

15 October 2014

Dear Shareholder,

Today we have lodged our quarterly report. We are releasing this report earlier than would normally be the case. However, as we are still within the period in which shareholders will be making decisions on whether to take up their entitlements under the renounceable rights issue, I thought it important that all shareholders have access to the latest information on business performance. The prospectus for the rights issue was prepared as at 29 September 2014, and the information in the quarterly report is consistent with the prospectus.

This is the 1st full quarter under my leadership. I am pleased with the progress we have made in some areas but there are areas where we still have work to do. As indicated in the Prospectus, Lynas has invested in an attractive portfolio of aligned assets. We are now focused on delivering value from those assets. This report highlights our performance in those areas that will drive value.

Performance Highlights in the Quarter

- Lynas was granted its Full Operating Stage Licence (FOSL) for the LAMP on 2nd September. Granting of this licence provides Malaysian regulatory endorsement of our operational standards.
- The senior secured facility provided by JARE has been restructured providing a more manageable repayment schedule. This, with the completion of the placement and launch of the fully underwritten rights issue, provides us with the ability to manage the business through to cash break even.
- Production performance improved for its 5th successive quarter. Production for the quarter was 2043 tonnes, with monthly production in September at 90% of Phase 1 rates.
- There has been a step change in production of on specification product with 99% of all NdPr produced from mid-August to the end of September meeting specification.
- Sales revenue increased to \$31.06m for the quarter.



Quarterly Report

Over the last 3 months, I have received feedback from a number of shareholders on ways of making our reporting more useful. Therefore, I thought, as this is my first report I will provide some comments on the measures we report, their importance to business outcomes and the performance across the quarter.

The first item in our report has been and will remain a review of our performance in the areas of Safety and Environment. Our primary goal at Lynas is to produce rare earth materials in a way that is safe for our employees, safe for the environment and the communities in which we operate and secure for our customers. In this quarter we were pleased to announce we were granted our Full Operating Stage Licence (FOSL) for the LAMP. Granting of this licence provides Malaysian regulatory endorsement of our operational standards.

You will note that we have replaced the previous graphical representation of production and sales with a simplified table.

The numbers reported in this table are:

- Ready to sell tonnes produced during the quarter. This means the product has been tested, has a certificate of analysis and is available for immediate sale. This provides a better indication of value of production than raw production numbers.
- NdPr production volume. As indicated in the Prospectus, NdPr accounts for approximately 70% of our sales revenue and it is therefore important that we track it separately.
- Total Sales volume which includes all tonnes of all rare earths products sold in the quarter
- Total sales value
- NdPr sales by volume

You will note when you read the report, that as foreshadowed in the Prospectus, we have posted a further increase in total production for the quarter to 2043 tonnes and an increase in sales revenue to \$31.06m. For clarity, this is an invoiced sales number. The \$32.9m reported in the Appendix 5B is cash received in the quarter.

Other measures which are important to the financial outcomes of the business include product quality and loss rates through the production process. We measure these as part of our operational management process and will only include them in the quarterly report when we have significant changes to report.



As indicated in the Prospectus, we have delivered a step change in quality for NdPr in the quarter. 99% of NdPr has been produced to specification since mid-August. This compares to 48% at the beginning of the quarter. This is significant. Product which does not meet customer specification typically has to be cleared at a substantial discount. In this quarter we cleared 109 tonnes of off specification NdPr. If all NdPr sold in this quarter had been on specification, sales revenue would have been approximately \$2m higher.

I would also like to provide some comments on the Appendix 5B. The Appendix 5B deals with the cash flows in and out of our business for the quarter. We have sought to provide additional clarity by footnoting comments on a number of the items to identify where costs are not recurring on a quarterly basis.

Some of the key elements include payments which relate to the restructuring of our overhead costs. As noted in the Prospectus, we have implemented initiatives to save \$16m on an annualised basis. However, in doing so, we have incurred cash costs this quarter of \$1.83m which are reflected in the administration cost line.

Also in the Appendix 5B, you will note we estimate an increase in cash outflows in the next quarter. The key driver of this increase is forecast increases in production output, including the pre-seeding of the phase 2 assets in the Solvent Extraction area of the LAMP. Phase 2 assets in both Cracking & Leaching and Product Finishing are commissioned and fully operational. We will commence production using the Phase 2 assets in Solvent Extraction late this quarter. The increase in cash outflows due to increases in production volume is expected to be accompanied by an increase in sales revenue.

Finally, I would like to comment on our Financing arrangements which we have explained in detail in prior releases to the ASX and in the Prospectus and which are once again explained both in the quarterly report and the Appendix 5B.

We are very pleased with the financing structure we have been able to implement.

The restructure of the senior secured facility provided by JARE has provided us with a manageable repayment schedule whilst preserving a relatively low cost of capital. Most importantly, it reflects an important ongoing partnership essential to our success in the Japanese market.

The ability to complete the placement and the fully underwritten rights issue will provide the ability to manage the business through to cash break even and to invest in those areas that will allow us to improve the business in the future. However there have been significant expenses associated with the various initiatives undertaken relating to the refinancing. These are shown in the Appendix 5B in item 1.19.



I trust you find this update useful as you consider the report. It has been a busy three months, but as I noted at the beginning we have made significant progress on the key performance elements that will drive value in this business.

Yours sincerely



Amanda Lacaze
CEO & Managing Director
Lynas Corporation Limited

Note: The prospectus has been lodged with ASIC and is available at www.asx.com.au. Offers of the shares and options under the entitlement offer will be made in the prospectus and eligible shareholders who wish to participate should consider the prospectus in deciding whether to take up their entitlements. Anyone who wishes to acquire the securities will need to complete the application form that will be in or will accompany the prospectus. Neither this letter nor the prospectus takes into account the investment objectives, financial situation, or particular needs of individual investors. Investors should consider whether this is a suitable investment for them and contact their stockbroker, accountant or other professional advisor.



QUARTERLY REPORT FOR THE PERIOD ENDING 30 SEPTEMBER 2014

HIGHLIGHTS

- A Full Operating Stage License (FOSL) for the LAMP was granted on 2 September 2014, providing Malaysian regulatory endorsement of our operational standards
- Restructure of the Senior Secured (JARE) debt agreed, and a fully underwritten rights issue underway. Together, these initiatives provide Lynas with the ability to manage the business through to cash break even
- Fifth successive quarter of increased production volume (2043t) and sales revenue (\$31.06m)
- There has been a step change in production of on specification product with 99% of all NdPr produced from mid-August to the end of September meeting specification

SAFETY AND ENVIRONMENT

Lynas has implemented extensive processes to ensure that production is safe for employees, safe for the environment and community and secure for its customers. The Company-wide 12-month rolling Lost Time Injury Frequency Rate as at the end of September 2014 was 2.2 per million hours worked.

The Company sustained one lost time injury in Western Australia and none in Malaysia during the September 2014 quarter.

There were no environmental incidents.

Lynas was granted its Full Operating Stage Licence (FOSL) for the LAMP on 2nd September. Granting of this licence provides Malaysian regulatory endorsement of our operational standards.

As foreshadowed in the Prospectus, Lynas will continue to invest in more efficient processes for water and waste management at Mt Weld and the LAMP. In an exciting development this quarter, at Mt Weld, water from the tailings storage facility was successfully treated (clarified and reverse osmosis) for reuse in the concentration plant. This is important as it has the potential to significantly improve the efficiency of our water use at Mt Weld.

OPERATIONS

	FY14	Q1 FY15	YTD FY15
Production Volume Total	3965 REOt	2043 REOt	2043 REOt
Production Volume NdPr	946 REOt	445 REOt	445 REOt
Sales Volume Total	3008 REOt	1546 REOt	1546 REOt
Gross Sales Value Total	A\$66.23 m	A\$31.06 m	A\$31.06 m
NdPr Sales Volume	865 REOt	468 REOt	468 REOt

As foreshadowed in the Prospectus, Lynas has posted a further increase in total production for the quarter to 2043 tonnes and an increase in sales revenue to \$31.06m. Please note this is an invoiced sales number whereas sales revenue of \$32.9m reported in the Appendix 5B reflects cash received in the quarter.

Other measures Lynas management believes are important to the financial outcomes of the business include product quality and loss rates through the production process. These factors are measured as part of the operational management process and will be included in quarterly reports only when the company has significant changes to report.

As indicated in the Prospectus, Lynas has delivered a step change in quality for NdPr in the quarter. Ninety-nine percent of NdPr has been produced to specification since mid-August, compared to 48% at the beginning of the quarter. Lynas management considers this a significant achievement as product which does not meet customer specification is typically cleared at a substantial discount. During the quarter Lynas cleared 109 tonnes of off specification NdPr. Management notes that if all NdPr sold in this quarter had been on specification, sales revenue would have been approximately \$2m higher.

CORPORATE

The Lynas Board has resolved that the following arrangements will take effect from 20 October 2014:

For the purpose of Listing Rule 3.14, the principal administrative office of Lynas will be as follows:
 PT17212 Jalan Gebeng 3,
 Kawasan Perindustrian Gebeng,
 26080 Kuantan, Pahang Darul Makmur,
 Malaysia
 Tel: +60 9 582 5200
 Fax: +60 9 582 5291

For the purpose of Listing Rule 3.14, the registered office of Lynas will be as follows:

Level 1,
7 Tully Road,
East Perth WA 6004
Australia
Tel: +61 8 6241 3800
Fax: +61 8 9225 6842

In addition, for the purpose of Listing Rule 3.16.1, Lynas is pleased to announce that with effect from 20 October 2014, Ivo John Polovineo will be appointed as an additional company secretary of Lynas Corporation Limited.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 30 September 2014 is set out below.

CASH FLOW	A\$M
OPENING CASH BALANCE 1 JULY 2014	38.1
INFLOWS	
Cash Receipts from the sale of goods	32.9
Interest income	0.1
TOTAL INFLOW OF FUNDS IN THE QUARTER	33.0
OUTFLOWS	
Malaysian Advanced Materials Plant – Phase 2	(0.2)
Other capital expenditure	(0.5)
Interest expense and other costs of finance	(10.6)
Ongoing operational, production and administration costs	(42.7)
Royalty costs	(1.1)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	(55.1)
Net exchange rate adjustment	0.9
CLOSING CASH BALANCE 30 SEPTEMBER 2014	16.9
Summary of Cash Balance	
Cash on Hand and at Call	16.9
Funds for Sojitz interest (Restricted Cash)	-
CLOSING CASH BALANCE 30 SEPTEMBER 2014	16.9

In the quarter, the Group paid A\$7.3m and A\$2.0m in relation to interest expenses on the Sojitz Facility and the Mt Kellett convertible bonds respectively.

During the quarter the Group achieved receipts from sales of A\$32.9m compared with A\$26.5m in the June 2014 quarter reflecting increased sales of REO products. Increased production volumes were achieved with lower total cash expenditures on operational, production and administration costs; A\$42.7m in this quarter, compared to A\$49.5m last quarter. (The A\$42.7m cost incurred in this quarter includes cash restructuring costs of A\$1.83m.)

FOREX

The currency composition of the Group's cash at 30 September 2014 was A\$8.5m, US\$4.1m and MYR10.4m. During the quarter, the Australian dollar depreciated by 7% against the US\$ and depreciated by 5% against the Ringgit resulting in an exchange rate adjustment for the quarter of A\$0.9m.

FUNDING

On 24 September, the Company entered into a binding term sheet with JARE where it was agreed to amend the existing senior secured debt facility to take effect from 30 September 2014. The amendment incorporated an amended repayment schedule resulting in the reduction of principal instalments in FY15 from US\$80m to US\$40m.

As part of the amendment, Lynas agreed to pay an increased interest rate of 7%, retain the JARE first ranking security for the term of the loan and to prioritise supply to Japanese rare earth consumers.

In addition, on 29 September, Lynas conducted an A\$12m institutional placement and issued a prospectus in connection with a fully underwritten A\$71m rights issue. The proceeds from the placement were received on 1 October and the rights issue proceeds are expected on 27 October. Net of associated transaction costs, Lynas will receive proceeds of approximately A\$77.5m. Associated with the placement and rights issue, Lynas will also issue various A\$0.09 options to participants and underwriters. These options, if exercised, may result in an additional capital injection of up to A\$66.6m in September 2015.

Subsequent to 30 September 2014 quarter end, the proceeds received from the placement were primarily used to pay the US\$10m principal instalment due to JARE under the binding term sheet.

As a result of the share issue, the Mt Kellett convertible bond conversion price will adjust downwards. Once known, the adjustment amount will be announced to the ASX.