QUARTERLY REPORT

FOR THE PERIOD ENDING 31 MARCH 2016

HIGHLIGHTS

- The commissioning and start-up of the final SX5 production train (Train 4) was completed ahead of plan. Production from Train 4 is continuing to ramp up.
- The start-up of Train 4 was enabled and supported by our lenders who approved the drawdown of A$8m from the debt service accounts (activated in April) to cover the incremental costs associated with the start-up process.
- Production volume at 2546 tonnes reflected the hold up of material in SX5 Train 4, reduced NdPr production and reduced recoveries of La and Ce products related to quality improvement initiatives. NdPr production volume was 846 tonnes.
- Sales volume of 3026 tonnes remained high. All NdPr production was sold and all La and Ce demand was met from a combination of fresh production and inventory.
- Invoiced sales for the quarter reduced to $44.5m reflecting continuing low Rare Earths prices, lower NdPr sales and adverse FX movements through the quarter.
- Free cash flow (revenue less operating costs and capital expenditure) at negative $7.4m reflected lower sales revenue, increased costs associated with the payment of annual insurance premiums and capital expenditure related to the completion of TSF2 at Mt Weld.

CEO REVIEW

During the March quarter, Lynas was unable to sustain the breakeven performance of the first two quarters.

Continuing low market prices for Rare Earths mean it is not possible to fund important improvements in company capability from cash flow. However, with the continuing, direct support of our lenders, we have been able to invest in three significant and value building initiatives:

- Start-up of SX 5 Train 4 bringing commissioned capacity at the LAMP to 100%
- Building of TSF 2 at Mt Weld
- La and Ce process improvements

The start-up of SX5 Train 4 has progressed smoothly and was completed ahead of plan. However, it is important to note that bringing this final production capacity on line is a large project affecting all production areas from the Mt Weld concentrator to the Product Finishing tunnel furnaces. Until now, there has been spare capacity in all these areas providing an important buffer. With the start-up of Train 4, production rates across all areas have been required to increase by 25%, on a reliable and consistent basis.

Through the quarter there have been some disturbances in feed to SX as upstream processes have adjusted to this new requirement. As indicated in the 10 March 2016 half year results announcement, the first fill of Train 4 includes a hold up of about 80 tonnes of REO with up to 150 tonnes of off spec material produced. These effects combined with the short term feed disturbances have translated to a reduction in total production of NdPr for the quarter. By the end of the quarter, production rates had stabilised at about 80% of capacity and are continuing to ramp up now.

Water management at Mt Weld is key to continued growth in operations. As indicated in the last report, the build of the second Tailings Storage Facility (TSF2) was completed on time and on budget. In this quarter, final regulatory approvals for the use of TSF2 were received and pre-commissioning activities were completed. Cash CAPEX in the quarter is primarily related to payments for the work on TSF2.

In previous reports, we have indicated the importance of our programmes to improve the quality of our La and Ce products to better tailor our end products to customer requirements. In the March quarter, we continued with a number of projects in this area. The result was a significant decrease in recoveries as we controlled for other parameters. This work has been highly successful and received very positive feedback from customers and demonstrates our commitment to developing long-term, profitable customer relationships. The reduced production did not affect revenue in the quarter as we met all demand for these products from fresh production and inventory. A number of strategies have been implemented to improve recoveries, while still meeting quality targets.

As previously announced, Lynas has a liquidity buffer facility with both lender groups, whereby funds can be redrawn from Lynas' restricted interest bank accounts as needed by the business, subject to lender approval. In April 2016, in accordance with this agreement, A$8 million was drawdown for costs associated with the Train 4 start-up.

In addition, the company has reached an agreement-in-principle with both lender groups, subject to documentation, for further amendments to the debt facilities to assist the business during this period of prolonged and unprecedented low Rare Earths prices. The further amendments will postpone to the end of December 2016 without penalty any interest payments to be made from May 2016 to September 2016 and will allow the US$2 million principal payment that is due to JARE on 30 June 2016 to be paid by redrawing funds already deposited in the JARE restricted interest account.

Both lender groups have affirmed their continuing support for the Lynas business, as reflected in these further amendments that are scheduled to be documented by the end of May 2016.

The low market pricing continues to challenge the Lynas business. NdPr, at just under US$34/kg remains US$10-$11/kg lower than long term average pricing, and La and Ce products are selling for less than US$2/kg. As our results are reported in A$, the appreciating A$ has added another challenge. However, we are confident the stable and disciplined foundations built over the past two years will enable Lynas to maintain its position as the only sustainable miner and producer of Rare Earths products outside of China.

COSTS

Costs remained well managed throughout the quarter. Despite Lynas paying a significant annual insurance premium of $3 million, the focus on cost control resulted in administration costs of $8 million for the quarter, compared to $7.4 million last quarter.

Production costs were $42.5 million compared to $41.3 million last quarter, reflecting some increased operating costs incurred as a result of the start-up of SX5 Train 4. The operating cost impact from most of the one-time costs associated with the start-up of SX5 Train 4 will be primarily in the June quarter.

Capital expenditure was $3 million, slightly less than forecast. This was due to some payment delays into the June quarter associated with TSF2 completion reconciliations (the impact is less than $0.5 million).

OUTLOOK

The greatest challenge to the Rare Earths market is the continued low pricing of products. The effects of this are felt throughout the industry. In April, the China central government announced a new Rare Earths stockpiling programme to be conducted over several months up to September 2016 aimed at ensuring continued supply of materials even as some producers reduce output.

Lynas welcomes this announcement and intends to support this initiative to ensure the future availability of valuable Rare Earths products.

Lynas is immediately ceasing sales of its mixed Heavy Rare Earths material (SEG). Over the past 18 months, the price of this product has reduced from approximately US$70/kg to less than US$10/kg reflecting, in particular, the collapse in pricing for Europium. Included in the SEG are significant amounts of Dysprosium (Dy) and Terbium (Tb), materials which are important in the production of electric vehicles and wind turbines, both significant growth areas. By stockpiling this material now, Lynas is confident of capturing upside value as demand grows in the future.

In addition, Lynas is considering options related to NdPr and is awaiting confirmation of further details of the China central government initiative before finalising its response.

In the June quarter, Lynas expects to deliver significant growth in production of all products. There will continue to be some effect on revenue from the sale of off spec NdPr in April. However, even if prices remain low, Lynas expects to grow sales revenue on the back of this increased production.

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 March 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 March 2016, at 0.5 per million hours worked.

There were no lost time injuries during the March quarter.

A core part of the Lynas Health, Safety and Environment plans at both Mt Weld and LAMP is the focus on key risks. As part of this program, many of our Mt Weld employees attended a defensive driving on gravel roads program during the quarter. This is a high risk rated activity at Mt Weld and the program covers both theory and practical skills to avoid accidents. The focus on high risk activities at the LAMP during the quarter included audits of confined space activities and Permit to Work/JHA (Job Hazard Assessment) compliance.

MARKETING & SALES

	FY15	Q1 FY 16	Q2 FY 16	Q3 FY 16	YTD FY16
Sales Volumes	7883 REO t	2691 REO t	3082 REO t	3026 REO t	8799 REO t
Sales Revenue (gross)	A$148.6 m	A$46.2 m	A$49.5 m	A$44.5 m	A$140.2 m
Sales Receipts (cash)	A$155.3 m	A$55.4 m	A$50.3 m	A$46.3 m	A$152.0 m

Sales volumes reflect the sale of all fresh production and the drawdown of inventories of La and Ce products. Reduced production of NdPr translated to a lower value sales volume mix.

NdPr remained in high demand from magnet makers in Japan where we maintain over 50% share and in China with selected customers. These customers have been very supportive as we have started up Train 4 including accommodating our need to place some of the early production off spec material.

Cerium sales benefitted from the strong business performance of our key customers in the Autocat and UV cut segments.

Demand for our Lanthanum remained strong, supported by customers in both the Fuel Catalytic Cracking and Ferrite Magnet sectors. These are the two major applications using Lanthanum, both of which are enjoying continuous growth outside China.

NdPr prices remain very low; the small recovery observed in RMB/kg within China was more than offset by the RMB depreciation.

This pricing situation led to most Rare Earths firms in China announcing further losses and triggered the announcement of a new stockpiling program by the China central government. If fully implemented, it will be larger than any of the previous four programs, with an estimated value of USD 1.4 billion, and is aimed at supporting ongoing supply and price recovery especially for NdPr and heavy Rare Earths materials.

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Jan-16	Feb-16	Mar-16
NdPr Domestic China USD/kg VAT excluded	41.4	39.5	31.6	34.1	33.7	33.8	33.9
Base 100	100	95	76	82	81	82	82

Lynas is considering options to best answer the situation and is awaiting confirmation of further details of the China central government initiative before finalising its response.

In the March quarter, the Lynas selling price has been affected by sales of off specification NdPr generated from the start-up of the new separation line. This situation is normal and will continue into April. However, as the new capacity stabilises over the next six months, we expect to ramp up sales to up to 400tonnes/month of NdPr, which is matched to demand from our regular customers.

The continuing support of our key customers in this difficult time has included commitment to sales volumes, favourable payment terms and technical engagement and support when required. This support is appreciated and is an indication of the long term value associated with the Lynas business.

OPERATIONS

	FY14	FY15	Q1 FY16	Q2 FY16	Q3 FY16	YTD FY16
Ready for Sale Production Volume Total	3965 REOt	8799 REOt	3171 REOt	3166 REOt	2567 REOt	8904 REOt
Ready for Sale Production Volume NdPr	946 REOt	2258 REOt	968 REOt	937 REOt	850 REOt	2755 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.

At the LAMP, the final separation train in SX5 production (Train 4) was commissioned and successfully brought on line during the quarter. Each SX5 train has 110 stages with a hold up of approximately 80 tonnes of REO and it takes a couple of months for the train to fill up, reach equilibrium and ramp up. Production will be ramped up during the June quarter.

The Cracking and Leaching (C&L) kilns have continued to operate at above design rates. Two of the four kilns are now being fed with a second generation 24 inch Supamir concentrate/acid pumping system. These are on a 6 week preventative maintenance (PM) interval. The first generation 12 inch Supamir pumping systems PM interval has now been extended to 3 weeks.

In Product Finishing (PF), there was a temporary reduction in La and Ce production due to the impact of further trials to improve product quality. Losses were incurred due to REO loss associated with increased filter cake production when rejecting impurities in pre-treatment precipitation, and changes in the precipitation end point to reduce impurity levels. Late in the quarter, a number of strategies were being implemented to address these losses while still meeting quality targets.

Mt Weld continued to produce on a campaign basis, scheduled to meet LAMP demand.

The strategy for tailings and water management has been progressively streamlined and proven over the past year and is based on a combination of cost effective solutions.

Final regulatory approvals for the use of the second Tailings Storage Facility (TSF2) were received and pre-commissioning activities were completed during the quarter. Beached tailings deposition into TSF2 using the BASF ETD (Enhanced Tailings Deposition) technology will commence in the June quarter.

During the quarter, optimisation of the microfiltration unit and RO (Reverse Osmosis) treatment units to recycle water from the TSF to produce suitable quality water for use in the concentration plant continued. The installation of a second microfiltration unit to increase the recycling capacity is underway and is expected to be commissioned during the June quarter.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 31 March 2016 is set out below.

CASH FLOW	AUD million
OPENING CASH BALANCE 1 JANUARY 2016	**53.6**
INFLOWS	
Net cash receipts from the sale of goods*	46.3
TOTAL INFLOW OF FUNDS IN THE QUARTER	**46.3**
OUTFLOWS	
Other capital expenditure	(3.0)
Royalty costs	(1.1)
Ongoing operational, production and administration costs	(49.5)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	**(53.6)**
Net exchange rate adjustment	**(1.8)**
CLOSING CASH BALANCE 31 MARCH 2016	**44.5**
Summary of Cash Balance	
Cash on Hand and at Call	10.4
Funds for JARE & Mt Kellett interest (Restricted Cash)	34.1
CLOSING CASH BALANCE 31 MARCH 2016	**44.5**

* Includes AUD 7.2m received from customers on deferred sales.

During the quarter, the Group received A$46.3 million from sales compared to A$50.3 million reported in the December 2015 quarter.

Total cash at 31 March 2016 of A$44.5 million was represented by unrestricted cash of A$10.4 million plus restricted cash of A$34.1 million. 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 31 March 2016 was AUD 1.7m, USD 32.5m and MYR 1.2m. The AUD strengthened against the USD by 5.0% in the quarter. This had a negative impact of AUD2.1m on the Australian dollar equivalent of the USD cash holdings. On the other hand, the MYR strengthened against the AUD in the quarter by 4.5%, driving up the Malaysian operating costs reported in Australian dollars.

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