

QUARTERLY REPORT

FOR THE PERIOD ENDING 30 SEPTEMBER 2015

HIGHLIGHTS

- Positive free cashflow (revenue less operating costs and CAPEX) of A\$1.3m despite very low market prices. This result reflects continued improvements in key business areas:
 - Production of ready for sales tonnes grew to 3171 tonnes of REO including 968 tonnes of NdPr
 - Cash receipts of A\$55.9m
 - Cash Outflows of \$54.6m, \$6.1m below the forecast in the June Quarter Appendix 5B were achieved with improvements in recoveries at both facilities and continued close focus on cost management
 - Announcement of new rescheduled debt agreements with both lender groups
 - The completion of the new Resource and Reserves statement for Mt Weld announced on 5 October 2015, confirming the physical robustness and quality of the Mt Weld deposit
 - Closing total cash balance of A\$56.5m, A\$4.5m above closing cash for Q4 FY15
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CEO REVIEW

The results for this first quarter of FY16 reflect the solid foundations on which Lynas now operates.

Stable production output, consistently high quality end product, and efficient cost and cash management, were key contributors to Lynas generating \$1.3m in free cashflow for the quarter despite difficult market conditions in which Rare Earths prices dropped to historic lows.

Production performance during the quarter was stable and controlled. Total ready-for-sale production of 3171 tonnes was in line with guidance. This included 968 tonnes of NdPr, in excess of the 930 tonne run rate required to achieve the first interest rate reduction under the rescheduled debt agreement with JARE. With NdPr production stable, the production team has increased focus on quality of Ce and La products and made significant strides in improving quality output. This will allow us to serve new customers with higher quality specifications. Our focus is to produce high purity product which can sell for significant premia.

Recovery rates improved at both Mt Weld and the LAMP and along with the increased throughput led to a reduced unit cost of production. Continuing to reduce the cost/kg produced is essential to mitigate the effects of the current low market prices.

We continue to build on relationships with our existing key customers and to establish relationships with new customers. We have been pleased with the support our customers have demonstrated over the past quarter. Lynas' growing reputation as a reliable supplier of quality, environmentally assured product has been an important part of building these strong relationships.

The announcement of the restructured debt agreements with both lenders has been important for our relationships with our customers and our suppliers and has underpinned continuing improvements in commercial outcomes with both groups.

The new debt agreements with JARE and the Mt Kellett led group of convertible bondholders were outlined in detail in our announcement dated 17 August 2015. Finalising these new agreements was an important milestone in proving the sustainability of the Lynas business. The delivery of positive cash flow this quarter when market pricing was so low provides further evidence of Lynas' sustainability.

One of the most important programmes of work completed in the last quarter was updating the Mineral Resource and Ore Reserves statement for Mt Weld.

Mt Weld contains one of the world's largest and highest grade Rare Earths deposits. The updated Mineral Resource and Ore Reserves statement released on 5 October 2015 confirms the physical robustness and the quality of the Mt Weld deposit. The Mineral Resource and Ore Reserves have not significantly changed despite updated inputs, most notably a reduction of 50% in the assumed selling price.

The latest review announced on 5 October 2015 confirms that the Ore Reserves represent more than 25 years of economic, continuous operations based on the estimated production of 22,000 tonnes per annum REO of finished products.

The updated Mineral Resource and Ore Reserves statement is an important element in assessing the value of the Lynas business. It is a world class reserve and the profile of the Rare Earths elements in the deposit is well suited to current and forecast market needs. The high NdPr proportion will allow Lynas to meet increasing demand for product as the use of permanent magnets in environmental applications grows. In the course of completing this review of the Mineral Resource and Ore Reserves we have identified options to optimise our future mining programme.

In FY15 we focused on improving the internal operations and capabilities of Lynas to create a solid foundation for further business growth. Lynas can now confidently present itself to the market as a reliable supplier of quality, environmentally assured products backed by supportive lenders.

In FY16 our strategic focus will be to work with participants through the Rare Earths supply chain to grow the total Rare Earths market and to create a strong differentiated position for Lynas products.

Whilst current market conditions are difficult, it is likely that several underlying market dynamics will lead to positive market change favourable to Lynas.

- Rare Earths provide the best technologies for fast developing Green applications where quality and environmental assurance from mine to customer is important. Lynas offers assurance and traceability of all products.

- Rare Earths products can be differentiated based on quality and performance. Lynas is working with customers to innovate and improve functionality.
- Market growth is dependent on end users and product formulators developing confidence in supply and price reliability. Lynas can offer both of these via long term contracts tailored to customer needs.
- Many customers are seeking to diversify their supply chains. Molycorp recently filed for Chapter 11 protection and has announced the mothballing of the Mountain Pass facility which strengthens Lynas' market position as an alternate supply source.
- The current price volatility is difficult for all market participants. It has been estimated by industry bodies that at current prices, 90% of Chinese producers are unprofitable which could lead to some Chinese separators reducing output.

The extremely low market pricing in Q1FY16 has been difficult. We are pleased to have delivered a positive business result in these conditions and look forward to further improvements when prices recover.

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 September 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 September 2015 at 1.8 per million hours worked.

There was 1 lost time injury during the September 2015 quarter. An employee received 1st and 2nd degree burns to the neck and ear when clearing a kiln discharge chute. The root causes for this incident have been established and are being systematically addressed.

The High Court of Malaya has recently dismissed with costs a challenge by persons associated with the Save Malaysia Stop Lynas group (SMSL) in relation to the original Temporary Operating Licence (TOL) under which Lynas operated the LAMP from September 2012 to September 2014. Lynas currently operates the LAMP under a Full Operating Stage Licence that was issued in September 2014.

MARKETING & SALES

	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16
Sales Volume Total REO t	1546 REOt	2014 REOt	1970 REOt	2353 REOt	2691 REOt
Sales revenue (gross)	A\$31.0 m	A\$35.9 m	A\$29.8 m	A\$51.9 m	A\$46.2 m
Sales receipts (cash)	A\$32.4 m	A\$44.2 m	A\$25.9 m	A\$52.7 m	A\$55.9 m

Market pricing in the quarter was very low. We have offset some of the impact by increasing sales volumes, particularly for NdPr, with 2691 tonnes of total REO sold including 984 tonnes of NdPr Oxide. As a result, we achieved strong sales receipts for the quarter.

Our business is now well established with key customers, and their support has been important particularly during the last quarter.

Our production team has delivered a substantial step change in Cerium and Lanthanum product quality this quarter, which allows Lynas to access higher value Cerium and Lanthanum market segments. We are now engaged with existing and new customers in this area and we expect positive developments from our enhanced Cerium and Lanthanum product quality.

Market prices decreased during the quarter, reaching unsustainable levels (for example, NdPr was down 19% during the quarter).

This situation arises from a combination of factors:

- Low demand from magnet users, who are concerned by uncertainties in the global economy,
- Increasing competition between legal and illegal Rare Earths producers in China. We understand that illegal producers currently represent almost half of China's Rare Earths production.

As a result, all Rare Earths producers inside and outside China are facing extremely challenging conditions. At the end of September there was a modest recovery in prices. We expect the coming quarter will set the path forward as it is traditionally a strong quarter for magnet demand, and parties who have delayed purchases should be more active in the market.

NdPr price trend	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
China Domestic (VAT excluded) USD/kg	39.8	37.8	38.4	39.4	41.6	43.4	40.9	40.3	37.3	33.8	30.2	30.5
China Domestic Base 100	100	95	97	99	105	109	103	101	94	85	76	77

OPERATIONS

	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	Q1 FY16
Total Ready for Sale Production	2043 REOt	2177 REOt	1973 REOt	2606 REOt	3171 REOt
Ready for Sale Production - NdPr	445 REOt	542 REOt	432 REOt	839 REOt	968 REOt

At the LAMP, the SX5 circuits remained stable during the quarter, underpinning a sustained further improvement in NdPr production. The success of the program to stabilise the operation of the SX6 circuits, which separate La and Ce, resulted in a step change increase in the product quality of La and Ce products.

The Cracking and Leaching (C&L) units have continued to perform well, at above design rates and in line with requirements. Debottlenecking of the filtration capacity in the Phase 2 plant occurred during the quarter, using a different configuration of existing equipment. This duplicates the changes already made to the Phase 1 plant.

In Product Finishing (PF), process improvements led to significant improvements in NdPr recoveries and consistently high output.

Mt Weld continued to produce on a campaign basis, scheduled to meet LAMP demand. Construction on the second Tailings Storage Facility (TSF2) commenced and is progressing well.

At Mt Weld, innovative thinking from the technical and operating team has allowed significant improvements in efficiency. Significant container volumes have been shifted from road to rail delivering substantial cost savings.

In the quarter, both Li High and Li Medium ore, both of which had previously been considered unsuitable for processing, were successfully processed which will enable greater use of ore in the current stockpiles. The team is also progressively implementing cost effective and novel solutions for improved water management.

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FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 30 September 2015 is set out below.

CASH FLOW	A\$M
OPENING CASH BALANCE 1 JULY 2015	52.0
INFLOWS	
Net cash receipts from the sale of goods	55.9
Proceeds from issue of shares	0.1
TOTAL INFLOW OF FUNDS IN THE QUARTER	56.0
OUTFLOWS	
Other capital expenditure	(3.2)
Royalty costs	(1.1)
Ongoing operational, production and administration costs	(50.3)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	(54.6)
Net exchange rate adjustment	3.1
CLOSING CASH BALANCE 30 SEPTEMBER 2015	56.5
Summary of Cash Balance	
Cash on Hand and at Call	31.2
Funds for JARE & Mt Kellett interest (Restricted Cash)	25.3
CLOSING CASH BALANCE 30 SEPTEMBER 2015	56.5

During the quarter the Group achieved receipts from sales of A\$55.9m compared with A\$52.7m reported in the June 2015 quarter.

Total cash at 30 September 2015 of A\$56.5m was represented by unrestricted cash of A\$31.2m plus restricted cash of A\$25.3m. The restricted cash will be used to fund interest payable under the JARE facility and the Mt Kellett convertible bond facility.

FOREX

The currency composition of the Group's cash at 30 September 2015 was A\$4.7m, US\$32.5m and MYR16.3m.

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