

QUARTERLY REPORT

FOR THE PERIOD ENDING 31 MARCH 2017

SUMMARY

- **RECORD POSITIVE CASHFLOW:** Cash flows from Operating and Investing activities increased to \$11.6m. In addition to that amount, a further inflow of A\$5.15m was received from the exercise of warrants by certain of the convertible bondholders.
- **RECORD SALES:** Invoiced sales increased to A\$69.3m, up 6.6% from A\$65.0m in the December quarter.
- **RECORD PRODUCTION:** NdPr production, at 1,373 tonnes, was above design rate for the quarter, up 3.2% from the previous quarter and an increase of 61.5% on the March 2016 quarter.
- **STRONG MARKET POSITION:** Lynas is now the second largest NdPr producer in the world. With no in-house downstream production, Lynas is the largest supplier of NdPr to the free market.
- **IMPROVED MARKET DYNAMICS:** Market demand for rare earths improved during the quarter, with the in-China market price for NdPr (VAT excluded) increasing from US\$31 to US\$34.

CEO REVIEW

The record results on all key performance measures for this quarter reflect the strong foundations on which Lynas operates. Lynas is now the second largest NdPr producer in the world. With no in-house downstream production, Lynas is the largest supplier of NdPr to the free market.

In the March quarter, Lynas achieved NdPr production at 104% of design rate. NdPr production, at 1,373 tonnes of NdPr, was up from the strong result in the December quarter when we produced 1,331 tonnes. Total REO production at 4,332 tonnes was up 10.7% from 3,913 tonnes in the previous quarter. The production increases highlight a continuation of strong operational performance, and we expect to maintain production of NdPr at or slightly above design rates.

Invoiced sales for the March quarter were A\$69.3m, up from A\$65.0m in the December quarter as a result of the increased production and sales of NdPr. Cash receipts reached A\$69.2m for the quarter.

The in-China market price for NdPr (VAT excluded), improved in the quarter increasing from US\$31 at the start of the quarter to US\$34 at the end of the quarter. Overall, market prices for Rare Earth products strengthened in the March quarter, supported by continued actions by the China central government to enforce environmental regulations throughout the Rare Earths industry. As we enter the traditionally high demand season for magnets, there are indications this price trend may continue in the June quarter.



Lanthanum sales grew in the quarter due to improvements in the quality of production, strong demand in the metal and ferrite markets and demand from end-users looking to source materials outside China. In the quarter, Lynas continued to develop improvements in the manufacturing process for Cerium, to better deliver customizable products to our major customers.

Now that Lynas has proven its strong position in the industry and is operating at design rates, we will look to optimise sales outcomes by ensuring we supply to customers that provide strong market returns and engage as strategic partners with our business.

In another record quarter, Cash flow from Operating and Investing activities was A\$11.6m more than double the result achieved in the December quarter. (As the December quarter report noted, we have adopted the cash flow definitions used in the new format of the Appendix 5B.)

Production and administration costs increased in the quarter, due to timing differences related to the annual insurance payment and withholding tax payments relating to performance rights vested in December.

As mentioned in the December quarter, our first mining campaign at Mt Weld since 2008 commenced in January 2017. During February and March, Western Australia experienced heavy rainfall and as a result there were short delays to the mining campaign. However, the campaign is still running on schedule and is due to be completed by the middle of the June Quarter. Costs are expected to be within budget (approximately A\$3m). The ore mined is of a particularly high grade and we have stockpiled ore at >24% REO, 18% to 24% REO, <18% REO.

In the quarter, ending unrestricted cash, at A\$24.3m, includes A\$5.1m from the exercise of 135.6m warrants by certain of the convertible bondholders at a price of A\$0.038, which had minimal downward pressure on the share price.

SAFETY AND ENVIRONMENT

Lynas has established extensive processes to ensure that production is safe for employees, safe for the environment and community, and secure for its customers. In the March quarter, the Company maintained a very good safety record, with the Company-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of December 2016, at 2.2 per million hours worked.

We have recently rolled out a new safety program at the LAMP known as "PASS" (the Positive Attitude Safety System). This is a behavioural based safety program for front line employees and contractors with daily discussions and reinforcement on safety.

Water recycling remains a core sustainability priority at Mt Weld and is essential to long term operation. The Mt Weld concentration process requires high purity water and both bore and recycle water has to be treated by a reverse osmosis plant prior to use. Recycling of water has been technically challenging. Two Micro-Filtration units are now successfully operating to treat free water from the tailings storage facility



prior to reverse osmosis treatment. The installation of a third unit to further increase the amount of water recycled is planned for next quarter.

Detailed environmental monitoring since the start of LAMP operations in 2012 has consistently demonstrated that the LAMP is compliant with regulatory requirements, and that the LAMP is safe for employees, safe for the community and safe for the environment.

Information concerning our environmental monitoring programs, including monitoring data, is available at www.lynascorp.com. In addition, LAMP emissions data is available on the websites of the Department of Environment (www.doe.gov.my) and the Atomic Energy Licensing Board (<http://portal.aelb.gov.my/sites/aelb/en/home>). Real time radiation monitoring data is available at <https://175.142.36.205/public/map>.

MARKETING & SALES

	Q1 FY 17	Q2 FY 17	Q3 FY17	YTD FY17
Sales Volume REO t	3081 tne	3350 tne	3437 tne	9868 tne
Sales Revenue	A\$53.8 m	A\$65.0 m	A\$69.3 m	A\$188.1 m
ASP	A\$17.5/kg	A\$19.4/kg	A\$20.1/kg	A\$19.1/kg
Sales Receipts (cash)	A\$57.4 m	A\$58.3 m	A\$69.2 m	A\$184.9 m

Sales volume remained at a high level during the March quarter. In addition, sales revenue was the highest quarterly figure to date, totalling A\$69.3 million. Demand from our NdPr customers continued to be strong, while the seasonal decrease in demand for Ce and LaCe products was offset by a substantial increase in sales of La.

	NdPr China Domestic VAT excluded						
	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	January	February	March
USD/kg	33.8	34.5	32.1	31.0	31.9	33.0	34.2
Base 100	100	102	95	92	94	98	101

The NdPr market price increased steadily in the March quarter, supported by continued action by the China central government to enforce environmental regulations throughout the Rare Earths industry, translating into the forced shutdown of a number of separation units and better control of resources. As we enter the traditionally high demand season for magnets, there are indications of this price trend continuing in the June quarter.

In the March quarter, Lynas produced NdPr at 104% of design rates, which is the second consecutive quarter of production above design rates. All NdPr was produced to specification, strengthening Lynas' reputation as a reliable supplier of high quality product.



Lynas is now the second largest NdPr producer in the world. With no in-house downstream production, Lynas is the largest supplier of NdPr to the free market. Our customers and end-users are increasingly focussed on environmental performance. Lynas' ability to offer a reliable, fully traceable and auditable source of supply is translating into Lynas achieving some margins above spot market prices with certain key customers

During the March quarter, the price for our heavy Rare Earths mix (SEG) increased steadily, supported by some concerns regarding supply of Terbium and Dysprosium, which are necessary additives for high performance magnets.

Market demand for Lanthanum was strong including strong demand for Lanthanum for high performance ferrite magnets, and increased sales for use in NiMH batteries as end-users seek to secure a supply source independent of China for NiMH batteries used in hybrid vehicles. Lynas was able to meet demand in both key segments as a result of the improvements in product quality delivered over recent quarters.

While significant progress has been made to date, we continue to work with major customers on further improving and customizing our Cerium products.

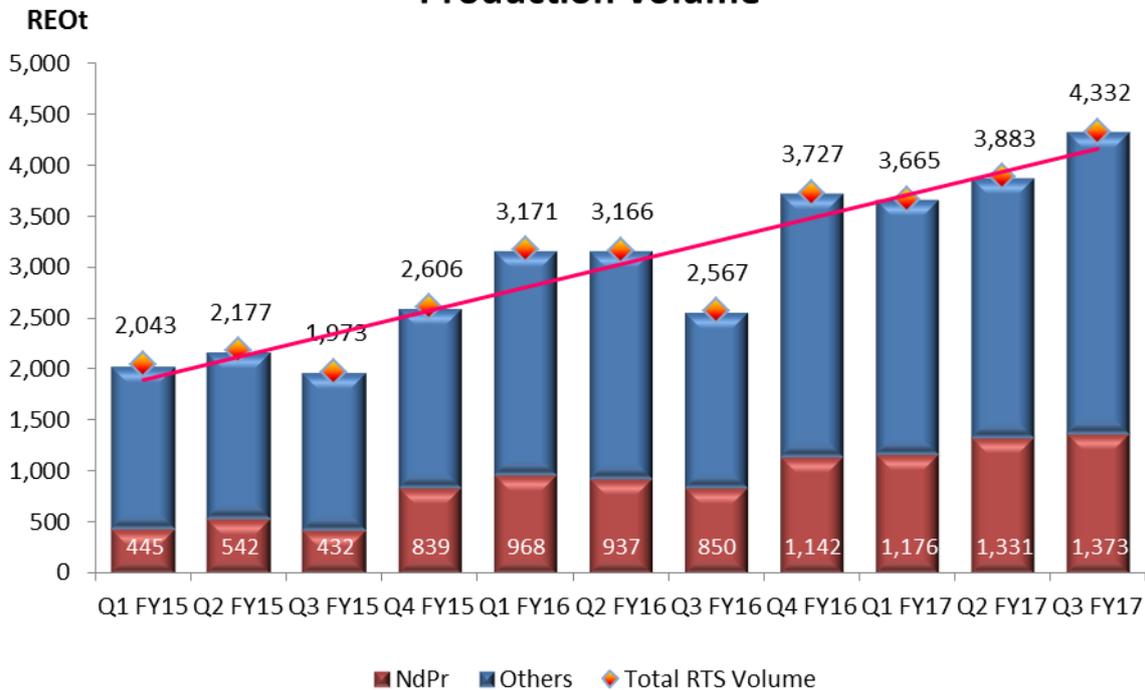
OPERATIONS

	FY14	FY15	FY16	Q1 FY17	Q2 FY17	Q3 FY17	YTD FY17
Ready for Sale Production Volume Total	3965 REOt	8799 REOt	12631 REOt	3665 REOt	3913REOt	4332 REOt	11912 REOt
Ready for Sale Production Volume NdPr	946 REOt	2258 REOt	3896 REOt	1176 REOt	1331 REOt	1373 REOt	3880 REOt

Note: The above table sets out "ready for sale" tonnes.

The improvement in output from the LAMP continued during the March quarter. For the second consecutive quarter, LAMP NdPr production was above design rates. Production of La and Ce products was below design rates, but continued to improve in both quality and quantity.

Production Volume



At Mt Weld, the second mining campaign commenced as planned in January 2017. Summer rainfall in Western Australia was the highest on record. There were a number of short delays due to the heavy rainfall in February and March, however the mining campaign is still on schedule to be completed by the middle of the June Quarter and the cost is expected to be within budget (approximately A\$3m). This campaign is a depth extension of the initial pit to extract the remaining CZ (Central Zone) ore not mined during the initial mining campaign. No overburden removal is required for this second mining campaign. Ore from this mining campaign is being stockpiled according to ore type and ore grades (>24% REO, 18% to 24% REO, <18% REO) for blending. The next (third) mining campaign will see the pit extended to the north. Planning for the third campaign is underway and removal of overburden is expected to commence late in 2017.

The Mt Weld concentrator commenced treating ore from the second mining campaign from 16 March 2017.

The site-wide improvement programs at the LAMP continue. Key focus areas include: debottlenecking and incremental increases in production rates; improving product quality; increasing REO recovery; and reducing chemical costs.

During the March quarter, Cracking and Leaching (C&L) at the LAMP treated over 2,000t REO in concentrate per month for a total of 6,760t REO. The C&L kilns continue to operate at above design rates.



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As part of the improvement program, the agitators in the Leach Neutralisation circuit were upgraded to handle the increased throughput and to reduce chemical usage.

The improvement programs in Solvent Extraction (SX) include debottlenecking of the SX Upstream Circuits and the removal of impurities by solvent extraction instead of by pre-treatment in Product Finishing.

In Product Finishing (PF), the refinement of processes to produce high quality Lanthanum and Cerium products continues. Developments during the quarter focussed on improved control of precipitation and centrifuge washing to remove impurities and improved tunnel furnace operations.

CASH OUTFLOWS

Cash outflows, as presented in the Appendix 5B, can be summarized as follows:

- Development related cash flows which mainly relate to the current mining campaign were significantly lower in the March quarter than forecast due to heavier than expected rains in February and March. The mining activities had to be pushed back by a few weeks and more of the payments will now be made in the June quarter than originally expected. We still expect the total cost of the mining campaign to be approximately A\$3 million.
- Production related cash flows were higher than forecast but in line with higher production volumes. Production related cash costs will increase to about A\$ 42.5m in the June quarter more driven by tax refund timings than underlying production changes.
- Staff related cash flows were in line with forecast. In the June quarter, staff related costs will be higher by nearly 10%, due to the custom in Malaysia of dividing annual salaries into 13 monthly payments, with the 12th and 13th payments due in June.
- Administration related cash flows, excluding staff costs, at A\$5.8m remained below forecast in the March quarter. As previously highlighted, the March quarter included the annual insurance payments. Administration related costs will reduce to A\$4.7m in the June quarter, which is slightly below the run rate of the 1st and 2nd quarters of this financial year.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 31 March 2017 is set out below.

CASH FLOW	AUD million	AUD million
OPENING CASH BALANCE 1 JANUARY 2017		38.5
INFLOWS		
Net cash receipts from the sale of goods	69.2	
Proceeds from the issue of share capital	5.2	
Net withdrawal from security deposits	1.1	
TOTAL INFLOW OF FUNDS IN THE QUARTER		75.5
OUTFLOWS		
Royalty costs	(1.3)	
Ongoing operational, production and administration costs	(56.8)	
Other capital expenditure	(0.6)	
TOTAL OUTFLOW OF FUNDS IN THE QUARTER		(58.7)
Net exchange rate adjustment		(2.7)
CLOSING CASH BALANCE 31 MARCH 2017		52.6
Summary of Cash Balance		
Cash on Hand and at Call		24.3
Funds for JARE & Mt Kellett payments (Restricted Cash)		28.3
CLOSING CASH BALANCE 31 MARCH 2017		52.6

During the quarter, the Group received A\$69.2m in sales compared to A\$58.3m in the December 2016 quarter.

Total cash at 31 March 2017 of A\$52.6m comprised unrestricted cash of A\$24.3m and restricted cash of A\$28.3m. The restricted cash is held in separate Lynas bank accounts for future principal and interest payments under the JARE loan facility and the Mt Kellett convertible bond facility.

FOREX

The currency composition of the Group's cash at 31 March 2017 was A\$3.3m, US\$29.4m and MYR36.6m. The AUD strengthened by 6.2% against the USD and 4.8% against the MYR during the quarter.

In this report, references to dollars are references to Australian dollars, unless stated otherwise.