QUARTERLY REPORT

FOR THE PERIOD ENDING 30 SEPTEMBER 2016

SUMMARY

- Continued improvement on key operational measures:
    - Sales receipts at A$57.4m
    - Total NdPr production volume of 1,180 tonnes
    - Operating costs of A$55.6m in line with expectations
- Malaysian Operating License renewed for a further 3 years, affirming safe, compliant operations at the LAMP
- Market prices softened and are now at the same low levels as the September quarter 2015
- Substantive new terms agreed with both lender groups

CEO REVIEW

In the September quarter Lynas consolidated production and sales gains achieved following the final ramp up of production capacity in the March and June quarters.

NdPr production at 1,180 tonnes was consistent with our previously advised target of 90% of full design rates ie 400 tonnes/month. We were pleased to achieve this despite a planned maintenance shutdown in August required by our electricity supplier. Careful planning ensured output was only minimally affected.

Sales volumes were largely in line with production growth leading to sales revenue of A$53.8m and cash receipts of A$57.4m. Market prices returned to the low levels experienced a year ago limiting opportunities for further revenue growth.

On 2 September 2016, the Malaysian Atomic Energy Licensing Board (AELB) renewed our Full Operating Stage License (FOSL) for a further 3 years until September 2019. This renewal followed a rigorous review undertaken by the AELB and other independent regulatory bodies in Malaysia, all of whom have concluded that the LAMP is in compliance with applicable regulations.

During the quarter, Lynas launched a new communication campaign in Malaysia with the intent of engaging positively with the local and broader communities. Lynas has now been operating for 4 years at the LAMP with clear data which shows that our operations are safe for our people, safe for the environment and safe for our surrounding communities. Each of the advertisements includes data to address the areas that were considered controversial at the time the plant was built with the advertisements appearing in English, Malay and Chinese language newspapers. The new campaign has been welcomed by many of our key stakeholders in Malaysia.

Production cash costs, at A$48m (including production related staff costs), increased compared to the prior quarter. This reflects the first full quarter of costs related to full production as cash costs generally lag production by 30-60 days and some variations in cash flow timing between the September quarter and the December quarter. We have provided further information in the cost section of this report to assist shareholders to understand changes as a result of the new Appendix 5B format.

Operating cash flow continued to be marginally positive at A$1.69m for the quarter.

During the quarter, Lynas deposited a further A$5.9m with the Atomic Energy Licensing Board (AELB) as part of an agreed schedule of payments relating to the management of LAMP residues. A$5.9m was drawn down from the loan facility restricted interest accounts during the quarter to fund that payment. As a result of that draw down, the interest rate under the JARE facility increased by 0.3%, and it is currently 6.0% per annum.

As a consequence of this additional deposit, the net decrease in cash over the quarter was A$ 4.6m.

The continued low market prices has meant that despite significant improvements in operating performance the business continues to operate at approximately break-even levels before financing costs.

Acknowledging the continued depressed prices, our lenders have agreed to further substantive changes in the terms of both loan facilities, including extended terms on both facilities, significant reductions in interest liabilities, including forgiveness of certain historic liabilities and the replacement of the fixed principal repayment schedule with a mechanism which links repayments to improvements in cash within the business. In total the new agreements deliver permanent savings on interest costs of A$70m and defer until maturity principal repayments of US$50m that were previously due by December 2017.

The changes to the agreements are dealt with in more detail in a separate announcement released this morning, 26 October 2016. Further detail will be provided to shareholders in the Notice of Meeting for the Lynas AGM. This will be despatched by the end of October.

Lynas Directors unanimously recommend that shareholders vote in favour of the proposed debt facility amendments at the AGM on 30 November 2016, as they consider the amended terms of the Bonds and the Senior Facility with JARE are in the best interests of shareholders. The amendments are important to assist the continued operation of the Lynas business as a going concern and provide up to a 4 year runway in which to further improve business performance, and allow Lynas to benefit from any improvements in market pricing in that time.

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 quarter, the Company maintained a very good safety record, with the Company-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of September 2016, at 0.9 per million hours worked.

There were two lost time injuries during the quarter, both at the LAMP. The root causes for these incidents have been established and are being systematically addressed.

We continue to invest in our safety teams and safety training activities to continually improve operator skill and safety culture.

MARKETING & SALES

	Q1 FY 16	Q2 FY 16	Q3 FY 16	Q4 FY 16	Q1 FY17
Sales Volume REO t	2,691 tne	3,082 tne	2,935 tne*	3,806 tne	3081tne
Sales Revenue	A$46.2 m	A$49.5 m	A$44.5 m	A$55.9 m	A$53.8 m
ASP	A$17.2/kg	A$16/kg	A$15.2/kg	A$14.7/kg	A$17.5/kg
Sales Receipts (cash)	A$55.4 m	A$50.3 m	A$46.3 m	A$50.7 m	A$57.4 m

** Restated volume without value impact*

Sales volume, in the quarter was lower than the prior quarter with a number of shipments of material produced in the quarter despatched in early October.

NdPr market prices reached the lowest level of the year during the quarter. Despite this Lynas delivered an improved average selling price (ASP) due to a favourable product mix and record sales to strategic customers in Japan.

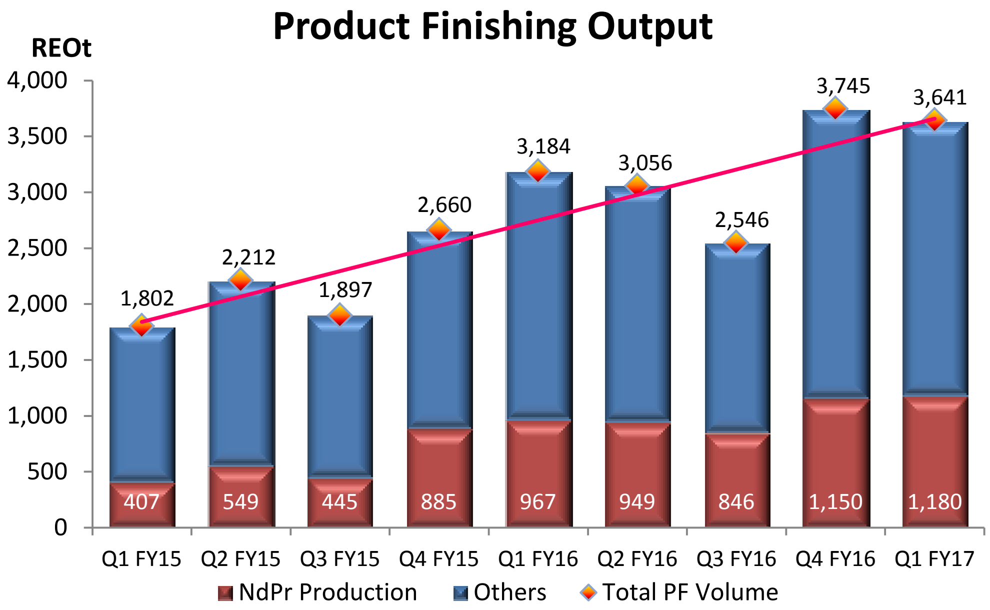
NdPr Domestic China VAT excluded	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Jul-16	Aug-16	Sep-16
	31.6	34.1	33.8	34.5	32.6	32.2	31.6
Base 100	100	108	107	109	103	102	100

OPERATIONS

	FY14	FY15	FY16	Q1 FY17	YTD FY17
Ready for Sale Production Volume Total	3965 REOt	8799 REOt	12630 REOt	3666 REOt	3666 REOt
Ready for Sale Production Volume NdPr	946 REOt	2258 REOt	3897 REOt	1176 REOt	1176 REOt

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.

LAMP NdPr production for the quarter was 90% of full design rates, in line with the forecast from the previous quarterly report. The focus during the quarter and for the next quarter is to stabilise production and quality at these rates, and then to slowly increase production to full design rates.



The Mt Weld concentrator continued to operate for a single campaign per month (average 24 days) treating a blend of CZ (Central Zone) and the lower grade Li (Limonite) ore. The treatment of a variety of types of stockpiled Li ore since September 2014 has enabled the second mining campaign to be deferred into early 2017. During the quarter, the amount of Li ore in the feed blend was increased to 31%.

The second mining campaign is planned for the March and June quarters in 2017. Regulatory approvals are well advanced, mine dewatering bores have been operating since March 2015, the selection of a mining contractor is well advanced and grade control drilling is in progress. Approximately one year of mill feed will be extracted during this campaign.

COSTS

Shareholders will note that the attached Appendix 5B is in the new format required by the ASX. We provide the following comments to allow shareholders to understand the variations.

Production costs, including staff costs and WA royalties, were A$43.1m in the June quarter. The equivalent costs in the September quarter are A$48m. The increase includes a full quarter of cash costs associated with the operation of the fourth NdPr production train. In addition, there are 2 significant items which have resulted in cash costs being brought forward to the September quarter from the December quarter, one relating to GST payment on imports in Malaysia (timing impact only), the other to the purchase of one of the key reagents used in the production of NdPr. The production cost forecast for the December quarter (on a like for like basis) is A$45.4m. When adjusted for these variations, the production cash costs in both the September and December quarters are expected to be consistent at approximately A$46.5m/quarter.

Administration costs, including staff costs, have increased from A$5.8m in the June quarter to A$7.6m in the September quarter. Approximately half of this increase is driven by additional sales commission associated with the increased sales into the Japanese market. The remaining increases are primarily attributable to costs associated with the Malaysian advertising campaign and certain temporary tax costs related to expat employees in Malaysia.

CORPORATE

ANNUAL GENERAL MEETING

The 2016 Annual General Meeting of Lynas shareholders will now be held at 1pm (Sydney time) on Wednesday 30 November 2016 at the Sheraton on the Park, 161 Elizabeth Street, Sydney. The Notice of Meeting is expected to be despatched to shareholders at the end of October.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 30 September 2016 is set out below.

CASH FLOW	AUD million	AUD million
OPENING CASH BALANCE 1 JULY 2016		**43.3**
INFLOWS		
Net cash receipts from the sale of goods	57.4	
TOTAL INFLOW OF FUNDS IN THE QUARTER		**57.4**
OUTFLOWS		
Royalty costs	(1.3)	
Payment to AELB	(5.9)	
Ongoing operational, production and administration costs	(54.4)	
Other capital expenditure	(0.4)	
TOTAL OUTFLOW OF FUNDS IN THE QUARTER		**(62.0)**
Net exchange rate adjustment		(1.1)
CLOSING CASH BALANCE 30 SEPTEMBER 2016		**37.6**
Summary of Cash Balance		
Cash on Hand and at Call		11.6
Funds for JARE & Mt Kellett interest (Restricted Cash)		26.0
CLOSING CASH BALANCE 30 SEPTEMBER 2016		**37.6**

During the quarter, the Group received A$57.4m from sales.

Total cash at 30 September 2016 of A$37.6m was represented by unrestricted cash of A$11.6m plus restricted cash of A$26.0m. The restricted cash is intended 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 2016 was AUD1.8m, USD24.8m and MYR10.6m. The AUD strengthened against the USD and MYR by 2.6% and 6.0% respectively in the quarter.

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