mkt Cap. :	$3,399m			Price Target:	$3.75
GS&PA DCF:	$4.37	ASX Code:	LYC	Free Float 68%		Analyst:	Ian Preston
Industry:	Materials	T/O (mth):	$1,118m			Data as at:	4-May-11

Investments Statistics

Year end	June	2010a	2011e	2012e	2013e	2014e
Net Profit (Reported)	($Am)	**-43.0**	**-34.9**	**463.0**	**2,266.3**	**2,843.5**
- EPS (Reported) 1	(¢)	-3.2	-2.1	27.1	132.5	166.3
- PER (Reported) 1	(X)	-62.2	-96.0	7.4	1.5	1.2
NET PROFIT (Adj.) 2	**($m)**	**-22.7**	**-28.1**	**463.0**	**2,266.3**	**2,843.5**
- EPS (Adj.) 2	(¢)	-1.7	-1.7	27.1	132.5	166.3
- EPS Growth	(%)	-64%	-1%	-1706%	389%	25%
- PER (Adj.) 2	**(X)**	**-118.1**	**-119.2**	**7.4**	**1.5**	**1.2**
Dividend	(¢)	0.0	0.0	10.0	53.0	67.0
- Yield	**(%)**	**0.0%**	**0.0%**	**5.0%**	**26.4%**	**33.3%**
- Franking	(%)	0%	0%	0%	0%	0%
Free Cash Flow	($m)	-9	-32	501	2,343	2,895
- P/FCF 4	**(X)**	**-307.4**	**-103.1**	**6.9**	**1.5**	**1.2**
EV(Adj.)/EBITDA 3	**(X)**	**-74.2**	**-86.5**	**5.5**	**0.6**	**-0.1**
Avg. Shares (diluted)	(mill)	1333	1666	1710	1710	1710

EV Analysis / DCF Valuation

A$ DCF Valuation:	**4.37**	**Upside:**	**4.47**
Price / DCF:	**0.46**		
Ke:	14.3%	**WACC:**	14.3%
Kd:	5.1%	**RF:**	6.5%
BETA:	1.30	**MRP:**	6.0%

Year end	June	2010a	2011e	2012e	2013e	2014e
EV (Adj.) 3	($m)	2273	3147	2905	1536	-242
EV (Adj.) / EBITDA	**(X)**	**-74.2**	**-86.5**	**5.5**	**0.6**	**-0.1**
EV (Adj.) / Sales	(X)			4.8	0.6	-0.1
EV (Adj.) / Gross CF	(X)	-128.8	-80.5	5.5	0.6	-0.1

Balance Sheet ($m)

Year end	June	2010a	2011e	2012e	2013e	2014e
Cash		405	201	532	1902	3680
Property, Plant, Equip		179	394	552	880	821
Other Assets		57	59	33	5	17
Debt		0	0	0	0	0
Shareholders Equity		619	648	1111	2779	4511
Net Debt/EBITDA	(%)	1322%	554%	-102%	-75%	-117%
Net Debt / Equity	**(%)**	**-65%**	**-31%**	**-48%**	**-68%**	**-82%**
Net Debt / (D+E)	(%)	-189%	-45%	-92%	-217%	-443%

Annual Production

Year end	June	2010a	2011e	2012e	2013e	2014e
Rare Earths	kt	0	0	2.8	12.0	19.5

Cash Costs (incl by-product credits)

Year Average to June	(%)	2010a	2011e	2012e	2013e	2014e
Mt Weld	A$/kg	n.a.	n.a.	16.04	12.31	12.67

Commodity Prices

Year Average to	June	2010a	2011e	2012e	2013e	2014e
Currency	A$/US$	0.88	0.98	0.97	0.85	0.80
Rare Earth Basket	US$/kg	12.6	87.5	206.8	218.7	162.3

Sensitiity Analysis

Year End	June	2010a	2011e	2012e	2013e	2014e
Currency	+1¢	0.0	-1.0	-1.6	-1.9	-2.1
Rare Earth Price	US$ 1/t	0.0	0.7	1.0	1.1	1.2

Profit & Loss ($Am)

Year end	June	2010a	2011e	2012e	2013e	2014e
Sales Revenue (excl JV & Assoc.)		**0**	**0**	**603**	**2754**	**3499**
Operating costs		31	36	80	210	348
Operating EBITDA		**-31**	**-36**	**524**	**2544**	**3151**
D&A		1	2	17	66	94
Operating EBIT		**-32**	**-38**	**506**	**2478**	**3056**
JV & Assoc.		0	0	0	0	1
EBIT		**-32**	**-38**	**506**	**2478**	**3057**
Mt Weld		-1	0	540	1088	1699
Other (Incl prior period price adj)		-31	-38	-34	1390	1358
Net Interest Exp./(Rev)		-9	-11	-6	-40	-103
PreTax Profit (pre ab's)		**-23**	**-27**	**512**	**2518**	**3159**
Tax Expense (pre abs)		0	1	49	252	316
OEI		0	0	0	0	0
NET PROFIT (Pre NRI's) 1		**-23**	**-28**	**463**	**2266**	**2844**
Abnormal Items (after Tax)		-20	-7	0	0	0
Reported NPAT (post ab's)		**-43**	**-35**	**463**	**2266**	**2844**
Sales Growth	(%)				357%	27%
Op. EBITDA Growth	(%)	N/A	N/A	N/A	386%	24%
NPAT (Adj.) Growth	(%)	N/A	N/A	N/A	389%	25%
EPS (Adj.) Growth	**(%)**	**-64%**	**-1%**	**-1706%**	**389%**	**25%**
Op.EBITDA Margin	(%)			86.8%	92.4%	90.1%
Interest Cover - EBITDA	**(X)**	**3.4**	**3.4**	**-86.1**	**-64.1**	**-30.7**
Return on Equity 5	**(%)**	**-4%**	**-4%**	**42%**	**82%**	**63%**

Cash Flow Analysis ($m)

Year end	June	2010a	2011e	2012e	2013e	2014e
Operating EBITDA		**-31**	**-36**	**524**	**2544**	**3151**
change in working cap.		13	-3	0	0	0
Gross Cashflow		**-18**	**-39**	**524**	**2544**	**3151**
Net Interest Paid		9	11	6	40	103
Tax Paid (inc. abs)		0	0	-16	-218	-323
Exploration		0	-4	-8	-5	-5
Operating Cash Flow		**-9**	**-32**	**506**	**2361**	**2925**
Maintenance Capex		0	0	-5	-18	-30
FREE CASH FLOW		**-9**	**-32**	**501**	**2343**	**2895**
Dividends Paid		0	0	0	-599	-1112
Expansionary Capex		-30	-236	-170	-375	-5
Acquisitions		0	-2	0	0	0
Asset Sales		0	0	0	0	0
Dividends Received/ Other		0	0	0	0	0
Share Issues/Repurchases		432	99	0	0	0
Increase in Net Cash/(Debt)		**392**	**-172**	**331**	**1369**	**1778**
Gross CF / Op. EBITDA	(X)	0.58	1.08	1.00	1.00	1.00
Maint. Capex/ Sales	(%)			0.9%	0.7%	0.9%
Total Capex/ Sales	(%)			0.9%	0.7%	0.9%
Maint. Capex/ D&A	(X)	0.00	0.00	0.31	0.27	0.32
Total Capex/ D&A	(X)	26.30	155.36	10.13	5.97	0.38
Maint. Capex/ GCF	(%)	0.0%	0.0%	1.0%	0.7%	1.0%

ROE Analysis

Year end	June	2010a	2011e	2012e	2013e	2014e
EBIT/Sales	(X)	na	#DIV/0!	0.84	0.90	0.87
Pretax Profit/EBIT	(X)	0.71	0.72	1.01	1.02	1.03
Sales/Assets	(X)	0.00	0.00	0.54	0.99	0.77
Assets/Equity	(X)	1.03	1.01	1.01	1.00	1.00
Return on Equity (ROE)	**(%)**	**-4%**	**-4%**	**42%**	**82%**	**63%**

ROCE WACC Analysis

Year end	June	2010a	2011e	2012e	2013e	2014e
Adjusted NOPAT	($m)	-23	-28	463	2266	2844
Adj Cap employed	($m)	198	330	513	728	854
ROCE	(%)	-11.5%	-8.5%	90.3%	311.2%	332.9%
WACC	(%)	14.3%	14.3%	14.3%	14.3%	14.3%
ROCE Spread	**(abs)**	**-25.8%**	**-22.8%**	**76.0%**	**296.9%**	**318.6%**
Change in ROCE	(abs)	12.7%	3.0%	98.8%	2210%	21.7%

(1) Net Profit - Adjusted is after share based compensation and pref dividends, and before goodwill amortisation, NRI's and other non-operating AIFRS adjustments

(2) Net Profit (Adj.) is before goodwill amortisation, abnormals

(3) EV Includes 100% of Mkt. Value of minorities

(4) Includes 100% of Mkt. Value of minorities and excludes Invest./Assoc.

(5) ROE excludes Preference Capital

Source: Company data, IRESS & GS&PA Research estimates

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Australia - Research Recommendation Definitions

Sell (S)	Stock is expected to underperform the S&P/ASX 200 for 12 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for 12 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for 12 months

Other Definitions

NR	Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or Goldman Sachs & Partners Australia Pty Ltd ("GS&PA") policies in circumstances when GS&PA and/or, our New Zealand affiliate, Goldman Sachs & Partners New Zealand Limited ("GS&PNZ") is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
CS	Coverage Suspended. GS&PA has suspended coverage of this company.
NC	Not Covered. GS&PA does not cover this company.

Target Price
Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon.

Research Criteria Definitions
The above recommendations are primarily determined with reference to the recommendation criteria outlined below. Analysts can introduce other factors when determining their recommendation, with any material factors stated in the written research where appropriate. Each criterion is clearly defined for the research team to ensure consistent consideration of the relevant criteria in an appropriate manner.

Industry Structure:	Based on GS&PA industry structure ranking. All industries relevant to the Australian equity market are ranked, based on a combination of Porter's Five Forces of industry structure as well as an industry's growth potential, relevant regulatory risk and probable technological risk. A company's specific ranking is based on the proportion of funds employed in particular industry segments, aggregated to determine an overall company rating, adjusted to reflect a view of the quality of a company's management team.
EVA™ Trend: [1]	EVA™ trend forecast for coming 2 years. Designed to reflect "turnaround stories" or to highlight companies GS&PA analysts believe will allocate capital poorly in the estimated timeframe.
Earnings Momentum:	The percentage change in the current consensus EPS estimate for the stock (year 1) over the consensus EPS estimate for the stock 3 months ago. Stocks are rated according to their relative rank, effectively making it a market relative measure.
Catalysts:	A qualitative and quantitative assessment of a company's long term catalysts that the analyst believes should be considered and possibly recognised by the market.
Price/Valuation:	The premium or discount to base case DCF valuation at which the stock is trading relative to the average premium or discount across the market.

For Insurers

ROE Trend:	ROE is used as a proxy for EVA™. Rating takes into account the expected level and trend of ROE over the next 2 years.
Balance Sheet:	Analyst's assessment of the quality and strength of the insurer's balance sheet, including conservatism of provisioning, sufficiency of capital, and quality of capital.

For REITs

Strategy:	Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
EPU Growth:	Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.
Yield:	Yield relative to the REIT sector average. Used instead of Earnings Momentum.

For NZ Companies

Relevant Index:	If a research report is published by our New Zealand affiliate, GS&PNZ, the recommendation of a company or trust is based on their performance relative to the NZSX 50 Index (Gross) and not the S&P/ASX 200 Index.

[1] *EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart*

Distribution of Recommendations – as at 31 March 2011

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	6%	2%
Hold	54%	40%
Buy	40%	58%

* No direct linkage with overall distribution as the latter relates to the full GS&PA/GS&PNZ coverage (>250 companies). The above table combines the corporate relationships and recommendations of both GS&PA and GS&PNZ.