

QUARTERLY REPORT
FOR THE PERIOD ENDING 30 JUNE 2017

SUMMARY

- **RECORD CASHFLOW FROM OPERATING AND INVESTING ACTIVITIES**
Cash flows from operating and investing activities increased to \$15.8m (excluding interest payments) from \$11.6m in the previous quarter.
- **IMPROVED MARKET CONDITIONS**
In China market price for NdPr (VAT excluded) increased to US\$39/kg, driven by continued strong demand for magnetic materials and the effects of the China central government's initiatives to enforce stricter environmental controls. This trend is expected to continue in the near term.
- **LEADING MARKET POSITION AND RECORD SALES**
Lynas has consolidated its position as the second largest NdPr producer in the world and the largest supplier of NdPr to the free market with strong customer relationships in all key jurisdictions. Invoiced sales revenue reached \$75.6m for the quarter.
- **RELIABLE PRODUCTION**
Production of NdPr continues to be slightly above design rate, at 1,343 tonnes for the quarter, up 17.6% on the June 2016 quarter
- **FINANCING CASHFLOWS**
A further inflow of A\$780,382 was received from the exercise of warrants by certain convertible bondholders. The six month interest bill, a total of A\$5.1m, was paid from operating cash flow.

CEO REVIEW

The successful June quarter sees the culmination of three years of continuous operational improvements and cost management, allowing Lynas to take advantage of the upturn in the rare earths market. Record results affirm Lynas' strong market and operational position as the second largest NdPr producer in the world, and the largest supplier of NdPr to the free market.

In the June quarter, production of NdPr was slightly above design rates, at 1,343 tonnes, an increase of 17.6% on the June 2016 quarter. Total rare earth oxides (REO) production was 4,093 tonnes, an increase of 9.8% on the June 2016 quarter. Lynas expects to continue to operate at slightly above design rates for NdPr and further improve output of other materials as recovery rates increase.

Invoiced sales for the period were A\$75.6m, up 35% on the June 2016 quarter. Cash receipts reached a new record at A\$75.5m.



The in-China market price for NdPr (VAT excluded), firmed throughout the quarter increasing from US\$34/kg to US\$39/kg at the end of June.

This price increase is a combined result of strong demand for rare earths materials and the China central government's regulatory actions.

Demand for permanent magnets continues to grow based on their use in a range of applications, including electric vehicles and wind turbines. The continuing growth in demand from the electric vehicles sector is particularly important and based on recent announcements by various automotive companies may be reaching an inflection point. Lynas is heavily engaged with participants in that sector to promote rare earths technology as the technology of choice for environmentally-friendly vehicles and expects the strong demand to continue.

Importantly, and in line with global trends towards more sustainable sourcing and production, the China central government has taken serious measures to enforce stronger oversight of environmental initiatives across a range of industries. The initiatives taken in the rare earths industry have had a positive impact on the rare earths market in China. In the short term this has included shutting down illegal operations with poor environmental practices and ensuring larger operations are compliant. Lynas believes this will be positive to long term demand as user confidence in the environmental controls applied throughout the industry will improve.

Cash flow from operating and investing activities at A\$15.8m (excluding interest payments) was a 36.2% improvement on the March quarter's record. (As the December quarter report noted, we have adopted the cash flow definitions used in the new format of the Appendix 5B.) Interest liabilities of A\$5.1m for the 6 month period to 30th June 2017 were paid from operating cashflow.

In line with the improved cash flow, Lynas expects that the restricted accounts associated with its loan facilities will be closed over the coming months. Repayment of the restricted cash to the lenders will have several benefits for Lynas as follows: (i) US\$15 million will be repaid to JARE as a principal repayment, (ii) the balance of the JARE restricted cash will be used to fully discharge interest liabilities due to JARE from October 2014 to December 2015, and (iii) the convertible bond restricted cash will be used to fully repay interest liabilities due to the convertible bondholders from October 2014 to December 2015.

In the quarter, ending unrestricted cash, at A\$35.9m, includes A\$0.8m from the exercise of 20.5m warrants by certain convertible bondholders at a price of A\$0.038.

Looking forward, Lynas is in a strong position to reap the benefits of the recent strong demand and increases in NdPr prices.

SAFETY AND ENVIRONMENT

Lynas continues to work to ensure that all operations are operated in ways that 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 June 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 June 2017, at 2.2 per million hours worked.

Tailings management remains a core sustainability priority at Mt Weld and is essential to long term operation and mine closure. The Mt Weld tailings storage facilities use Rheomax ETD polymers to achieve beached tailings. During the quarter, a trial with a purpose built MudMaster amphirool (Twin Archimedes Screw Tractors) commenced. The amphirool traverses the tailings storage facility and further dewateres and compacts the tailings solids to achieve the consolidation required to produce a stable landform for closure and rehabilitation.

Detailed environmental monitoring since the start of LAMP operations 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

	Q1 FY 17	Q2 FY 17	Q3 FY17	Q4 FY17	YTD FY17
Sales Volume REO t	3081 tne	3350 tne	3437 tne	4748 tne	14616 tne
Sales Revenue	A\$53.8 m	A\$65.0 m	A\$69.3 m	A\$75.6 m	A\$263.7 m
ASP	A\$17.5/kg	A\$19.4/kg	A\$20.1/kg	A\$15.9/kg	A\$18/kg
Sales Receipts (cash)	A\$57.4 m	A\$58.3 m	A\$69.2 m	A\$75.5 m	A\$260.4 m

For the fourth consecutive quarter, our sales established new records in both volume and revenue, with over A\$75 million in revenue for this quarter. The Average Selling Price was slightly lower in line with the product mix which included additional sales of Lanthanum and Cerium products. Demand for all products



remained strong throughout the quarter, as Chinese rare earths production decreased and customers recognized the significant improvements made by Lynas in Cerium and Lanthanum quality.

	NdPr China Domestic VAT excluded						
	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	April	May	June
USD/kg	34.5	32.1	31.0	33.0	35.3	36.3	38.0
Base 100	100	93	90	96	102	105	110

The NdPr price increase that began in November 2016 continued throughout the quarter and accelerated from mid-June, reaching USD 43/kg by early July. This was supported by continued action by the China central government to enforce environmental regulations throughout the rare earths industry, translating into the forced shutdown of a number of separation units and better control of resources.

All NdPr production was right first time during the quarter, strengthening Lynas’ reputation as a reliable and environmentally assured supplier of high quality NdPr. Lynas is the second largest NdPr producer in the world. With no in-house consumption in downstream activities, Lynas is the largest supplier of NdPr to the free market.

The continuing growth in demand from the electric vehicles sector is a key driver of demand increases for magnetic materials, and based on recent announcements by automotive manufacturers may be reaching an inflection point. Lynas is heavily engaged with participants in that sector to promote rare earths technology as the technology of choice for environmentally-friendly vehicles.

Speculation about future demand for heavy rare earths, especially Dysprosium and Terbium, which are key additives for high performance magnets essential to the electrification of cars, translated into significantly higher prices for our heavy rare earths mix (SEG).

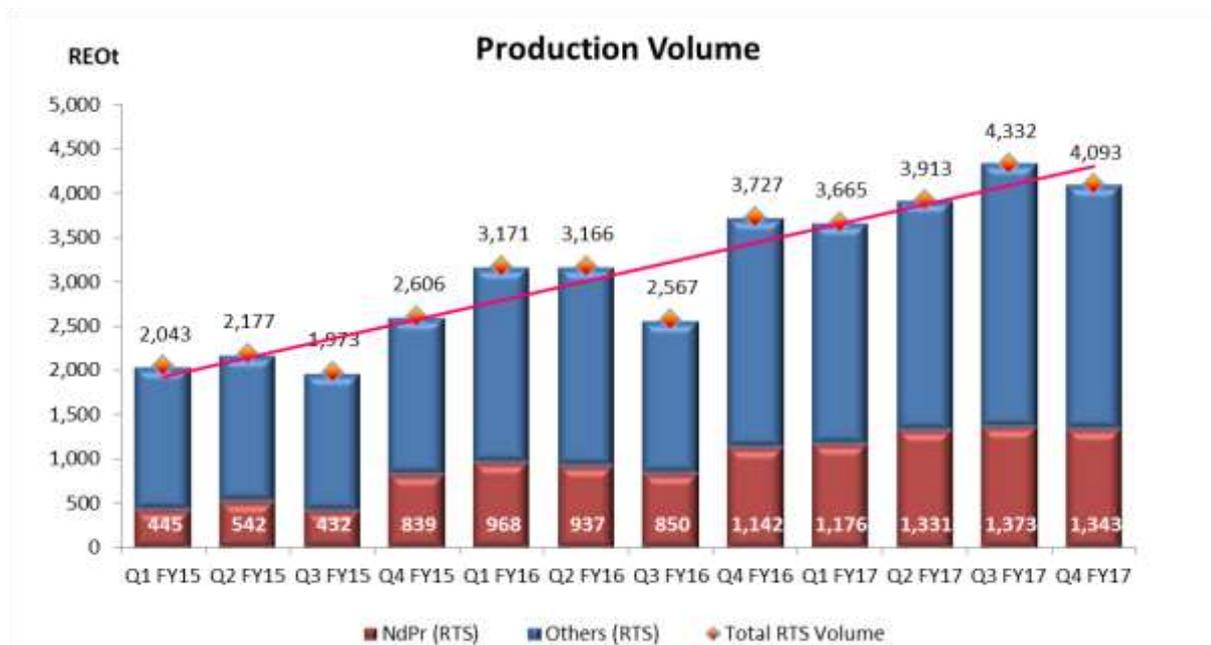
Lanthanum remained in high demand outside China, especially for high performance ferrite magnets and NiMH batteries. All Lanthanum produced in this quarter was sold. In addition, some inventories of LaCe material were reduced.

Significant quality improvements in Cerium products allowed us to increase our share of the catalyst and UV cut glass markets. In addition, we have started developing new customized grades for niche applications in order to attract higher prices.

OPERATIONS

	FY14	FY15	FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	FY17
Ready for Sale Production Volume Total	3965 REOt	8799 REOt	12631 REOt	3665 REOt	3913 REOt	4332 REOt	4093 REOt	16003 REOt
Ready for Sale Production Volume NdPr	946 REOt	2258 REOt	3896 REOt	1176 REOt	1331 REOt	1373 REOt	1343 REOt	5223 REOt

For the third consecutive quarter, LAMP NdPr production was above design rates. Production of La and Ce products was below design rates, but the improvement in product quality continued.



At Mt Weld, the second mining campaign (1B) was completed in early May at below budget cost. As described previously, this campaign is a depth extension of the initial pit to extract deeper CZ (Central Zone) ore not mined during the initial mining campaign. No overburden removal was required for this second mining campaign. Approximately 240,000 tonnes of ore at 17.8% REO was mined from this campaign and it will be blended with some remaining ore from Campaign 1.

The Mt Weld concentrator continued treating the new ore from Campaign 1B to produce REO concentrate for processing at the LAMP.

The site-wide improvement programs at the LAMP continue. Key focus areas include: debottlenecking and incremental increases in production rates; improving product quality; increasing REO recovery; and reducing chemical costs.

During the June quarter, Cracking and Leaching (C&L) at the LAMP treated over 2,000t REO in concentrate per month for a total of 6,862t REO. The C&L kilns continue to operate at above design rates.

The improvement programs in Solvent Extraction (SX) include debottlenecking of the SX Upstream Circuits and the removal of impurities by solvent extraction instead of by pre-treatment in Product Finishing. New SX circuits to remove Al from Ce and Zn from La were successfully commissioned during the quarter. This is an important breakthrough and it will support significant improvements in finished product quality.

In Product Finishing (PF), the refinement of processes to produce high quality Lanthanum and Cerium products continues. The benefits from the additional SX removal of impurities were realised late in the quarter. A number of projects to gain an incremental increase in NdPr recovery are in the implementation stage.

CASH OUTFLOWS

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

- Development related cash outflows which relate to the most recent mining campaign plus other CAPEX spending came in at A\$1.7m. This was about A\$0.5m lower than forecast, reflecting the lower than expected final costs for the most recent mining campaign.
- Production related cash outflows were A\$44.1m, higher than forecast at A\$42.5m. This increase is mainly driven by supply chain considerations, including increasing some raw material inventories to mitigate risks of uncertain supply from China as a result of recent China central government initiatives which have resulted in temporary plant closures for environmental review purposes.
- Staff related cash outflows at A\$9.1m were 7.5% below forecast. Certain health care related costs are postponed to the next quarter.
- Administration related cash outflows, excluding staff costs, at A\$3.6m remained significantly below forecast in the June quarter. Some of these reduced costs are timing related while others are related to actual baseline savings.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 30 June 2017 is set out below.

CASH FLOW	AUD million	AUD million
OPENING CASH BALANCE 1 APRIL 2017		52.6
INFLOWS		
Net cash receipts from the sale of goods	75.5	
Proceeds from the issue of share capital	0.8	
Net withdrawal from security deposits	0.2	
TOTAL INFLOW OF FUNDS IN THE QUARTER		76.5
OUTFLOWS		
Royalty costs	(1.4)	
Ongoing operational, production and administration costs	(57.9)	
Net interest paid	(5.0)	
Other capital expenditure	(0.7)	
TOTAL OUTFLOW OF FUNDS IN THE QUARTER		(65.0)
Net exchange rate adjustment		(0.2)
CLOSING CASH BALANCE 30 JUNE 2017		63.9
Summary of Cash Balance		
Cash on Hand and at Call		35.9
Funds for JARE & Mt Kellett interest (Restricted Cash)		28.0
CLOSING CASH BALANCE 30 JUNE 2017		63.9

The Group received A\$75.5m in sales this quarter compared to A\$69.2m in the March 2017 quarter. Net interest paid includes interest payments to JARE and the convertible bondholders for the period 1 January 2017 to 30 June 2017.

Total cash at 30 June 2017 of A\$63.9m comprised unrestricted cash of A\$35.9m and restricted cash of A\$28.0m. The restricted cash is held in separate Lynas bank accounts for future principal and interest payments under the JARE facility and the Mt Kellett convertible bond facility.

FOREX

The currency composition of the Group's cash at 30 June 2017 was AUD1.0m, USD28.1m and MYR87.0m. The AUD strengthened by 0.5% against the USD but weakened by 2.4% against the MYR during the quarter.

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

CORPORATE

ANNUAL GENERAL MEETING

The 2017 Annual General Meeting of Lynas shareholders will be held at 10am (Sydney time) on Tuesday 28 November 2017 at the Sheraton on the Park, 161 Elizabeth Street, Sydney. A notice of meeting will be issued closer to that date.
