QUARTERLY REPORT

FOR THE PERIOD ENDING 30 JUNE 2016

HIGHLIGHTS

- With 100% of NdPr capacity commissioned and operating new benchmarks were set in this quarter:
  - Record production volume
    - Total tonnes up 30%
    - NdPr up 36%
  - Record sales
    - Sales Volume up 30%
    - NdPr sales volume up 37%
    - Invoiced sales at A$55.9m up 27%
- Free cash flow (revenue less operating costs and CAPEX) of A$0.9million.
- Reduction in interest rate payable on the JARE senior loan from 6.5% to 5.7% per annum from 1 July 2016 as a result of meeting agreed targets

CEO REVIEW

The results achieved this quarter, and for the year, reflect the sustained improvements in business operations delivered over the past two years which have created the strong foundations on which Lynas now operates, and reaffirms the company’s position as the only sustainable rare earths miner and producer outside of China.

In this quarter, 1,150 tonnes of NdPr was produced compared to 846 tonnes last quarter, and for the full year 3,897 tonnes of NdPr was produced compared to 2,258 tonnes in FY15.
This significant production growth and operational improvement caps off a two-year trend of positive improvements in the production process, throughput rates and quality of final output. In that period, Lynas has increased NdPr capacity from 50% (2 train operation) to 100% (4 train operation). In each of May and June, 400 tonnes of NdPr was produced, some 2.7 times the output achieved, in a 2 train operation, 2 years ago, demonstrating both increased capacity and improved utilisation. It is planned to stabilise production at around this level over the next 6 months and to conduct some minor debottlenecking prior to increasing production to full design rates.

In this quarter, Lynas achieved Total Gross Sales Revenue of A$55.9m, compared to A$44.5m last quarter, bringing total FY16 Sales to A$196.1m. Sales Receipts (cash) for this quarter totalled A$50.7m compared to A$46.3m last quarter.

This record sales result reflects increased production volumes and continuing strong relationships with strategic customers in Japan and China. Prices have remained low. A small upward trend in the NdPr market price early in this quarter has not been sustained.

Costs remained well managed throughout this quarter, with overhead and administration cash costs down to A$5.8m from A$8.1m last quarter. This was a particularly pleasing outcome given the increase in sales through this quarter, resulting in a more favourable cost per kilo ratio.

Production costs totalled A$42.9m for this quarter up slightly from A$42.5m last quarter. Capital expenditure was A$1.1 million compared to A$3 million in the last quarter.

As outlined in the ASX announcement on 6 July 2016, Lynas exceeded the production target for NdPr, agreed with JARE. As a consequence the interest rate payable on the JARE senior loan facility will reduce by 0.5% to 6% per annum. In addition, US$2m has been repaid on the JARE facility, reducing the outstanding loan balance from US$205million to US$203 million. In accordance with the loan agreement, a further reduction of 0.3% will be applied. The interest rate on this facility is now 5.7% per annum, a reduction of 1.3% compared to the rate at the beginning of the financial year.

Over the past 2 years, Lynas has embedded many business improvements, including increased production and sales and improved efficiency in all areas of the business. In a period where the rare earths market has offered significant challenges, Lynas has delivered a sustainable outside China source of rare earths
products. Lynas is now very well positioned to leverage any increase in market pricing.

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 this 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 June 2016, at 0.5 per million hours worked.

There were no lost time injuries during this quarter.

Water recycling is a core sustainability priority at Mt Weld and essential to long term operation. The Mt Weld concentration process requires high purity water and both bore and recycle water has to be treated by a reverse osmosis plant prior to use. Recycling of water has been technically challenging. After an extended testing period, a new Micro-Filtration unit was installed and successfully commissioned to treat free water from the tailings storage facility prior to reverse osmosis treatment. It is planned to install additional units to further increase the amount of water recycled.

MARKETING & SALES

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>Q1 FY16</th>
<th>Q2 FY16</th>
<th>Q3 FY16</th>
<th>Q4 FY16</th>
<th>FY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Volume REO t</td>
<td>7,883 tne</td>
<td>2,691 tne</td>
<td>3,082 tne</td>
<td>2,935 tne*</td>
<td>3,806 tne</td>
<td>12,513 tne</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>A$148.6 m</td>
<td>A$46.2 m</td>
<td>A$49.5 m</td>
<td>A$44.5 m</td>
<td>A$55.9 m</td>
<td>A$196.1 m</td>
</tr>
<tr>
<td>Sales Receipts (cash)</td>
<td>A$155.3 m</td>
<td>A$55.4 m</td>
<td>A$50.3 m</td>
<td>A$46.3 m</td>
<td>A$50.7 m</td>
<td>A$202.6 m</td>
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* Restated volume without value impact

In this quarter, continuing a consistent trend in sales growth over the past 2 years, Lynas’ sales volume reached a new record of 3,806 tonnes, close to 50% of the total sales volume in the previous year. This was achieved despite the decision to stockpile SEG, our heavy rare earths mix, which reduced sales volume by around 150 tonnes in this quarter.
Increased production volumes allowed us to further consolidate our leading position as an NdPr supplier to magnet makers in Japan, reaching a new Lynas sales volume record in Japan, while maintaining consistent sales to selected customers in China.

Lynas’ sales volumes of Cerium, Lanthanum and their compounds also reached new record levels, primarily due to the strong growth experienced by our major customers in the Autocat and UV Cut Glass markets.

Our NdPr oxide price was lower in April due to sales of off spec product arising from the SX5 T4 start-up at the end of the March quarter. From May, all of our NdPr production was within customer specifications.

Meanwhile, the NdPr market price increased during the month of May, triggered by the proposed China central government strategic stockpiling program. Unfortunately, no price agreement could be reached for this program with China’s major rare earths suppliers, and the price decreased in June. As we enter the traditionally low season for magnet making, price recovery seems unlikely in the September quarter.

<table>
<thead>
<tr>
<th></th>
<th>Q1 FY16</th>
<th>Q2 FY16</th>
<th>Q3 FY16</th>
<th>Apr-16</th>
<th>May-16</th>
<th>Jun-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>NdPr Domestic China USD/kg VAT excluded</td>
<td>31.6</td>
<td>34.1</td>
<td>33.8</td>
<td>34.2</td>
<td>35.1</td>
<td>34.2</td>
</tr>
<tr>
<td>Base 100</td>
<td>100</td>
<td>108</td>
<td>107</td>
<td>108</td>
<td>111</td>
<td>108</td>
</tr>
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The heavy rare earths market is more volatile. The Europium price decrease can be attributed to the
replacement of rare earths based energy-saving light globes by LEDs. Dysprosium and Terbium price variations are mainly driven by speculation, as those elements remain important components of permanent magnets, especially for environmentally-friendly motor vehicles and high power density wind turbines. End use demand for Dysprosium and Terbium is increasing, and production from ionic clay deposits in Southern China continues to create environmental concerns. These factors influenced Lynas’ decision to stockpile SEG, with the aim of capturing upside value as demand grows in the future.

Cerium and Lanthanum prices have been steady in recent months, and we expect Cerium and Lanthanum sales to have an increasing impact on Lynas’ revenues as we continue to improve our quality and recovery rates for these products.

As rare earths prices remain challenging, China continues the restructuring program that commenced in 2011. In June, the Southern Rare Earth Group was approved by the China central government. This group contains 24 subsidiaries, including mining, separation and smelting. This group is the largest heavy rare earths producer in the world and it also includes some light rare earths production.
OPERATIONS

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>Q1 FY16</th>
<th>Q2 FY16</th>
<th>Q3 FY16</th>
<th>Q4 FY16</th>
<th>YTD FY16</th>
</tr>
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<tbody>
<tr>
<td>Ready for Sale Production Volume Total</td>
<td>3965 REOt</td>
<td>8799 REOt</td>
<td>3171 REOt</td>
<td>3166 REOt</td>
<td>2567 REOt</td>
<td>3727 REOt</td>
<td>12630 REOt</td>
</tr>
<tr>
<td>Ready for Sale Production Volume NdPr</td>
<td>946 REOt</td>
<td>2258 REOt</td>
<td>968 REOt</td>
<td>937 REOt</td>
<td>850 REOt</td>
<td>1142 REOt</td>
<td>3897 REOt</td>
</tr>
</tbody>
</table>

Note: The above table sets out “ready for sale” tonnes. The JARE facility NdPr production targets 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.

After the start-up of the final SX5 separation train (Train 4) in the March quarter, production was ramped up at both Mt Weld and LAMP. 400 tonnes of NdPr oxide was produced in each of May and June. This is 90% of full design rates. It is planned to stabilize production at around this level and to conduct some minor debottlenecking prior to increasing production to full design rates.

The duration of production campaigns at Mt Weld has previously been limited by the supply of reverse osmosis treated bore water resulting in frequent 8 to 12 day campaigns, after which stocks of treated water were replenished. Improved water management during this quarter (i.e. reduced usage and increased recycling) has removed this constraint and enabled extended production campaigns during May (20 days) and June (23 days). Over 2,000t REO in concentrate was produced during June.

During May, Cracking and Leaching (C&L) at the LAMP treated more than 2,000 t REO in concentrate. We
are able to operate the C&L kilns at above design rates. The limitations are the MgO neutralisation circuit and consistently achieving high availability of at least 3 of the 4 kilns. Progressive improvements are being implemented on both these matters.

The Solvent Extraction (SX) Upstream trains (SX1 and SX2) have been tested at higher throughputs and are now capable of running consistently at 15-20% above design rates.

The SX Downstream trains (SX5, SX6 and SX7) including the four SX5 trains are capable of producing at design rates when there is sufficient feed. The operation of the older SX5 circuits became more difficult as the performance of the organic deteriorated leading to the formation of a small amount of Cerium IV, which is difficult to remove. A number of strategies have been successfully implemented to circumvent this issue. They include i) modifications to the SX5 trains to prevent the formation of Cerium IV and ii) if required, a process to precipitate and remove Cerium in the Product Finishing (PF).

In PF, the refinement of processes to produce high quality Lanthanum and Cerium products continues. Developments have focussed on improved pH control, solution clarity, washing and calcination.

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**COSTS**

The business maintains a strict focus on cost management. As a result of this approach, production and administration related cash expenses were kept below the forecast provided last quarter.

The costs associated with the addition of the final SX5 train are not yet fully evident, as payment terms on critical inputs have been effectively managed. Some of these increases will be felt in the months to come. We are approaching this as an incentive to redouble our focus on improving efficiencies further and we are confident that the cost increases in absolute terms will be lower than experienced during the prior addition of SX5 Train 3 (Q3 FY15).

Production related payments including royalties were A$43m compared to A$42.5m last quarter, reflecting, as indicated, good payment term management and improved efficiencies after the start-up of SX5 Train 4 in the last quarter.

Capital expenditure was A$1.1m, slightly less than forecast, and is mainly related to some final payments on various water and waste management projects at Mt. Weld and at the LAMP.
In the following charts please note that the costs shown are on an incurred basis, not on a cash flow basis, which is the basis of other figures in this report. The incurred cost basis gives a more accurate view of the cost of production over time. The data for FY 2016 are preliminary and subject to be audited in due time.
CORPORATE

ANNUAL GENERAL MEETING

The 2016 Annual General Meeting of Lynas shareholders will be held at 10am (Sydney time) on Friday 18 November 2016 at the Sheraton on the Park, 161 Elizabeth Street, Sydney. A notice of meeting will be issued closer to that date.
A summarised cash flow for the quarter ended 30 June 2016 is set out below.

<table>
<thead>
<tr>
<th>CASH FLOW</th>
<th>AUD million</th>
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<tbody>
<tr>
<td><strong>OPENING CASH BALANCE 1 APRIL 2016</strong></td>
<td>44.5</td>
</tr>
<tr>
<td><strong>INFLOWS</strong></td>
<td></td>
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<tr>
<td>Net cash receipts from the sale of goods*</td>
<td>50.7</td>
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<tr>
<td><strong>TOTAL INFLOW OF FUNDS IN THE QUARTER</strong></td>
<td>50.7</td>
</tr>
<tr>
<td><strong>OUTFLOWS</strong></td>
<td></td>
</tr>
<tr>
<td>Other capital expenditure</td>
<td>(1.1)</td>
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<tr>
<td>Royalty costs</td>
<td>(1.0)</td>
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<tr>
<td>Repayment of borrowings</td>
<td>(2.8)</td>
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<tr>
<td>Ongoing operational, production and administration costs</td>
<td>(47.7)</td>
</tr>
<tr>
<td><strong>TOTAL OUTFLOW OF FUNDS IN THE QUARTER</strong></td>
<td>(52.6)</td>
</tr>
<tr>
<td>Net exchange rate adjustment</td>
<td>0.7</td>
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<tr>
<td><strong>CLOSING CASH BALANCE 30 JUNE 2016</strong></td>
<td>43.3</td>
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</table>

**Summary of Cash Balance**
- Cash on Hand and at Call: 10.4
- Funds for JARE & Mt Kellett interest (Restricted Cash): 32.9
- **CLOSING CASH BALANCE 30 JUNE 2016**: 43.3

*Excludes AUD 7.2m received from customers in March for product delivered this quarter.

During this quarter, the Group received A$50.7m from sales compared to A$46.3m in the March quarter.

In line with our loan agreement, US$2 million has been repaid to JARE during this quarter, reducing the
outstanding loan balance to JARE from US$ 205 million to US$ 203 million.

Total cash at 30 June 2016 of A$43.3m was represented by unrestricted cash of A$10.4m plus restricted cash of A$32.9m. The restricted cash will be used to fund interest payable under the JARE facility and the Mt Kellett convertible bond facility.

Funds drawn down during this quarter from the restricted accounts for the funding of the SX5 train 4 start-up have been fully redeposited into the restricted accounts before the end of this quarter.

**FOREX**

The currency composition of the Group’s cash at 30 June 2016 was A$ 1.4m, US$ 28.1m and MYR 12.6m. The A$ weakened against the US$ and MYR by 3.0% and 1.0% respectively in this quarter.

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