QUARTERLY REPORT

FOR THE PERIOD ENDING 31 DECEMBER 2016

SUMMARY

- RECORD PRODUCTION: NdPr production, at 1,331 tonnes for the quarter, reached design rates
- POSITIVE CASHFLOW: Operating cashflow of A$5.0million despite continued low prices for Rare Earth products
- RECORD SALES: A$65.0m invoiced sales, up from A$53.8m in the September quarter
- COSTS IN LINE WITH FORECAST: Operating costs continue to be well managed at A$53.3M. Costs reduced by A$1/kg on a per unit basis
- NEW DEBT AGREEMENTS IN PLACE: The debt facility amendments, approved by shareholders at the 2016 Annual General Meeting, came into effect in December, including a principal repayment of US$3m to JARE

CEO REVIEW

In the December quarter, Lynas achieved NdPr production at design rates, ahead of the previous guidance which indicated production would be at 90% of design. We produced 1,331 tonnes of NdPr up from 1,176 tonnes in the September quarter. Total REO production at 3,913 tonnes was up from 3,665 tonnes in the prior quarter. These production increases highlight a continuation of solid production and operational performance. We expect these improvements in production to be sustainable.

The improved production underpinned better financial outcomes.

Invoiced sales reached a new high at A$65.0m up from A$53.8m in the prior quarter reflecting record sales of NdPr and good volume of other products. Cash receipts also reached a new high at A$58.3m for the quarter.

Operating cashflow at A$5.0m was a significant improvement on the A$1.7m achieved in the September quarter. Cashflow after investing activities (primarily capex) was A$4.4m. Shareholders will note that we have adopted the cashflow definitions used in the new format of the Appendix 5B. These are very good cashflow results at a time when Rare Earth prices remain low.

Production and administration costs remained well managed and in line for the quarter. Production related cashflows excluding staff costs reduced from A$ 40.7m in the September quarter to A$ 38.1m in the December quarter.

During the December quarter, planning was finalized for our first mining campaign at Mt Weld since 2008. It will commence in January 2017. The total cost of the mining campaign is expected to be approximately A$3m, with costs incurred in the March quarter and the June quarter. The campaign is expected to provide approximately one year of mill feed.

During the December quarter, demand for Rare Earth products, especially NdPr, has remained strong. There was some upward movement in market prices for Lanthanum (La) and Cerium (Ce) materials during the quarter, reflecting the intent of Chinese suppliers to recover profitability after experiencing severe profit reductions over the past 18 months. We expect demand to remain strong over the coming period and are hopeful the recent firming in price for La and Ce may also be reflected for other Rare Earth products.

The debt facility amendments that were approved by shareholders at the 2016 annual general meeting came into effect in December 2016.

Full details of the amendments were set out in the 2016 AGM Notice. The key changes are as follows:

- The terms of both debt facilities have been extended to approximately 4 years, with the JARE facility maturing in June 2020, and the convertible bond facility maturing in September 2020.

- The interest rates on both debt facilities have been reduced significantly. The JARE interest rate has been reduced from 6.0% per annum to 2.5% per annum. The convertible bond interest rate has reduced from 2.75% per annum to 1.25% per annum.

- There are now no fixed principal repayments from unrestricted cash during the term of the facilities. The principal balances of both facilities will be repayable in 2020.

- A principal repayment of US$3m was made to JARE in October 2016 from funds in the restricted cash account. This is shown in the Appendix 5B as cashflow from financing activities.

As noted in the September Quarterly Report, Lynas made a payment of A$5.9m to the Atomic Energy Licensing Board (AELB), relating to the management of the LAMP residues. This deposit was funded by drawdowns under the JARE facility and the convertible bond facility. Those drawdowns were repaid in full during the December quarter.

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 December 2016, at 1.4 per million hours worked.

There was one lost time injury during the quarter. A LAMP maintenance contractor suffered a fracture after a fall due to a loose gridmesh floor panel. It was discovered during the investigation that the gridmesh had been incorrectly installed. An inspection and rectification program has been implemented.

MARKETING & SALES

	Q1 FY 16	Q2 FY 16	H1 FY16	Q1 FY17	Q2 FY17	H1 FY17
Sales Volume REO t	2,691 tne	3,082 tne	5773 tne	3081 tne	3350 tne	6431 tne
Sales Revenue	A$46.2 m	A$49.5 m	A$ 95.7 m	A$53.8 m	A$65.0 m	A$118.8 m
ASP	A$17.2/kg	A$16/kg	A$16.6/kg	A$17.5/kg	A$19.4/kg	A$18.5/kg
Sales Receipts (cash)	A$55.4 m	A$50.3 m	A$105.7 m	A$57.4 m	A$58.3 m	A$115.7 m

Sales volume recovered strongly in the December quarter, especially for NdPr which reached a record level of 1413 tons. As a consequence, our sales revenue reached a new record of A$65.0m.

	NdPr China Domestic VAT excluded						
	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	October	November	December
USD/kg	34.1	33.8	34.5	32.1	30.9	30.6	31.7
Base 100	100	99	101	94	90	90	93

The NdPr market price continued to decrease at the start of the quarter before finally recovering from mid-November. This increase reflected increased demand and visible activity from the Chinese central government as it implemented stricter controls on illegal production. We believe that demand for NdPr should remain strong over the coming period.

Lynas achieved a small price premium compared to the NdPr market price in the quarter, supported by:

- Sustained demand from the Japanese market and our selected customers in China
- The recognition by the market that Lynas is now well established as the second largest supplier of NdPr in the world

- End users placing more importance on being able to trace the origin of Rare Earths from a safe and auditable source of production to their end products.

In the December quarter, we achieved improved prices for our heavy Rare Earth mix (SEG), following the stockpiling program that we had implemented earlier in 2016.

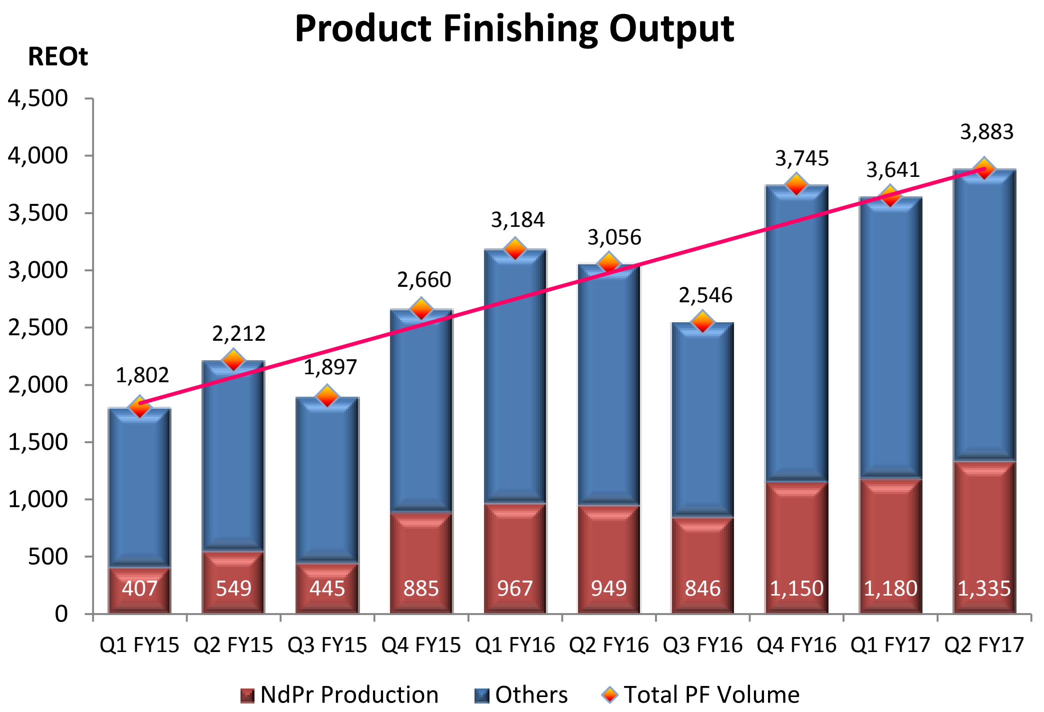
In the March quarter, our priority is to obtain better value for our Cerium and Lanthanum products through adjusting our product quality to specific customers' needs.

OPERATIONS

	FY14	FY15	FY16	Q1 FY17	Q2 FY17	YTD FY17
Ready for Sale Production Volume Total	3965 REOt	8799 REOt	12631 REOt	3665 REOt	3913 REOt	7579 REOt
Ready for Sale Production Volume NdPr	946 REOt	2258 REOt	3896 REOt	1176 REOt	1331 REOt	2506 REOt

Note: The above table sets out "ready for sale" tonnes.

The ramp up of LAMP production continued and for the first time LAMP NdPr production for the quarter was at 100% of design rates



The Mt Weld concentrator continued to operate for a single campaign per month treating a blend of CZ (Central Zone) ore and the lower grade Li (Limonite) ore.

Mobilisation has started for the second mining campaign which will commence in January 2017 and will be completed during the June quarter. Approximately one year of mill feed will be extracted during this campaign. At an estimated cost of A$3m, this campaign has been significantly delayed and is much lower cost than was originally expected. We have been able to delay this significant expense by developing the capability to use large quantities of the lower grade Li ore, which was originally considered to be unprocessable. In addition, the planning of this campaign has been optimised with the key focus on digging lower in the existing pit rather than extending the pit, thus avoiding costly overburden removal.

However, this is a saving we will only make on this campaign. Now that we have reached design production rates, we will start to run more consistent and frequent mining campaigns. Future campaigns will require pit extension and thus will be more costly.

During the December quarter, Cracking and Leaching (C&L) at the LAMP treated over 2,000t REO in concentrate per month for a total of 6,700t REO. The C&L kilns continue to operate at above design rates.

Programs to improve the performance of the older Solvent Extraction (SX) SX5 circuits continued leading to the improved production outcomes.

In Product Finishing (PF), the refinement of processes to produce high quality Lanthanum and Cerium products continues. Developments during the quarter focussed on improved control of precipitation and centrifuge washing to remove impurities.

COSTS

Operating costs in total remained stable over the December quarter compared to the September quarter. As production in REO kg increased by about 7% quarter to quarter, the per unit operating costs were reduced by A$1 from A$15 to A$14 per kg/REO. The higher throughputs were enabled by a more consistent production pattern which also allowed more efficient operations from a cost perspective.

On a cash outflow basis, as presented in the Appendix 5B, the changes can be described as follows:

- Development related cashflows in the December quarter refer to some activation and dewatering costs in preparation for the mining campaign which is mainly taking place during the current quarter. Mining related cash outflows are, in their majority, included in the March quarter's estimate, with the final payments occurring in the June quarter.

- Production related cashflows excluding staff costs reduced from A$ 40.7m in the September quarter to A$ 38.1m in the December quarter, which includes some timing elements but is also related to exchange rate movements, as the Malaysian Ringgit weakened versus the Australian Dollar during the period. Forecast production related cashflows for the March quarter are in line with the prior two quarters.

- Staff related cashflows increased from A$ 8.4m in the September quarter to A$ 9.1m in the December quarter driven mainly by some salary related once a year payments that are customary in Malaysia, but overall remained well below the estimated level. The March quarter estimate sees a slight reduction of the costs but still includes some tax related impacts of the once a year salary payments.

- Administration related cashflows, excluding staff costs, have decreased from A$5.2m in the September quarter to A$ 4.5m in the December quarter, as certain costs associated with a communications campaign in Malaysia and other expat employee tax costs were incurred in the September quarter. The increase compared to the estimate provided in October is due to higher commission payments as the sales mix was more geared towards Japan where commission payments are higher. The estimate for the March quarter increases to A$6m which includes A$1.8m in insurance payments that are incurred once a year.

FINANCE

CASH POSITION

A summarised cashflow for the quarter ended 31 December 2016 is set out below.

CASH FLOW	AUD million	AUD million
OPENING CASH BALANCE 1 OCTOBER 2016		**37.6**
INFLOWS		
Net cash receipts from the sale of goods	58.3	
TOTAL INFLOW OF FUNDS IN THE QUARTER		**58.3**
OUTFLOWS		
Repayment of borrowings	(4.0)	
Royalty costs	(1.4)	
Ongoing operational, production and administration costs	(51.8)	
Other capital expenditure	(0.6)	
TOTAL OUTFLOW OF FUNDS IN THE QUARTER		**(57.8)**
Net exchange rate adjustment		0.4
CLOSING CASH BALANCE 31 DECEMBER 2016		**38.5**
Summary of Cash Balance		
Cash on Hand and at Call		8.5
Funds for JARE & Mt Kellett interest (Restricted Cash)		30.0
CLOSING CASH BALANCE 31 DECEMBER 2016		**38.5**

During the December quarter, the Group received A$58.3m in sales compared to A$57.4m in the September quarter. The September quarter included a pre-payment from customers of A$4m. Other sales related receivables increased from A$1m at the end of September to A$5m at the end of December.

An agreed debt repayment of US$3m (approximately A$4m) was made in the quarter, from the restricted cash account, reducing the outstanding balance on the JARE facility to US$200m.

Total cash at 31 December 2016 of A$38.5m comprised unrestricted cash of A$8.5m and restricted cash of A$30.0m. 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 December 2016 was A$1.2m, US$22.5m and MYR17.4m. The A$ weakened against the US$ by 5.7% but strengthened against the MYR by 2.3% during the quarter.

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