Lynas CORPORATION LTD

QUARTERLY REPORT

FOR THE PERIOD ENDING 31 MARCH 2015

HIGHLIGHTS

- Positive free cashflow (revenue less operating costs and CAPEX) of $191k for the month of March; a first in the history of Lynas
- Amended financing agreements with both JARE (the Sojitz facility) and the Convertible Bondholder group reduced the cash cost of debt service through to 30th June 2015 by $52m providing significantly improved liquidity.
- Initial cost reduction programme largely complete with more than $35m in annualised savings from reduced overhead and input costs, well in excess of the $26m previously indicated to the market
- Cash outflows $14m below estimated cash outflows shown in the December Quarter Appendix 5B

CEO REVIEW

As foreshadowed in the last quarterly report and again at the time of the release of the half yearly report, this has been a difficult quarter. Production output was low in the early part of the quarter primarily due to instability in the Solvent Extraction (SX) phase, specifically the complex SX5 stage which separates the lanthanum and cerium from the praseodymium and neodymium. This translated to low sales revenue and negative cash flow during that period. This negative cash flow was further exacerbated by restructuring charges ($1.5m) and annual charges relating to business insurances ($2.5m).

March results were significantly better. Intensive work improved production output from the Phase 1 SX5 trains. In addition, the recently commissioned Phase 2 SX5 train commenced full production. The business recorded its first ever month of positive free cash flow (Revenue less costs and CAPEX) in March.

Based on recent performance the business currently expects to continue to deliver positive free cash flow.

Work on a series of commercial initiatives, including customer relationship development, cost reduction and balance sheet management, continued to build a solid foundation for future success.

During the quarter, Lynas continued to work closely with strategic customers strengthening relationships, understanding their usage patterns and growing share of their consumption of fresh product. Market pricing improved from the historic lows experienced in the December quarter, however continuing uncertainty regarding Chinese government policy meant many customers were satisfied to consume inventories rather than purchase fresh product. By working closely with our customers, we were able to mitigate any negative effect of reduced production output.

In July 2014, Lynas announced a series of cost reduction initiatives which were re-affirmed when the prospectus was issued in September. These first initiatives are now substantially complete and the cost base has been reset. The forecast savings were expected to be achieved by radically simplifying Lynas' operating structure and reducing input costs. At the time this was forecast to deliver $26m in savings on an annualised basis. To date, annualised savings in excess of $35m have been achieved. A continuing focus on efficient practices is expected to deliver further savings.

Finally, on March 13th, we were very pleased to announce changes to the debt agreements with JARE and the Convertible Bondholder group led by Mt Kellett.

The variations to the agreements are a sign of the strong support provided by both parties. In each instance the variations to the agreements have been structured to reduce the cash flow burden on the business. Both lenders have worked closely with the company to understand current business performance and where required have provided our team with access to exceptional people for support and technical advice. We welcome this ongoing support and look forward to continuing our collaborative relationship with JARE and the Convertible Bondholders.

With many of the cost management actions in place, improved engagement with key customers and much tighter controls on all management aspects, Lynas is now well placed to benefit from continued improvements in production output and any upward movements in price and demand.

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 achieved an excellent safety record with the Company-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of March 2015 at 2.0 per million hours worked.

The Company sustained one lost time injury in Malaysia and none in Western Australia during the March 2015 quarter.

We actively manage all parts of our operations to meet best-practice safety benchmarks and industry leading environmental standards. This is a crucial part of our commitment to the communities in which we operate.

Recent media reports have highlighted some of the environmental issues caused by other rare earths producers. Many of our customers use our products in environmentally significant applications. We are pleased to sit apart from other manufacturers by offering our customers products with assured provenance from mine to finished product. By using Lynas products, our customers can be confident of their environmental positioning.

MARKETING & SALES

	FY14	Q1 FY15	Q2 FY15	Q3 FY15	YTD FY15
Sales Volume Total	3008 REOt	1546 REOt	2014 REOt	1970 REOt	5530 REOt
Sales revenue (gross)	A$66.2 m	A$31.0 m	A$35.9 m	A$29.8 m	A$96.7 m
Sales receipts (cash)	A$58.4 m	A$32.4 m	A$44.2 m	A$25.9 m	A$102.5 m

The reduced production output, particularly of high value NdPr, translated directly to a reduction in sales revenue. However, in this quarter the benefits of the strong relationships being forged with our key strategic customers became apparent. Lynas did not lose market share with these key customers who have been very supportive. We have worked closely with each customer to balance consumption of customer inventories with deliveries of fresh product.

Lynas has started to replenish customer inventories from March and will continue with increased orders for the coming quarter.

We emerge from this difficult period with reinforced relationships, particularly with our 5 biggest customers who are each global leaders in their respective market segments. As an example, in the March quarter, we finalized a further contractual agreement with one of these key customers including a firm commitment for a minimum monthly quantity of product delivered. In addition, while the temporary production difficulties in the March quarter resulted in the manufacture of some off specification product, we were able, in cooperation with two customers, to sell all product at acceptable prices.

We are very pleased to continue to have a balanced sales portfolio, where all Rare Earth products produced in Kuantan have been tested and accepted at key customers and all production volume is being sold.

After the historically low prices evident in the December quarter, the NdPr market price has returned to September quarter levels, triggered by Chinese suppliers' reluctance to continue producing at unprofitable levels. However, demand continues to be affected by the "wait and see" attitude of many users who prefer to utilize their inventories until Chinese export policies are clarified, creating the risk and opportunity of potential demand increases once these new regulations are made public (expected early May).

NdPr Price Trend	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
China Domestic (VAT excluded) USD/kg	41.2	42.5	41.8	39.8	37.8	38.4	39.4	41.6	43.4
China Domestic Base 100	100	103	98	95	95	102	103	106	104

OPERATIONS

	FY14	Q1 FY15	Q2 FY15	Q3 FY15	YTD FY15
Production Volume Total	3965 REOt	2043 REOt	2177 REOt	1973 REOt	6193 REOt
Production Volume NdPr	946 REOt	445 REOt	542 REOt	432 REOt	1419 REOt

The production of NdPr and LaCe products was adversely impacted by unstable Solvent Extraction (SX) operation with the key issue being the stability of the Phase 1 SX5 circuits (SX5 Train 1 and SX5 Train2). These circuits separate the NdPr from the LaCe and are the most complex part of the Solvent Extraction process. Each of the SX5 trains have 110 stages and long residence times including approximately 3 weeks for Pr. This means that any adjustments to production settings take time to resolve through the system.

Commissioning of the Phase 2 SX plant continued and SX5 Train 3 started to produce on-specification product from mid-February. The Phase 2 SX5 Train 3 operated in parallel with SX5 Train 1 and SX5 Train 2 and was clearly performing better in terms of throughput, separation efficiency, settling times and circuit stability than the Phase 1 circuits. The reduction in Phase 1 SX5 circuits' performance has been attributed to a deterioration of organic quality over time.

A range of corrective actions including on-site expert external assistance has been implemented leading to substantial recovery of both circuits at the time of this report. Ongoing strategies to further improve stability and to treat the organic to ensure continued stable operation have been implemented.

The Cracking and Leaching (C&L) units have continued to perform well, at above design rates and in line with requirements. Product Finishing (PF) output has been constrained by lack of feed from SX. During this time we have taken the opportunity to investigate and implement options to further improve output volume and quality from PF which will underpin further improvements in performance in the future.

The Mt Weld concentrator operated on a campaign basis. A number of process improvements including recycling of the cleaner flotation tailings to the scavenger flotation banks and improved concentrate thickener operation contributed to high REO recovery.

COSTS

Since July 2014, Lynas has been progressively implementing a number of cost savings initiatives to ensure the business is right sized for current market conditions. These have been concentrated in the areas of:

- Overheads
- Total employee numbers, including use of contractors
- Input cost reductions particularly high cost chemical inputs
- Repairs and Maintenance

The following table provides an illustration of the savings realised through this period.

Area	Q4 FY14		Q3 FY15		Annualised Saving	
	Quarter	Annualised	Quarter	Annualised	A$	%
Overheads	$10.2m	$40.8m	$6.3m	$25.2m	$15.6m	38%
Salaries & Wages (excl o'heads)	$6.7m	$26.8m	$5.3m	$21.2m	$5.6m	21%
Repairs & Maintenance	$3.3m	$13.2m	$2.2m	$8.8m	$4.4m	33%

In addition input cost reductions have been realised across the board by improved procurement practices, renegotiation of contracts, use of alternate suppliers and more effective stock management. As an example, an annualised saving of $3m has been achieved on a single high value chemical from a combination of negotiating a lower unit price and by using a second supplier. Improved planning, contract renegotiation and management has delivered an annualised reduction of $6m in the logistics cost of transporting the concentrate from Mt Weld to the LAMP. Another example is the reduction on stocked spares within the business from an estimated 6,000 line items to 2,500 items reducing inventory costs and complexity. Further cost reductions are expected with a continued focus on these core management practices.

It is important to note that each of the cost savings initiatives has been qualified on the basis that it will improve efficiency and performance. For example the reduction in R&M costs has been achieved by improving preventative maintenance programmes including improved practices, improved design and identifying better materials.

All cost saving initiatives have been implemented in a way that has resulted in enhanced performance.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 31 March 2015 is set out below.

CASH FLOW	A$M
OPENING CASH BALANCE 1 JANUARY 2015	**70.8**
INFLOWS	
Net cash receipts from the sale of goods	25.9
Interest income	0.1
TOTAL INFLOW OF FUNDS IN THE QUARTER	**26.0**
OUTFLOWS	
Other capital expenditure	(4.4)
Interest expense and other costs of finance	(0.7)
Ongoing operational, production and administration costs	(47.6)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	**(52.7)**
Net exchange rate adjustment	**0.3**
CLOSING CASH BALANCE 31 MARCH 2015	**44.4**
Summary of Cash Balance	
Cash on Hand and at Call	33.0
Funds for Sojitz & Mt Kellett interest (Restricted Cash)	11.4
CLOSING CASH BALANCE 31 MARCH 2015	**44.4**

The Group paid $0.5m and $0.2m in relation to withholding tax for interest expenses on the Sojitz Facility and the Mt Kellett Convertible Bonds respectively in the March quarter.

Total cash at 31 March 2015 of $44.4m was represented by unrestricted cash of $33.0m plus restricted cash of $11.4m. The restricted cash will be used to fund the interest payable to Sojitz and Mt Kellett which is due on 31 March 2016.

FOREX

The currency composition of the Group's cash at 31 March 2015 was A$2.7m, US$27.2m and MYR18.0m. During the quarter the Australian dollar depreciated by 6% against the US$ resulting in an exchange rate adjustment of $0.3m.

FUNDING

Pursuant to a binding term sheet dated March 12, 2015, the Senior Lender under the Group's Sojitz loan facility and Lynas agreed to reduce the cash flow burden of the Sojitz loan facility on Lynas, including by deferring the repayments previously due on 31 March 2015 and 30 June 2015 until 30 June 2016. The Senior Lender and Lynas also agreed that each interest payment that is due in calendar year 2015 will be deposited into a restricted bank account, with the payments available, at the lender's discretion, for reuse in the Lynas business in the coming 12 month period.

In addition, pursuant to a binding term sheet dated March 12, 2015, Lynas and the Convertible Bondholders led by Mount Kellett agreed to reduce the cash flow burden of the Convertible Bonds on Lynas by agreeing that each interest payment that is due in calendar year 2015 will be deposited into a restricted bank account, with the payments available, at the lender's discretion, for reuse in the Lynas business in the coming 12 month period.

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