

QUARTERLY REPORT FOR THE PERIOD ENDING 31 MARCH 2018

SUMMARY

- **SUSTAINED OPERATING PERFORMANCE**
 - Cash flows from operating and investing activities (including capital expenditure) remained positive at A\$3.9m
 - Continued investment in Mining Campaign 2 and Lynas NEXT initiatives was funded from operating cash flows
 - NdPr production volume increased by 9% from the previous quarter to 1332 tonnes
- **FURTHER IMPROVEMENTS TO THE BALANCE SHEET**
 - Debt reduced from US\$256.5m at 31 December 2017 to US\$185.2m at 31 March 2018 following the conversion of another US\$71.3m of convertible bonds
 - Trailing interest liabilities related to the converted bonds were satisfied according to the loan agreement
- **HIGH DEMAND FOR RARE EARTHS**
 - Market demand for rare earths was very strong, with customer orders exceeding current production capacity
 - The additional production capacity which will be delivered with the Lynas NEXT initiative will assist Lynas to better meet customer requirements
 - Market prices stabilised during the quarter, with measured monthly increases
- **LYNAS NEXT PROJECT ON TRACK FOR PRODUCTION UPLIFT**
 - Substantial progress on Lynas NEXT was achieved during the March quarter
 - Significant work will be completed in the June quarter
 - Lynas remains on track to achieve increased NdPr production of 500 tonnes/month of NdPr from April 2018, and 600 tonnes/month of NdPr from January 2019.

CEO REVIEW

The Company's continued focus on financial and operating performance delivered good results in the March quarter, while significant progress was made on Lynas NEXT initiatives which will support future growth.

In addition, the balance sheet improved markedly during the quarter with the conversion of US\$71.3m of convertible bonds, reducing the Convertible Bond facility to US\$15.2m at 31 March 2018.

Invoiced sales revenue of A\$85.9m for the period was lower than in the previous quarter, reflecting a slight reduction in average selling price and also some effect from timing of orders. Sales receipts were A\$79.7m this quarter.

As indicated in the last report, NdPr production increased to 1332 tonnes. Total rare earths oxides (REO) production was stable at 4110 tonnes. This was in line with expectations despite challenges including regulatory inspections, works undertaken as part of Lynas NEXT, and a significant restriction in the Kuantan water supply in late January. A new strategy was implemented for regulatory inspections of two kilns during the quarter, resulting in improved management of the inspections.

Lynas achieved positive cash flows from operating and investing activities during the period, while funding significant investments in Mining Campaign 2 at Mt Weld and Lynas NEXT initiatives. Costs for Mining Campaign 2 are expected to decrease during the June quarter, while the investment in Lynas NEXT will increase.

Market settings stabilised during the quarter with the China domestic NdPr published price averaging US\$45.2/kg and growing incrementally during the quarter, unlike the price spike experienced in the September quarter.

Demand for NdPr remains high with stock on allocation over the period. Some customer orders have not been met in the past quarter. Additional capacity expected to be gained through the Lynas NEXT initiatives will improve the Company's ability to meet customer requirements.

Lynas remains on track to achieve increased NdPr production of 500 tonnes/month of NdPr from April 2018, and 600 tonnes/month of NdPr from January 2019.

SAFETY AND ENVIRONMENT

Lynas continues to work to ensure that all operations are consistent with best practice sustainability principles. 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 good safety record, with the Company-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of March 2018, at 2 per million hours worked. Two of the recent injuries incurred involved the onsite canteen staff and gardening contractors. There is now an increased focus on safety management of non-production activities.

Detailed environmental monitoring since the start of the Lynas Advanced Materials Plant (LAMP) operations in Kuantan, Malaysia 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

	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18
Sales Volume REOt	3437	4748	4503	4495	4375
Sales Revenue	A\$69.3m	A\$75.6m	A\$112.0m	A\$93.0m	A\$85.9
Average Selling Price	A\$20.1/kg	A\$15.9/kg	A\$24.9/kg	A\$20.7/kg	A\$19.6/kg
Sales Receipts (cash)	A\$69.2 m	A\$75.5m	A\$88.4m	A\$116m	A\$79.7m

Sales revenue in the March quarter decreased slightly from the December quarter. Despite the closure of businesses in China over the lunar new year period, NdPr published prices stabilized and demand for Lynas products, most especially NdPr, remained very strong. Customer orders were in excess of production output during the quarter. This continued strong demand for our NdPr as well as our separated Cerium reflects the healthy state of the businesses of our key customers, and affirms our decision to increase both our overall production capacity and our La/Ce separation capacity as part of Lynas NEXT.

NdPr China Domestic Price (VAT excluded)								
	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Jan	Feb	March
USD/kg	33.0	36.5	57.0	44.6	45.2	43.2	45.0	47.5
Base 100	100	111	173	135	137	131	136	144

After the lunar new year (ending on 23 February 2018), Rare Earths market prices started to recover. While the effect on NdPr demand of car electrification is only expected to be significant from 2020 onwards, other segments such as automation are enjoying very strong growth.

A growing number of end users are approaching Lynas directly to seek ways to secure, on a long-term basis, their increasing demand for NdPr. Consequently, meetings with participants in the energy, automotive and electronic sectors to discuss our business model have increased. Our offering matches their requirements for supply reliability, price visibility and environmental compliance. We expect to continue developing these long-term contracts through this calendar year.

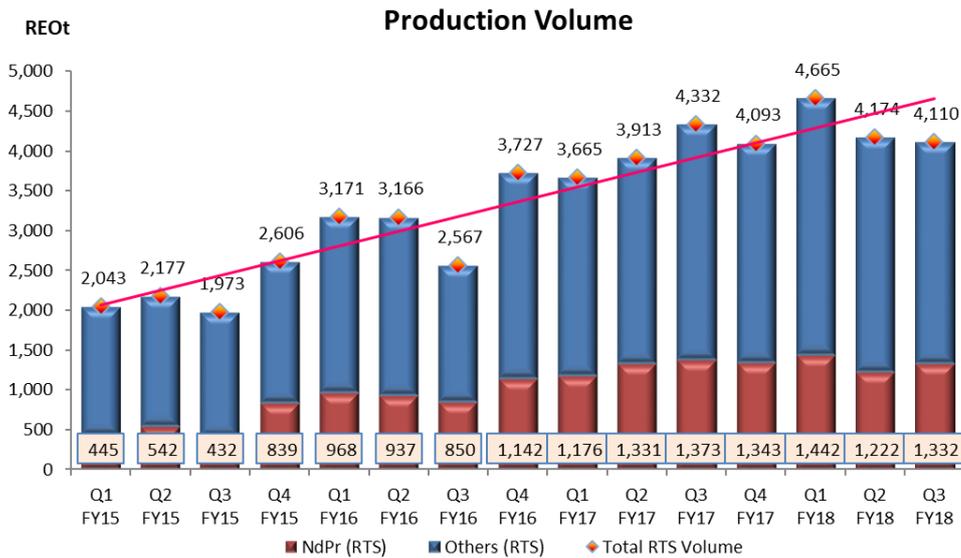
OPERATIONS

	FY16	FY17	Q1 FY18	Q2 FY18	Q3 FY18
Ready for Sale Production Volume Total	12631 REOt	16003 REOt	4665 REOt	4174 REOt	4110 REOt
Ready for Sale Production Volume NdPr	3896 REOt	5223 REOt	1442 REOt	1222 REOt	1332 REOt

During the March quarter total NdPr production was at design. This was achieved despite the effect of planned and unplanned events during the quarter which included:

- The planned shutdown of 2 kilns (RKC, RKD) for regulatory inspections;
- Lynas NEXT plant upgrades;
- Additional maintenance required for the spiral heat exchanger in the leach neutralisation circuit. Additional cooling capacity and redundancy will be added as part of Lynas NEXT;
- A temporary, but significant, restriction in the Kuantan water supply after unusually heavy monsoonal rains. A river embankment that forms part of the local water supply failed reducing flow to as low as 30%. This has since been rebuilt.

The Company remains on track to achieve its Lynas NEXT targets of 500 tonnes/month of NdPr from April 2018, and 600 tonnes/month of NdPr from January 2019.



The Lynas NEXT project includes the upgrade of the Mt Weld, Western Australia, and LAMP operations to produce 600 tonnes/month of NdPr, and product mix improvements including adding separated Nd and Pr, additional separated La and Ce, and more grades of La and Ce products. Priorities include improving plant reliability and recoveries at both the LAMP and Mt Weld, improving our understanding of the Mt Weld mineral resource, and optimising water use at Mt Weld.

Key Lynas NEXT improvements at Mt Weld during the March quarter included:

- Upgrading of the ball mill;
- Pilot flotation testing to achieve higher recoveries from additional flotation capacity;
- Modifications to the concentrate thickener and filter; and
- Modifications to the water filtering and water recycling circuits.

Key Lynas NEXT improvements at the LAMP during the March quarter included:

- Upgrading both RKA and RKB to larger refractory-lined ducting for waste gas, and individual spray towers;
- Modification of the existing SX8 solvent extraction circuit to separate LaCe to La and Ce. Commissioning of this circuit is commencing in April. The new circuit will enable up to 75% of LaCe production to be separated into La and Ce. It also includes additional circuits to remove impurities in La and Ce;
- The reconfiguration of the SX circuits to produce separated Nd and Pr will commence after key circuits are released post SX8 commissioning.

Mining Campaign 2 is on schedule. The removal of overburden was completed mid-January 2018. Ore is being stockpiled according to ore type and grade prior to screening and crushing. The processing of Campaign 2 ore blends started in February. Mining is occurring in a stepped profile to access some higher grade ore earlier. The lowest cut has just reached 375mRL (surface level is 425mRL) and will continue down to 362.5mRL, just above the Apatite zone.

Assaying of the samples from the AP Depth Extension Drilling program has been completed and resource modelling is in progress.

CASH OUTFLOWS

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

- Actual cash outflow for the quarter was A\$73.0m, excluding interest, debt and deposit related flows. On the same basis, forecast cash outflow was A\$78.7m. A significant portion of the lower than forecast cash outflow is timing related and shifts to the following quarter.
- Net interest payments of A\$2.5m primarily related to interest on the portion of the bonds converted during the quarter, including for 2016 (full year) and interest for 2018 (1 January 2018 to the date of actual conversion of bonds).
- Development and CAPEX related cash outflows were A\$12.9m (mining campaign A\$6.0m and CAPEX A\$6.9m, of which A\$6.3m related to Lynas NEXT). This was A\$2.3m lower than forecast in January 2018, mainly due to the timing of invoices received.
- Lynas received A\$2.3m due to a one time GST refund catch-up in the March quarter.
- The upcoming June 2018 quarter production cost forecast includes the timing of related cash flows originally expected before the end of March and additional working capital requirements (chemicals) to drive increased production.
- Development cash outflows include further (reducing) costs related to Mining Campaign 2 and increased investment in Lynas NEXT planned for the June quarter. Costs associated with Lynas NEXT represent approximately A\$11.6m of the forecast A\$15.7m in development expenditure.
- Staff costs will increase for the June quarter in line with customary seasonal payments in Malaysia and administration costs are reduced following the yearly insurance payment in the March quarter, partly offset by higher commission payments on increased volumes.
- While no principal repayments were made on the JARE and bond facilities, US\$71.3m of convertible bonds were converted during the March quarter, reducing the nominal convertible bonds liability including interest to US\$15.6m at 31 March 2018:

	June 2017	Sept 2017	Dec 2017	Mar 2018
JARE Loan	US\$200m	\$US185m	US\$170m	US\$170m
Convertible Bonds	US\$225m	US\$116.5m	US\$86.5m	US\$15.2m
CB 2016 Interest Liability	US\$6.0m	US\$3.4m	US\$2.3m	US\$0.4m

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 31 March 2018 is set out below.

CASH FLOW	A\$ million	A\$ million
OPENING CASH BALANCE 1 JANUARY 2018		47.8
INFLOWS		
Net cash receipts from the sale of goods	79.7	
TOTAL INFLOW OF FUNDS IN THE QUARTER		79.7
OUTFLOWS		
Royalty costs	(2.0)	
Ongoing operational, production and administration costs	(64.1)	
Net interest and other costs of finance paid	(2.5)	
Payment of security deposit	(0.3)	
Other capital expenditure	(6.9)	
TOTAL OUTFLOW OF FUNDS IN THE QUARTER		(75.8)
Net exchange rate adjustment		1.2
CLOSING CASH BALANCE 31 MARCH 2018		52.9

Summary of Cash Balance	
Cash on Hand and at Call	52.9
Funds for JARE & Mt Kellett interest (Restricted Cash)	-
CLOSING CASH BALANCE 31 MARCH 2018	52.9

The Group received A\$79.7m in sales this quarter compared to A\$116.5m in the December 2017 quarter. Total cash at 31 March 2018 of A\$52.9m is fully unrestricted.

Under the JARE facility, on each 30 June and 31 December, when the total unrestricted cash balance exceeds A\$40m, the surplus is paid as a principal repayment to JARE pursuant to a cash sweep mechanism. If Lynas received the proceeds from an equity raising (such as an issuance of shares or an exercise of warrants), then the following amounts are exempt from the cash sweep: (i) 75% of the proceeds received up to a cumulative balance of US\$50m, and (ii) 50% of the proceeds above a cumulative balance of US\$50m.

FOREX

The currency composition of the Group's cash at 31 March 2018 was A\$4.8m, US\$5.8m and MYR 119.9m. The A\$ weakened against both the US\$ and MYR throughout the March quarter, resulting in a positive exchange rate adjustment on these currencies.