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**QUARTERLY REPORT**

**FOR THE PERIOD ENDING 30 JUNE 2015**

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**HIGHLIGHTS**

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- Positive free cashflow (revenue less operating costs and CAPEX) of A\$6.4m for the quarter; substantially improving on the first ever positive free cashflow result recorded in March
  - Total production volume of 2,606 tonnes, compared to 1,973 tonnes for the previous quarter
  - 839 tonnes of NdPr produced, up 94% on the volume produced last quarter
  - A\$51.9m Total Gross Sales Revenue, a record high, up 74% on the prior quarter
  - Continuing careful application of cash with cash outflows of A\$46.3m, A\$5.9m less than the forecast in the March Quarter Appendix 5B
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**CEO REVIEW**

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The Rare Earths market is one that is characterised by speculative activity. Company valuations can show great volatility based on announcements and rumours.

While we expect a level of uncertainty in the rare earths market to continue in the near term, we remain focused on becoming the strongest performing company within this market.

The result achieved this quarter is the next step in Lynas' resolve to build a company whose valuation is based on actual performance rather than speculation.

For Lynas' shareholders, these results reward their patience and reflect the achievement of key production and operational milestones. To the broader group of stakeholders, the results signal Lynas' turnaround and ability to deliver on the goals outlined at the beginning of this financial year.

As we look forward, Lynas' ongoing value growth will be achieved by a continuing focus on:

- Safe, stable production
- Quality customer delivery
- Efficient use of resources
- Excellent productivity

It is pleasing to provide this report at the end of a year that has been marked by significant changes for the business.

At the beginning of this year Lynas indicated its intent to:

- Reset the cost base of the business
- Improve business efficiency by locating all staff on site either in WA or Malaysia
- Accelerate production ramp up, targeting stable operation at or above design rates in all areas



- Grow market share, particularly in the high value Japanese market
- Acquire customers to ensure consumption of 100% of production, not just high value NdPr
- Further develop solutions to minimise and manage all waste streams

We are very pleased to advise that we have successfully completed significant change programmes in all these areas. In addition, we have focused on embedding a company culture focused on continuous improvement. Some of the most significant successes across the year have been the result of the ideas and application of our operational staff.

These achievements show the commitment of the Lynas team to make the hard decisions to prosper in a market that is less forgiving than in 2011 / 2012. The team has implemented these decisions with focus and discipline setting a good base for further improvements.

The market pricing for Rare Earths products is at a cyclical low. Success in this environment will require Lynas to continue to apply the same focus and discipline to delivering further improvements in the business.

Ongoing stability in production output is essential to maximising returns over this time. The next steps in removing potential bottlenecks and optimising production output are:

- i) continued optimisation of three SX5 trains
- ii) debottlenecking of Phase 2 leach circuit
- iii) upgrading of tailings and water treatment capacity for Mt Weld.

We expect the first 2 initiatives to be complete in Q1 FY16. The work building the new tailings facility at Mt Weld will commence in Q1 and is expected to be complete and operational by Q4.

With increasing stability in production rates, focus will now shift to core production costs. We have detailed programmes to improve the underlying cost of production, including improving recovery rates at both Mt Weld and the LAMP. By continuing to reduce the cost/kg produced, we will mitigate the effects of the current low market prices.

Actions implemented over the last year have significantly reduced the Lynas cost base. Most of the initiatives have been focused on fixing a number of basic commercial elements including reducing overhead costs and reviewing supply contracts.

An example of this is the announcement today of the outcome of extended negotiations with one of our key suppliers of chemicals used in the production process at LAMP. Under the revised agreement announced today, Lynas does not expect to pay any further penalty payments over the course of the contract. As a result, the previous "onerous contract" provision of A\$42.3m is expected to be removed from the accounts of Lynas, as detailed in our announcement released today.

The continued improvement in business performance underpins very constructive discussions with both of Lynas' lender groups aimed at ensuring improved outcomes for all financial stakeholders. As these discussions progress, we will provide further detail to the market over the next quarter.

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## SAFETY AND ENVIRONMENT

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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 achieved an excellent safety record with the Company-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of June 2015 at 1.9 per million hours worked.

There were no lost time injuries during the June 2015 quarter.

We actively manage all parts of our operations to meet best-practice safety benchmarks and industry leading environmental standards. This is a crucial part of our commitment to the communities in which we operate. We welcomed the recent release by the International Atomic Energy Agency (“IAEA”) of its latest report on the LAMP. The IAEA Report confirmed that “the radiological risks to members of the public and to the environment associated with the operation of Lynas Advanced Material Plant are intrinsically low.”

Recent media reports have highlighted some of the environmental issues caused by other rare earths producers. Many of our customers use our products in environmentally significant applications. We are pleased to sit apart from other manufacturers by offering our customers products with assured provenance from mine to finished product. By using Lynas products, our customers can be confident of their environmental positioning.

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## MARKETING & SALES

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	FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	YTD FY15
Sales Volume Total REO t	3008 REOt	1546 REOt	2014 REOt	1970 REOt	2353 REOt	7883 REOt
Sales revenue (gross)	A\$66.2 m	A\$31.0 m	A\$35.9 m	A\$29.8 m	A\$51.9 m	A\$148.6 m
Sales receipts (cash)	A\$58.4 m	A\$32.4 m	A\$44.2 m	A\$25.9 m	A\$52.7 m	A\$155.3 m

Supported by the improvements seen in production through this quarter, both in terms of quantity and quality, we have set a new record in sales with over 2,350 tonnes sold this quarter.

Welcoming this step change, our customers have responded very positively, in particular, outside China:

- NdPr sales to Japan reached over 630tons, setting Lynas above 60% market share, and further strengthening the partnership built over recent years with Japanese industry.
- 80% of our La and Ce products were sold outside China, thanks in particular to strong demand for our Cerium.

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As a result of Lynas demonstrating its stable operation, we have also engaged in very productive discussions with a number of end users, in particular in Europe, who are seeking to secure long term access to rare earth products to meet their fast growing needs.

Market prices have been affected at the end of the quarter by the announcement by the Chinese government in regard to the rare earth export and resource taxes:

- Export taxes have been cancelled as expected, reducing substantially the cost handicap between magnet makers inside and outside China. We expect this will support the growth of magnet makers outside China.
- The new resource tax, which leaves the tax extraction cost of Rare Earth unchanged for light rare earths, has fallen short of expectations of a number of speculators who had accumulated product in pursuit of future profits. These speculators are now realizing their loss with a negative impact on market price. Market data, and historic trends, indicate the current price level is unsustainable as it does not cover extraction costs in China. When this price level has been reached previously, demand has tightened as Chinese producers have shut down capacity.

NdPr price trend	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
China Domestic (VAT excluded) USD/kg	41.4	42.3	41.8	39.8	37.8	38.4	39.4	41.6	43.4	40.9	40.3	37.3
China Domestic Base 100	100	102	101	96	92	93	95	100	105	99	98	90

## OPERATIONS

	FY14	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15	YTD FY15
Production Volume Total	3965 REOt	2043 REOt	2177 REOt	1973 REOt	2606 REOt	8799 REOt
Production Volume NdPr	946 REOt	445 REOt	542 REOt	432 REOt	839 REOt	2258 REOt

The success of the program to stabilise the operation of the SX5 circuits which were the production bottleneck during Q3 2015 resulted in a step change increase in the production of NdPr and LaCe products. These circuits separate the NdPr from the LaCe and are the most complex part of the Solvent Extraction process. We now understand the causes of the problems encountered during Q3 2015 which resulted in separation and stability issues. A program of operational and technical improvements has resulted in the stabilisation of the SX5 trains.

The large stockpile of concentrate at Mt Weld has been reduced so that the Mt Weld concentrator is now operating to match LAMP feed requirements. The Mt Weld operations roster, previously limited to two 7½ day campaigns per month, has been changed to allow the concentrator to operate a single extended campaign per month without the need go from 2 shift panels to full 4 shift panel coverage. The duration of the campaign can be adjusted to meet LAMP requirements. Other improvements during the quarter

include the installation of a heat exchanger to reduce boiler diesel consumption and the processing of some lower quality Li ore not previously scheduled for current production.

At the LAMP, the Cracking and Leaching (C&L) units have continued to perform well, at above design rates and in line with requirements. The most recent upgrade of the in house designed feed kiln feed system, installed on kiln D, successfully increased the period between maintenance repair intervals from 14 days to 2 months.

The capacity of two of the eight Product Finishing (PF) tunnel furnaces has been increased by 50% by utilising larger crucibles. The remaining tunnel furnaces will be upgraded progressively.

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## **CORPORATE**

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### **ANNUAL GENERAL MEETING**

The 2015 Annual General Meeting of Lynas shareholders will be held at 10am (Sydney time) on Monday 23 November 2015 at the Sheraton on the Park, 161 Elizabeth Street, Sydney. A notice of meeting will be issued closer to that date.

### **MALAYSIAN LITIGATION**

In total, there were three legal challenges to the Temporary Operating Licence (TOL) under which the LAMP operated from September 2012 to September 2014.

The first challenge, which was filed in the High Court of Malaya in Kuala Lumpur, related to the decision of the Atomic Energy Licensing Board (AELB) in February 2012 to approve the TOL. That challenge was dismissed by the Kuala Lumpur High Court, the Malaysian Court of Appeal and the Malaysian Federal Court. There are no further avenues for that challenge to be appealed.

The second challenge comprises two concurrent applications filed in the High Court of Malaya in Kuantan. The second challenge relates primarily to the decision of the Minister of Science, Technology and Innovation to dismiss a statutory appeal of the AELB's decision to approve the TOL. The clarification hearing for the second challenge is scheduled for late August 2015 in the Kuantan High Court. Once the clarification hearing is completed, the judge will either make her decision or reserve her decision until a later date.

The third challenge, which was filed in the High Court of Malaya in Kuantan, related primarily to the decision of the AELB in September 2012 to issue the TOL. That challenge was dismissed by the Kuantan High Court, the Malaysian Court of Appeal and the Malaysian Federal Court. There are no further avenues for that challenge to be appealed.

**FINANCE**

**CASH POSITION**

A summarised cash flow for the quarter ended 30 June 2015 is set out below.

<b>CASH FLOW</b>	<b>A\$M</b>
<b>OPENING CASH BALANCE 1 APRIL 2015</b>	<b>44.4</b>
<b>INFLOWS</b>	
Net cash receipts from the sale of goods	52.7
<b>TOTAL INFLOW OF FUNDS IN THE QUARTER</b>	<b>52.7</b>
<b>OUTFLOWS</b>	
Other capital expenditure	(1.5)
Royalty costs	(0.6)
Ongoing operational, production and administration costs	(44.2)
<b>TOTAL OUTFLOW OF FUNDS IN THE QUARTER</b>	<b>(46.3)</b>
<b>Net exchange rate adjustment</b>	<b>1.1</b>
<b>CLOSING CASH BALANCE 30 JUNE 2015</b>	<b>51.9</b>
<b>Summary of Cash Balance</b>	
Cash on Hand and at Call	31.3
Funds for Sojitz & Mt Kellett interest (Restricted Cash)	20.6
<b>CLOSING CASH BALANCE 30 JUNE 2015</b>	<b>51.9</b>

During the quarter the Group achieved receipts from sales of A\$52.7m compared with A\$25.9m reported in the March 2015 quarter.

Total cash at 30 June 2015 of A\$51.9m was represented by unrestricted cash of A\$31.3m plus restricted cash of A\$20.6m. The restricted cash will be used to fund interest payable to Sojitz and Mt Kellett.

**FOREX**

The currency composition of the Group's cash at 30 June 2015 was A\$6.4m, US\$30.9m and MYR14.5m.

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

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