

QUARTERLY REPORT
FOR THE PERIOD ENDING 31 DECEMBER 2015

HIGHLIGHTS

- In the quarter, 949 tonnes of NdPr was produced. Production of NdPr for the 6 months to 31st December was 1,916 tonnes which exceeded the JARE debt facility target of 1860 tonnes. Therefore, the interest rate under the JARE debt facility reduced from 7.0% per annum to 6.5% per annum with effect from 1 January 2016.
 - Despite continued very low rare earths prices, operating cashflow (sales receipts less production and administration costs) remained positive at A\$2.97m. On a free cash flow basis (operating cashflow less capital expenditure) the business was within a breakeven range at - A\$0.5m.
 - The construction of the Tailings Facility Storage 2 at Mt Weld was completed in December, on budget and on schedule
 - Closing total cash balance of A\$53.6m
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CEO REVIEW

The results for this second quarter of FY16 reflect the continued strong and stable foundations on which Lynas now operates confirming its position as the only sustainable miner and producer of Rare Earth products outside of China.

The company delivered solid production output, and efficient cost and cash management in the quarter. As a result, in a market where prices for rare earth products stayed very low with industry profitability at historically low levels, Lynas was able to deliver an essentially breakeven result.

At the LAMP, total production for the second quarter was 3,166 tonnes comparable to the previous quarter. Production of NdPr continued at target rates, and totalled 949 tonnes (Ready for Sale - 937 tonnes), a level that resulted in the interest rate reduction of 0.5% per annum, to 6.5% per annum, under the JARE debt facility. In Q3 FY16, we will start-up the fourth and final separation train in SX5. This will bring NdPr production capacity to 100% of design. Production output from this train will ramp up slowly over the coming months. Within this quarter, there will be an increase in working capital and cash costs associated with the start-up of the train. This increase is related to the first fill of organics and other material in the batteries and the operation of the train for at least one month prior to initial production output.

Although the rare earths market remained challenging throughout the quarter, Lynas gained strong support from its balanced portfolio of Japanese, Chinese and European customers. Particularly pleasing was the company's ability to successfully establish new strategic customer relationships within China and

for the first time contract supply agreements for the quarter rather than participating on a spot price basis only. There is now only a slim price differential between inside and outside Chinese pricing. Some Chinese customers have responded by using the opportunity to purchase from Lynas and benefit from an independent supply source.

Lynas' growing reputation as a reliable supplier of quality, environmentally assured product has been an important part of building these strong relationships.

Mt Weld continues to operate efficiently and with the completion of the Tailings Storage Facility 2, we have improved capability for water recycling efficiencies and environmental sustainability.

Costs remained a focus and were well managed throughout the quarter with further reductions made in cash costs, primarily driven by improved control of raw materials inventory and some continuing cost reductions from the selection of new suppliers.

The continued very low market pricing in Q2FY16 has been difficult and we are pleased to have delivered a break even business result in these conditions. We are cautiously optimistic that the recent improvement in the price of rare earths is a positive sign for the future.

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 December 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 December 2015 at 1.3 per million hours worked.

There were no lost time injuries during the December 2015 quarter.

As part of our continued commitment to ensure best practice in the areas of safety and the environment, a coordination committee was established by the Pahang state government to monitor the LAMP's performance, especially in the areas of Safety, Health and the Environment. The committee is chaired by the President of the Kuantan Municipal Council (MPK) and the members represent the various Federal Agencies, Pahang state agencies and the MPK. The federal agencies include the Department of Environment, Atomic Energy Licensing Board, Department of Occupational Safety & Health, Ministry of Health and the Ministry of International Trade & Industry.

At the committee meeting on 14 December 2015, it was reported that:

- the LAMP operation did not impact workers, the public and the environment; and

- in collaboration with national and international universities and research facilities, LAMP’s NUF residues and potential commercial products have been characterized as non-radioactive, non-toxic, non-carcinogenic and non-ecotoxic to the public and the environment.

Government agencies reported that Lynas is in compliance with their regulatory requirements and the Ministry of Health reported no changes in public health.

MARKETING & SALES

	FY14	FY15	Q1 FY16	Q2 FY16	YTD FY16
Sales Volume Total REO t	3008 REOt	7883 REOt	2691 REOt	3082 REOt	5772 REOt
Sales revenue (gross)	A\$66.2 m	A\$148.6 m	A\$46.2 m	A\$49.5 m	A\$95.7 m
Sales receipts (cash)	A\$58.4 m	A\$155.3 m	A\$55.4 m	A\$50.3 m	A\$105.7 m

Sales volumes continued to increase reflecting stable production rates, and quality improvements for Cerium and Lanthanum products. This allowed us to acquire new customers and address new applications. This business development, supported by technical improvements and product customizations, will continue through the coming quarters and should result in Lynas securing better value for our Cerium and Lanthanum products.

All NdPr production was sold within the quarter with several orders in hand at the start of the 3rd quarter. Lynas sales of NdPr are only constrained by output rates. Therefore we will be increasing production in this quarter by commissioning the final separation train for NdPr.

China domestic NdPr prices did not recover as much as expected. Whilst increasing by US\$3 from the previous quarter, they remained US\$10-\$11/kg lower than average levels experienced in 2014 and early 2015.

This market situation is difficult for all participants and there are expectations in all parts of the Rare Earths market, including consumers, suppliers and traders, that there will be further recovery over time.

Lynas is in deep discussions with a number of end user customers who are concerned about the current situation, and interested to enter contracts to minimise the potential risk to their businesses of another rare earths crisis.

In the December quarter, the value of the strong strategic relationships that we have developed with companies who are leaders in their own market segments continued to serve the business well. We are pleased to have the support of these key customers in Japan, China and Europe.

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
NdPr wo VAT USD/kg	39.4	41.6	43.4	40.9	40.3	37.3	33.8	30.4	30.5	33.4	34.5	34.4
Base 100	100	106	110	104	102	95	86	77	77	85	88	87

OPERATIONS

	FY14	FY15	Q1 FY16	Q2 FY16	YTD FY16
Ready for Sale Production Volume Total	3965 REOt	8799 REOt	3171 REOt	3166 REOt	6337 REOt
Ready for Sale Production Volume NdPr	946 REOt	2258 REOt	968 REOt	937 REOt	1905 REOt

Note: The above table sets out “ready for sale” tonnes. The JARE facility NdPr production targets referred to on page 1 are based on “production” tonnes. There is usually approximately a 2 day gap between “production” tonnes and “ready for sale” tonnes while a final certificate of analysis is prepared for the product.

At the LAMP, production levels were consistent with the previous quarter. NdPr production was in line with the assets commissioned, i.e. 75% of design. During the 3rd quarter, we plan to bring into production the final separation train in SX5 bringing NdPr production capacity to 100% of design. As with the start up of the other separation trains, output will be slowly ramped up over the coming months.

The Cracking and Leaching (C&L) kilns have continued to operate at above design rates. The program of plant repairs and modifications to improve plant capacity, reliability and recoveries continued with good results.

In Product Finishing (PF), the focus has been on improving product quality including eliminating sources of potential contamination, improving rejection of impurities (Zn, Al, P₂O₅, Na) in pre-treatment, precipitation and washing stages, improved tunnel furnace combustion and temperature control and improved calcination of La.

Mt Weld continued to produce on a campaign basis, scheduled to meet LAMP demand. Construction on the second Tailings Storage Facility (TSF2) was completed and final payments related to the construction will be made in Q3.

The next mining campaign, previously scheduled to have commenced in FY16 has been deferred into FY17. This is possible due to a combination of actions including: the treatment of stockpiled Li ore in the feed blend, increased recoveries and a change in the mine plan which will target ore below the current pit deferring the overburden removal required for the lateral expansion of the pit.

Costs for the quarter were reduced by further savings at Mt Weld and the LAMP.

The Appendix 5B shows a reduction of \$3.7million in production costs compared to the prior quarter. This relates to 3 main factors:

- \$1m in actual savings from a combination of savings on freight and chemical inputs at both the LAMP and Mt Weld as well as working capital improvements from better management of raw material inventories
- \$1.6m foreign exchange benefit related to the weaker Malaysian ringgit
- \$1.1m from timing of payables

CORPORATE

MALAYSIAN LITIGATION

As announced on 9 October 2015, the High Court of Malaya in Kuantan has dismissed with costs the remaining challenge to Lynas' operating licences by persons associated with the Save Malaysia Stop Lynas group (**SMSL**).

Each court challenge that has been lodged in relation to Lynas' operating licences has been dismissed and no appeals are pending.

US ADR FACILITY

ADRs are instruments that allow US residents to acquire interests in Lynas shares. With effect from 12 January 2016, Lynas ADRs in the United States are traded on the OTC market, and Lynas ADRs are no longer quoted on the OTCQX market.

FINANCE

CASH POSITION

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

CASH FLOW	A\$M
OPENING CASH BALANCE 1 OCTOBER 2015	56.5
INFLOWS	
Net cash receipts from the sale of goods	50.3
TOTAL INFLOW OF FUNDS IN THE QUARTER	50.3
OUTFLOWS	
Other capital expenditure	(3.4)
Royalty costs	(1.2)
Ongoing operational, production and administration costs	(46.3)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	(50.9)
Net exchange rate adjustment	(2.3)
CLOSING CASH BALANCE 31 DECEMBER 2015	53.6
Summary of Cash Balance	
Cash on Hand and at Call	20.1
Funds for JARE & Mt Kellett interest (Restricted Cash)	33.5
CLOSING CASH BALANCE 31 DECEMBER 2015	53.6

During the quarter the Group achieved receipts from sales of A\$50.3m.

Total cash at 31 December 2015 of A\$53.6m comprised unrestricted cash of A\$20.1m plus restricted cash of A\$33.5m. The restricted cash will be used to fund interest payable under the JARE facility and the Mt Kellett led convertible bond facility.

FOREX

The currency composition of the Group's cash at 31 December 2015 was A\$5.8m, US\$31.4m and MYR15.1m. The strengthening of AUD/USD exchange rate had a negative impact on cash holdings reported in AUD. Operating costs were positively affected by the weakening MYR compared to last quarter.

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