QUARTERLY REPORT

FOR THE PERIOD ENDING 31 DECEMBER 2014

HIGHLIGHTS

- Sixth successive quarter of increased production volume and sales revenue
- Equity raising completed, with $83million received (less expenses)
- Cash outflows in line with estimated cash outflows shown in the Quarter 1 Appendix 5B
- Positive operating cashflow (revenue less production costs and administration costs) of $1.2 million for the month of December
- Board renewal completed with a new Chairman and a new Non-Executive Director appointed

CEO REVIEW

At the beginning of this quarter, our priorities were to:

- Finalise the equity placement and rights issue
- Continue to manage cash carefully
- Focus on continuing cost reduction initiatives
- Optimise production to demand
- Grow sales to strategic customers and clear excess stocks
- Target operating cash breakeven in either the December or January quarters

We are very pleased to have achieved each one of these goals. In particular, our ability to finish the quarter with a positive operating cashflow of $1.2 million for the month of December, marks a first in the history of Lynas.

Through the quarter we have built on our core competencies, and we have worked hard to create new areas of strength. This focus is vital to successfully competing in a very difficult market environment. These areas of strength include:

- Further development of a strong and loyal core customer base who value the reliability, dependability and assured provenance of Lynas' products
- Working constructively with our long-term committed Japanese partner, Sojitz, and with our customers, 75% of our total sales value was from sales to our Japanese customers
- Achievement of stable operation at or above design rates in our Cracking & Leaching area
- Improving our ability to configure production capability to meet customer demand
- Continuing disciplined approach to cash management. Cash outflows on production, administration and development, excluding interest and funding related costs, were $53.5million during the quarter, in line with forecast
- Establishment of an experienced production team focused on achieving stability in all areas of production

Despite these improvements, Lynas does not expect to sustain the positive operating cash flow achieved in December into the March quarter. Factors contributing to this include the current market environment which is characterised by low demand and pricing due to continued uncertainty relating to Chinese government policy as well as ongoing costs associated with restructuring.

In addition, while Lynas' quarter-on-quarter trend has consistently shown increased production volumes, issues have arisen from time to time during production ramp up that have required remedial action. For example, production of NdPr was limited in the period from 20th December to 7th January due to instability in the solvent extraction phase. Actions to address this issue are being implemented and production is now returning to stable rates. Whilst we will seek to recover production through the current quarter, it is unlikely we will be able to mitigate the full effect.

There are indications that market pricing may recover slowly over the next quarter as inventories in the supply chain are consumed. With many of the cost management actions in place and much tighter controls on all management aspects, Lynas is now well placed to benefit from any upward movement in price and demand.

SAFETY AND ENVIRONMENT

Lynas has implemented 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 achieved an excellent safety record with the Company-wide 12-month rolling Lost Time Injury Frequency Rate as at the end of December 2014 at 2.6 per million hours worked.

The Company sustained one lost time injury in Western Australia and none in Malaysia during the December 2014 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.

Environmental performance is also increasingly important to our marketing success. There is growing global demand that manufacturers provide assurance of the provenance and environmental practices of their inputs. This is particularly so for many of our customers who use our products in environmentally significant applications. Therefore careful stewardship of environmental standards is important throughout our operations. By using Lynas products, our customers can be confident of their environmental positioning.

We are pleased to continue achieving more efficient processes for water and waste management at Mt Weld and the LAMP.

MARKETING & SALES

	FY14	Q1 FY15	Q2 FY15	YTD FY15
Sales Volume Total	3008 REOt	1546 REOt	2014 REOt	3560 REOt
Sales Receipts Total	A$58.6 m	A$32.9m	A$45.1 m	A$78.0 m

In the past quarter, Lynas increased sales both by tonnage and value.

Japan, the biggest Rare Earths market outside China, is Lynas's key market in terms of revenue and volume. In the December quarter, sales to Lynas's Japanese customers represented 75% of revenue and 43% of volume sold.

Our focus on providing excellence in customer service and quality of product to the Japanese market has resulted in increased market share and stronger customer relationships. Lynas Rare Earths products represented approximately 40% of the NdPr sold into the Japanese magnet industry in the December quarter.

In the Japanese Rare Earths market, Lynas supplies at least one leading customer in each market segment, providing a strong platform for growth in the near future.

In the quarter the Company made good progress on its objective to expand market share, reach and penetration. We were pleased to grow share of consumption with a number of our key customers. In addition, we entered into regular supply with four new customers and engaged with new customers in new segments. Most significantly, we concluded our first deal where an end use manufacturer specified the use of Lynas materials to its magnet supplier.

In November, Lynas held its third successful Customer Day at the LAMP in Kuantan. The Customer Day was attended by Lynas partners, suppliers and customers from all over the world and demonstrated our commitment to the high level of stewardship Lynas has over the environmental standards, quality of inputs and materials through each step of our operations.

These sales development actions have been undertaken in a very challenging market environment. Market demand and consequently market pricing was soft across the quarter. This reflected the continued uncertainty regarding Chinese government policy and its likely effect on Rare Earths pricing. Many customers chose to use inventories of Rare Earths rather than purchase fresh stocks. As a consequence, Lynas sold 60 tonnes of NdPr at spot price into the Chinese market during the quarter. In addition, the overall depressed demand fed into lower prices which affected Lynas across all products. Significant market price reductions occurred in each our two most valuable products.

On spec NdPr pricing reduced by US$3.4/kg in the December quarter compared to the September quarter, which was reflected in Lynas prices outside China.

NdPr Market Price Trend	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
China Domestic Price USD/kg	41.2	42.5	41.8	39.8	37.8	38.4
China Domestic Price Base 100	100	101	101	95	86	79

In addition, SEG pricing reduced by US$5.8/kg in this quarter as its most valuable component, Europium, lost 27% of its value. This collapse in Europium value reflects the shift from Rare Earths Lighting systems to LED based Lighting systems.

In this quarter excess and off specification stocks accumulated during the start up phase of the plant were sold. Stock on hand at the end of the quarter consisted mainly of consignment stock with a small amount of Cerium and Lanthanum which is expected to be sold in the March quarter.

OPERATIONS

	FY14	Q1 FY15	Q2 FY15	YTD FY15
Production Volume Total	3965 REOt	2043 REOt	2177 REOt	4220 REOt
Production Volume NdPr	946 REOt	445 REOt	542 REOt	987 REOt

There was a 22% increase in NdPr production for the quarter. The improvement in NdPr quality achieved since mid August 2014 was sustained during the December quarter.

Improvements in both the throughput and reliability of kiln operations continued during the December quarter. The kilns which were the bottleneck for the LAMP from start up until the September 2014 quarter can now reliably produce consistent quality leach liquor feed for the Solvent Extraction circuits. All four kilns are now capable of operating at or above design throughput rates. During November and December, two kilns with one on standby produced sufficient feed for Solvent Extraction.

Solvent Extraction is the current LAMP constraint with only Phase 1 in full operation. The Phase 1 Solvent Extraction circuits have been operated at design rates, but the reliability of operation is still improving. Commissioning of the Phase 2 Solvent Extraction plant commenced during the quarter. Some of the Solvent Extraction stages require significant REO feed which has required several weeks to load and stabilise. A portion of the REO fed into the LAMP was used to fill the Phase 2 Solvent Extraction stages therefore reducing production of ready to sell product. Production of on specification NdPr from Phase 2 is expected in the next quarter.

BOARD RENEWAL

As announced at the Company's AGM, Nicholas Curtis will stand down after 14 years of service to the Company, with effect from 1 February 2015.

On December 18, Lynas announced the appointment of Mike Harding as the new Non-Executive Chairman and Philippe Etienne as a new Non-Executive Director. Both appointments were effective from 1 January 2015.

Mr. Harding has significant experience with industrial businesses, having previously held management positions around the world with British Petroleum (BP), including as President and General Manager of BP Exploration Australia.

Mr. Harding is currently Chairman of Downer EDI Ltd, and a Non-Executive Director of Transpacific Limited. He is a former Chairman of Roc Oil Company Limited and a former Non-Executive Director of Santos Limited and Clough Limited.

Mr. Etienne is currently a Non-Executive Director of Transpacific Limited and a former Managing Director and Chief Executive Officer of Innovia Security Pty Ltd. He was previously Chief Executive Officer of Orica Mining Services and was a member of Orica Limited's Executive Committee.

Upon his resignation, the Board of Lynas thanked Nick Curtis for his role as the visionary founder of Lynas. Mr Curtis' long-standing commitment to Lynas has been the Company's driving force over the last 14 years and the Board and management of Lynas wish him the very best for the future.

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 31 December 2014 is set out below.

CASH FLOW	A$M
OPENING CASH BALANCE 1 OCTOBER 2014	**16.9**
INFLOWS	
Cash Receipts from the sale of goods	45.1
Interest income	0.1
Proceeds from the issue of share capital	83.0
TOTAL INFLOW OF FUNDS IN THE QUARTER	**128.2**
OUTFLOWS	
Capital expenditure	(3.3)
Interest expense and other costs of finance	(4.4)
Ongoing operational, production and administration costs	(48.3)
Repayment of borrowings	(12.3)
Payment of transaction costs - Issue of shares	(5.1)
Royalty costs	(1.4)
TOTAL OUTFLOW OF FUNDS IN THE QUARTER	**(74.8)**
Exchange rate adjustment to opening position	**0.5**
CLOSING CASH BALANCE 31 DECEMBER 2014	**70.8**
Summary of Cash Balance	
Cash on Hand and at Call	64.1
Funds for Sojitz interest (Restricted Cash)	6.7
CLOSING CASH BALANCE 31 DECEMBER 2014	**70.8**

The Group paid A$0.4m and A$2.1m in relation to interest expenses on the Sojitz Facility and Mt Kellett convertible bonds respectively in the current quarter.

During the quarter the Group achieved receipts from sales of A$45.1m compared with A$32.9m in the September 2014 quarter reflecting increased sales of REO products.

During the quarter the Group completed an equity raising resulting in net proceeds after transaction costs of approximately A$77.9m.

Total cash at 31 December 2014 of A$70.8m was represented by unrestricted cash of A$64.1m plus restricted cash of A$6.7m (which is used to fund the semi-annual interest payable to Sojitz which is next due in March 2015).

Forex

The currency composition of the Group's cash at 31 December 2014 was A$17.6m, US$24.4m and MYR66.2m. During the quarter, the Australian dollar depreciated by 7% against the US dollar, resulting in a positive exchange rate adjustment of A$0.5m to the opening cash balance.

A stronger US dollar has some positive effects because sales revenue is primarily in US dollars. However, there are also negative effects, primarily because: (i) a number of significant inputs are purchased in US dollars, and (ii) all debt and debt service repayments are denominated in US dollars. The company will continue to consider FX management and seek to manage its impact on results.

FUNDING

On 24 September, the Company entered into a binding term sheet with JARE where it was agreed to amend the existing senior secured debt facility to take effect from 30 September 2014. The amendment incorporated an amended repayment schedule resulting in the reduction of principal instalments in FY15 from US$80m to US$40m.

As part of the amendment, Lynas agreed to pay an increased interest rate of 7%, retain the JARE first ranking security for the term of the loan and to prioritise NdPr supply to Japanese Rare Earths consumers.

In addition, on 29 September, Lynas conducted a A$12m institutional placement and issued a prospectus in connection with a fully underwritten A$71m rights issue. The proceeds from the placement were received on 1 October and the rights issue proceeds were received on 27 October. Net of associated transaction costs, Lynas has received proceeds of A$77.9m. Associated with the placement and rights issue, Lynas has also issued 740,303,020 A$0.09 options to participants and underwriters. These options, if exercised, may result in an additional capital injection of up to A$66.6m in September 2015.

As a result of the share issue, the Mt Kellett convertible bond conversion price was adjusted downwards to A$0.5634 per share.