QUARTERLY REPORT
FOR THE PERIOD ENDING 31 DECEMBER 2017

SUMMARY

- RECORD CASHFLOW FROM OPERATING AND INVESTING ACTIVITIES
  - Cash flows from operating and investing activities (including capital expenditure, but excluding principal & interest payments and changes in security deposits) increased to A$45.3m from A$25m in the previous quarter
  - Cash outflows on the same basis were below forecast at A$71.4m
- FURTHER IMPROVEMENTS TO THE BALANCE SHEET
  - Reduction in senior debt (JARE) to US$170m from US$185m in the previous quarter
  - Reduction in Convertible Bond facility to US$86.5m (from US$116.5m in the previous quarter) and further reduction in historic interest liabilities associated with this facility
  - Security deposits of US$23.37m made in accordance with the agreed schedule with the Atomic Energy Licensing Board (AELB) bringing all payments up to date
- ADDITIONAL MAINTENANCE LED TO LOWER THAN FORECAST PRODUCTION
  - Additional maintenance to underpin reliable rates was completed as part of the planned maintenance outage for regulatory inspections, extending the effect of the shutdown
  - NdPr production at 1222 tonnes and total REO production at 4174 tonnes, were below last quarter due to this extended outage
  - Lynas remains on track for sustainable production of 500 tonnes/month NdPr from April 2018
- STRONG DEMAND FOR RARE EARTHS CONTINUES
  - Demand for rare earths in all markets remained strong
  - Prices fell sharply from the high levels in August and September, through to late December
  - Prices have since recovered and are now at about the same level as in March 2017
- SUBSTANTIAL PROGESS ON MINING CAMPAIGN 2 AND PROJECT NEXT
  - Mining Campaign 2 is well progressed with overburden removal substantially complete
  - Work commenced on Project Next build

CEO REVIEW

Financial operating performance was strong in the December quarter. Lynas delivered a new record cashflow from operating and investing activities of A$45.3m, up from A$25m in the previous quarter.

Invoiced sales revenue reduced from the September quarter A$112m due to reduced production and lower prices, but remained strong at A$93.0m. Cash receipts were a record high at A$116m.

The Company has continued to systematically improve its balance sheet, with further repayment of liabilities, in addition to regular interest payments. An early repayment of US$15m was made on the JARE loan in October 2017, reducing the outstanding principal amount of the loan facility from US$185m to US$170m. In addition, a further US$30m of bonds were converted in the quarter reducing the outstanding debt on the convertible bond facility to US$86.5m from US$116.5m. Net interest payments of A$6.7m were made during the quarter.

In accordance with its license conditions in Malaysia, the Company made further security deposits in the amount of US$23.37m (A$30.9m) in the December quarter, as collateral for the financial guarantee or bond, issued to the Malaysian Atomic Energy Licencing Board (AELB). In line with the agreed schedule, further payments to the AELB each in the amount of US$7.79m will be made at the end of calendar years 2018 and 2019. All payments are up to date.

The December quarter marked the start of Lynas' next phase of development with the commencement of activities related to the Lynas Next project. Project scope, planning and engineering activities are well progressed with construction and upgrade work commencing on both sites. As detailed at Lynas' AGM in November, on completion of Project Next, Lynas will produce 600 tonnes/month of NdPr and a higher value added product mix including separated Nd and Pr, additional separated La and Ce and new grades of La and Ce products.

Key to achieving these higher throughputs is improved plant reliability and recoveries at both sites. During the December quarter, work commenced on many of the key Project Next activities at both Mt Weld and Kuantan. In November, additional maintenance work was completed as part of the planned outage for regulatory inspection of 2 kilns (RKA and RKB). This extended the period that production was disrupted resulting in temporary lower than forecast NdPr production. However, this short term disruption will be beneficial to the business in the medium term as it will help to improve plant reliability.

In the September quarter, market settings were highly favourable with rare earths prices at their highest levels in the past 5 years.

In the December quarter, demand remained strong. All key customers sought to increase orders and with the reduced throughput we carefully managed deliveries to meet customer expectations. However, market prices were less favourable than in the prior quarter. The NdPr domestic price in China went from a peak of 510 RMB/kg in mid-August to a low of 255 RMB/kg in mid-December. The price then quickly recovered to around 330 RMB/kg. At the start of calendar year 2018, the NdPr price is at about the same level as it was at the end of March 2017.

To mitigate this price volatility, Lynas is continuing to focus on strategically developing new contract agreements with key customers. As indicated at the AGM, Lynas has reached an agreement with Bosch, a leading global supplier of technology and services, and one of the leading automotive suppliers, for the supply of Bosch's rare earths needs for magnets used in its business. Substantial progress has been made on other long term contracts. With the return to work in Europe after the Christmas break, we now expect to proceed to finalise other long term contracts.

Operating cash outflows at A$71.4m were below forecast and included significant payments related to Mining Campaign 2 and the first Project Next activities.

SAFETY AND ENVIRONMENT

Lynas continues to work to ensure that all operations 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 December 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 2017, at 1.2 per million hours worked.

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

	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18
Sales Volume REOt	3350	3437	4748	4503	4495
Sales Revenue	A$65.0m	A$69.3m	A$75.6m	A$112.0m	A$93.0m
Average Selling Price	A$19.4/kg	A$20.1/kg	A$15.9/kg	A$24.9/kg	A$20.7/kg
Sales Receipts (cash)	A$58.3m	A$69.2 m	A$75.5m	A$88.4m	A$116m

Sales revenue in the December quarter decreased by 17% compared with the record previous quarter, mainly due to lower NdPr production and lower market prices. In addition we chose not to sell SEG because the market price trend for heavy rare earths was unfavourable during the December quarter.

Average Selling Price decreased in the December quarter due to the lower NdPr price and due to a higher proportion of La-Ce products in the product sales mix, although the average selling price for those lower value products increased by 10% from the previous quarter, reflecting ongoing improvements in quality.

Cash collection reached a new record, benefiting from a high carry-over of receivables from the previous quarter. Trade receivables reduced by about A$18m from the high level at the end of September.

	NdPr China Domestic VAT excluded							
	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Oct	Nov	Dec
USD/kg	31.0	33.0	36.5	57.0	44.6	53.1	45.6	36.7
Base 100	100	106	118	184	144	171	147	118

As expected, the sharp price increase experienced in July-August, led to a significant adjustment in the following months. The NdPr domestic price in China went from a peak of 510 RMB/kg in mid-August to a low of 255 RMB/kg in mid-December. The price then quickly recovered to around 330 RMB/kg. As we approach the lunar new year on February 16, this period is typically characterized by low activity in China, with most factories already shutdown and inventories reducing.

Demand for magnets was strong, especially at the end of the year, with exports from China increasing by 10% in 2017 compared to 2016. Demand was very strong in Japan, with significant growth in consumption of all products.

In addition, a new strategic stockpiling program has been announced in China focusing on NdPr, Nd, Tb, Dy and Lu.

OPERATIONS

	FY14	FY15	FY16	FY17	Q1 FY18	Q2 FY18
Ready for Sale Production Volume Total	3965 REOt	8799 REOt	12631 REOt	16003 REOt	4665 REOt	4174REOt
Ready for Sale Production Volume NdPr	946 REOt	2258 REOt	3896 REOt	5223 REOt	1442 REOt	1222 REOt

Lower NdPr production in the December quarter was due to a combination of:

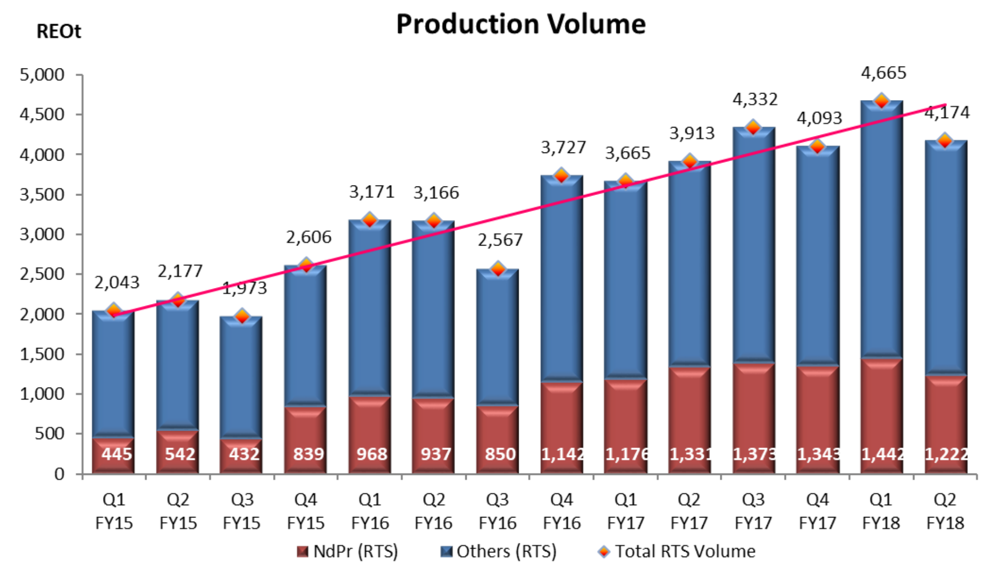
- A planned maintenance outage for kiln repairs and upgrades to the kiln feed system and waste gas treatment plant. This included the planned shutdown of 2 kilns (RKA, RKB) for regulatory inspections in November;
- Additional maintenance required for some equipment (i.e. RKC Combustion Chamber and the Concentrate Pipe Conveyor). In both these cases, the equipment is earmarked for redesign and replacement.

At the higher throughputs, a number of equipment issues, which were less important at lower throughputs, need to be upgraded. These have been identified and are either part of the Lynas Next project scope or will be upgraded as part of planned maintenance change-outs.

During the quarter, the conversion of the feed system for RKB to the 24" Supamir system was completed. All four kilns have now been upgraded to the 24" Supamir kiln feed system, which can operate at higher throughputs and require less frequent maintenance than the earlier 12" Supamir system.

The two major causes of kiln down time (apart from planned major shutdowns) have been repairs to the waste gas ducting and cleaning of the waste gas system. The waste gas ducting for RKB was upgraded from very costly Hastelloy ducting that typically requires replacement after 3 to 4 months to a larger diameter, refractory lined stainless steel design. The refractory is much more resistant to corrosive attack and many times thicker. The same upgrade is planned for the other three kilns.

Modifications were completed during the quarter to allow RKA and RKB to operate with a dedicated waste gas spray tower each, instead of both kilns feeding one spray tower. The reduction in gas velocity is expected to reduce the frequency of cleaning. Similar modifications for RKC and RKD are planned.



Mining Campaign 2 is on schedule. The removal of overburden is expected to be substantially completed by mid-January 2018. Ore mining commenced during the later part of December 2017 on a dayshift only, at a reduced scale to ensure ore grade control is maintained. Crushing and screening of the new ore will commence in mid-January 2018. This ore is expected to be similar to the original Mining Campaign 1 ore.

The AP Depth Extension Drilling program was completed during the December quarter. Assaying of the samples is in progress.

CASH OUTFLOWS

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

- Actual cash outflow for the quarter was A$71.4m, excluding interest, debt and deposit related flows. On the same basis, forecast cash outflow was A$75.1m;
- An early repayment of US$15m (A$19.6m) was made to JARE in October 2017;
- Net interest payments of A$6.7m were made that included: (i) the interest accrued from July – December 2017 on both the outstanding convertible bonds and the JARE loan and (ii) interest for 2016 (full year) and 2017 (1 July 2017 to the date of actual conversion of bonds) on the portion of the bonds converted during the quarter.
- Security deposits in the amount of A$30.9m were made during the quarter. A US$23.37m security deposit was made as collateral for the financial guarantee or bond issued to the Atomic Energy Licencing Board (AELB) in Malaysia during the December quarter. In line with the agreed schedule, payments to the AELB in the amount of US$7.79m will be made at the end of calendar years 2018 and 2019. All payments are up to date.
- The upcoming March 2018 quarter administration cost forecast includes A$2.8m in relation to the annual insurance payment. Additionally, development cash outflows include further costs related to Mining Campaign 2 and Project Next. Costs associated with Project Next represent approximately A$8m of the forecast A$15.2m in development expenditure.
- In the upcoming half-yearly financial report, more detailed Balance Sheet information will be provided. The nominal debts and the 2016 interest liabilities related to the convertible bonds have reduced to the following balances at each quarter end:

	June 2017	**Sept 2017**	**Dec 2017**
JARE Loan	US$200m	$US185m	US$170m
Convertible Bonds	US$225m	US$116.5m	US$86.5m
CB Interest Liability 2016	US$6.0m	US$3.4m	US$2.3m

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 31 December 2017 is set out below.

CASH FLOW	A$ million	A$ million
OPENING CASH BALANCE 1 OCTOBER 2017		**58.4**
INFLOWS		
Net cash receipts from the sale of goods	116.5	
TOTAL INFLOW OF FUNDS IN THE QUARTER		**116.5**
OUTFLOWS		
Royalty costs	(2.3)	
Ongoing operational, production and administration costs	(65.5)	
Repayment of borrowings	(19.6)	
Net interest and other costs of finance paid	(6.7)	
Payment of security deposit	(30.9)	
Other capital expenditure	(3.5)	
TOTAL OUTFLOW OF FUNDS IN THE QUARTER		**(128.5)**
Net exchange rate adjustment		1.4
CLOSING CASH BALANCE 31 DECEMBER 2017		**47.8**
Summary of Cash Balance		
Cash on Hand and at Call		47.8
Funds for JARE & Mt Kellett interest (Restricted Cash)		-
CLOSING CASH BALANCE 31 DECEMBER 2017		**47.8**

The Group received A$116.5m in cash from sales during this quarter compared to A$88.4m in the September 2017 quarter.

Total cash at 31 December 2017 of A$47.8m is unrestricted. The payment of the security deposit is held as collateral for the financial guarantee or bond in the amount of US$23.37m (A$30.9m) issued to the Malaysian Atomic Energy Licencing Board during the December quarter.

Under the JARE facility, on each 30 June and 31 December, when the total unrestricted cash balance exceeds A$40m, the surplus is paid as a principal repayment to JARE pursuant to a cash sweep mechanism. If Lynas received the proceeds from an equity raising (such as an issuance of shares or an exercise of warrants), then the following amounts are exempt from the cash sweep: (i) 75% of the proceeds received up to a cumulative balance of US$50m, and (ii) 50% of the proceeds above a cumulative balance of US$50m. Following the early repayment of US$15m that was made to JARE in October 2017, no further principal repayment was made under the cash sweep mechanism as at 31 December 2017, because A$7.9m of the unrestricted cash was exempt from the cash sweep under the above test.

FOREX

The currency composition of the Group's cash at 31 December 2017 was A$4.9m, US$5.2m and MYR 115.2m. The A$ remained steady against the US$, whilst the A$ strengthened 4.5% against the MYR during the December quarter.