# QUARTERLY REPORT
# FOR THE PERIOD ENDING 30 SEPTEMBER 2018

## SUMMARY

- OPERATING PERFORMANCE
  - Cash flows from operating activities of A$32.8m, up 58% on the June quarter
  - Invoiced sales revenue was A$105.6m, an increase of 15.2% on the June quarter

- RECORD PRODUCTION
  - Record REO production of 5,220 tonnes, up 8.7%, and record NdPr production of 1,579 tonnes, up 9.1% on the June quarter
  - Lynas NEXT production target reached with over 600 tonnes of NdPr produced in September for the first time

- MARKET DYNAMICS
  - Strong demand for Lynas Rare Earths continued, especially from Japanese customers, enabling Lynas to achieve record sales of A$105.6m in the quarter
  - Published price for NdPr remained flat during the quarter

- LYNAS NEXT ON TRACK FOR COMPLETION IN DECEMBER QUARTER
  - Lynas NEXT initiatives continue on time and on budget with significant improvements in recoveries and reliability leading to record production results
  - New circuit for separating Nd and Pr to be commissioned in the December quarter

## CEO REVIEW

Lynas achieved record operational performance in the September quarter, as a result of Lynas NEXT improvements. In the month of September, over 600 tonnes of NdPr was produced for the first time, proving Lynas' capability to deliver at this increased production rate.

Invoiced sales revenue for the September quarter was A$105.6m, an increase of 15.2% on the June quarter. This was the result of strong demand from Lynas' strategic customers. Sales receipts were A$105m for the quarter.

A key achievement during the September quarter was record total REO at 5,220 tonnes, up 8.7% on the 4,804 tonnes produced in the previous quarter. NdPr production increased to a record 1,579 tonnes, an increase of 9.1% on the 1,447 tonnes in the June quarter. This included a record of over 600 tonnes in September as a result of Lynas NEXT upgrades.

During August, Lynas' plant in Gebeng, Malaysia, experienced external water supply issues for the third time in 2018. To reduce the effect on production, Lynas accessed water from two additional water sources, commissioned the construction of a third water storage pond, to be completed at the end of 2018, and implemented water saving initiatives that resulted in a 20% reduction in water consumption at the Lynas Malaysia plant. In addition, Lynas and other users in the Gebeng estate made contributions in the amount of MYR 500k each to partially fund structural work on the embankment near the local pump house which is expected to be completed next quarter. These disruptions inhibited Lynas' ability to produce at the higher Lynas NEXT production rates during the month of August.

The China domestic published price flattened to an average of US$40.5/kg NdPr during the quarter, due to a temporary decrease in demand for magnets in China and the continued operation of illegal NdPr processors. Nonetheless, the market remains positive and Lynas continues to be in a strong position as the only miner and producer of rare earth materials outside China.

Lynas NEXT improvements remain on track and in line with budget, with major works completed at both Mt Weld and Lynas Malaysia. This included an update to the Mt Weld Mineral Resource and Ore Reserve Statement including a 70% increase in Mineral Resource and a 60% increase in Ore Reserve. Other work completed during the quarter included the construction of the third Tailings Storage Facility (TSF3) at Mt Weld and the construction of new SX circuits at Lynas Malaysia that will be commissioned to separate Nd and Pr next quarter. On completion of the TSF3 during the quarter, Mining Campaign 2 resumed and has since concluded, with the last ore extracted on 1 October 2018.

Lynas is proud of this strong quarterly result and the Company's ability to deliver world-class material to customers around the world from our plant in Malaysia, as the second largest producer of NdPr in the world.

The Malaysian Government has announced the establishment of a committee to review Lynas Malaysia's operations. Lynas will cooperate with confidence in our performance and will continue to adhere to international best practice to ensure our operations are safe for our people, our local communities and for the environment.

## MALAYSIA UPDATE

As noted in the June quarterly report, the Malaysian government has undertaken to review, update and reform many aspects of Malaysian governance and society. Since then, the Malaysian government has announced its intention to review Lynas' operations. To date, the following details have been announced:

- The members of the review committee have been named;

- The committee has been given six weeks to perform the review; and

- The objective of the committee is to evaluate Lynas Malaysia's operations including safety, health and environment aspects, and residue storage.

In addition, Lynas understands that the first meeting of the review committee has occurred and that the review committee will visit the LAMP in early November. Lynas will continue to engage with the Malaysian Government to seek further details of the review committee and related regulatory issues in Malaysia, and Lynas will release further details to the ASX as they are received.

Lynas' FY2018 annual report noted that there are certain ongoing approvals related to operations of the business in Malaysia and as Lynas continues to ramp up operations, there are various conditions in the operating licences that may require amendments to accommodate expansions of the business. Such amendments would require approval from the relevant regulatory authorities, including increases to concentrate import volumes, additional residue storage approvals and periodic renewals of licences. While in recent months "business as usual" regulatory approvals have been taking longer than had previously been the case, Lynas has now begun receiving such "business as usual" regulatory approvals.

Lynas has an annual approval for the volume of lanthanide concentrate that can be processed at Lynas Malaysia. Based on production in the year to date, we have applied for an increase in the annual limit. The effect of the requested increase is within the parameters of the existing Environmental Impact Assessment (EIA) and Radiation Impact Assessment (RIA).

If the approval is not received shortly, Lynas Malaysia will need to reduce production in the December quarter in order to stay within the calendar year limit. Any temporary shutdown of production in the December quarter will be timed to coincide with the temporary shutdown that will be required for final commissioning of Lynas NEXT equipment. Based on current production rates, the potential reduction in NdPr production in the December quarter arising from this issue is estimated to be approximately 400 tonnes.

The calendar year limit on the volume of material that Lynas can process at the LAMP resets on 1 January each year.

On 17 October 2018, Lynas announced that an extension of permission for NUF temporary storage at the Lynas Malaysia site will be required by 31 October 2018 in order for Lynas to remain compliant with the Environmental Quality Regulation (Schedule Waste) 2005. Lynas has received feedback from the regulators which suggests the potential for breach after 31st October will be avoided.

Lynas is proud of the industry-leading environmental standards that have been implemented at our operations in Malaysia and Australia and the Company's record of regulatory compliance at both sites. Lynas will continue to be transparent about our operations and our safety and environmental record.

Lynas CORPORATION LTD

## SAFETY AND ENVIRONMENT

Lynas continues to work to ensure that the Company's operations in Australia and Malaysia are consistent with national and international safety and sustainability best practice principles. Lynas has established extensive processes to ensure that its operations are safe for employees, safe for the environment and community, and secure for its customers.

The Company-wide 12-month rolling Lost Time Injury Frequency Rate, as at the end of September 2018, was 2.8 per million hours worked. There were two lost time injuries during the September quarter.

ISO recertification audits were conducted at both Mt Weld and Lynas Malaysia sites during the quarter. This included the upgrade to the newer ISO 9001:2015 (Quality Management) and ISO 14001:2015 (Environmental Management) international standards. The transition from OHSAS 18001:2007 (Occupational Health and Safety Management) to the recently released ISO 45001:2018 international standard will occur at a future date. Lynas is pleased to report that both Lynas Malaysia and Mt Weld have been successfully recertified. The safety of our people, our communities and the environment will always be our first priority and we demonstrate this through the independent verification of the ISO certifications and by ensuring compliance with licence conditions and international standards at both sites.

As part of the Lynas NEXT project, all four kilns are now operating with the upgraded spray tower configuration. Stack emissions are being optimised and on track to meet the upcoming lower regulatory limits.

In line with our commitment to international environmental best practices, detailed environmental monitoring since the start of Lynas Malaysia's operations in Kuantan in 2012 has consistently demonstrated that Lynas Malaysia is compliant with regulatory requirements as imposed by Malaysian law.

Information concerning the Company's environmental monitoring programs, including monitoring data, is available at www.lynascorp.com.



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## MARKETING & SALES

| | Q1 FY18 | Q2 FY18 | Q3 FY18 | Q4 FY18 | Q1 FY19 |
|---|---|---|---|---|---|
| Sales Volume REOt | 4503 | 4495 | 4375 | 4299 | 3896 |
| Sales Revenue | A$112.0m | A$93.0m | A$85.9m | A$91.7m | A$105.6m |
| Average Selling Price | A$24.9/kg | A$20.7/kg | A$19.6/kg | A$21.3/kg | A$27.1 |
| Sales Receipts (cash) | A$88.4m | A$116.5m | A$79.7m | A$98.6m | A$105.2m |

Demand for Lynas' NdPr, especially from Japan, remained very strong and the high production rate achieved through the quarter led to a new quarterly sales volume record for this material.

Meanwhile, Cerium and Lanthanum sales volumes were limited as the catalyst market segment in the United States and Europe went through its traditional low season. We expect this temporary situation to recover in the December quarter as our share in these markets continues to increase.

In addition, Lynas has fully qualified with two new customers using formulated customized products and commercial supply will start from the December quarter.

Globally, the United States administration did not include Rare Earths elements in its list of tariffs on $200 billion of Chinese goods, underscoring US reliance on China for these strategic minerals. However, US based Rare Earth customers remain eager to increase their sourcing from Lynas, the only supplier outside China. Separately, the US government has introduced legislation that prohibits the Department of Defence from acquiring rare earth magnets from four non-allied nations. We expect these trends will increase our non-NdPr sales from the December quarter.

| | NdPr China Domestic Price (VAT excluded) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 FY18 | Q2 FY18 | Q3 FY18 | Q4 FY18 | Q1 FY19 | Jul | Aug | Sep |
| USD/kg | 56.9 | 44.6 | 45.5 | 43.7 | 40.5 | 40.8 | 40.3 | 40.4 |
| Base 100 | 100 | 78 | 80 | 77 | 71 | 72 | 71 | 71 |

While most ionic clay mining (which usually provides one third of Chinese NdPr supply) is shutdown following environmental inspections, separators in South China are still operating using old stocks of concentrate as well as concentrate imported from Myanmar.

On the demand side, new Chinese regulations related to e-bikes led to a temporary decrease in demand for magnets until new motor designs are implemented.

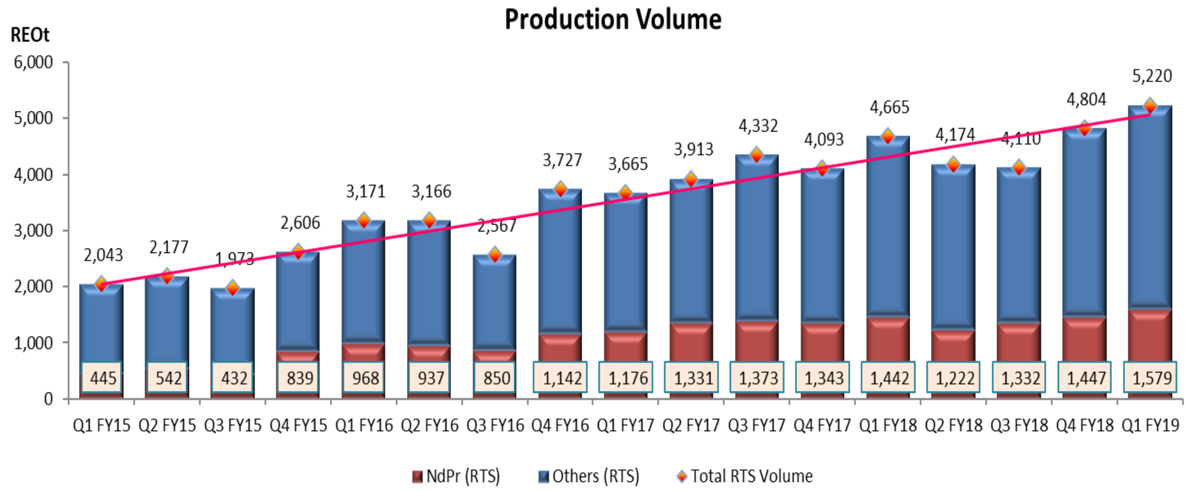
These two temporary factors have caused NdPr prices to be flat in recent months.

## OPERATIONS

| | FY16 | FY17 | Q1 FY18 | Q2 FY18 | Q3 FY18 | Q4 FY18 | Q1 FY19 |
|---|---|---|---|---|---|---|---|
| Ready for Sale Production Volume Total | 12631 REOt | 16003 REOt | 4665 REOt | 4174 REOt | 4110 REOt | 4804 REOt | 5220 REOt |
| Ready for Sale Production Volume NdPr | 3896 REOt | 5223 REOt | 1442 REOt | 1222 REOt | 1332 REOt | 1447 REOt | 1579 REOt |

The September quarter was a record for both NdPr production and total REO production. This was despite further disruptions to water supply during the quarter. The risk of future water disruptions has now been significantly reduced. The structural repair program to the embankment near the Sungai Kobat pump house is well progressed and should be completed early next quarter. The leak in this bund was a major cause of the recent water shortages. Lynas has further reduced the risk with a 20% reduction in water consumption, access to two additional external water sources via pipelines and the construction of a third water storage pond is underway.

Lynas NEXT project upgrades increased daily production capabilities to achieve the targeted 600t NdPr per month during the quarter. Lynas was on track to achieve this target in August, however overall production for the month was reduced due to water supply issues. With uninterrupted production in September, for the first time, Lynas produced over 600 tonnes of NdPr during a calendar month.




As detailed in previous Company reports, the Lynas NEXT project includes: a) the upgrade of the Mt Weld, Western Australia, and Lynas Malaysia operations to a production capacity of 600 tonnes/month of NdPr; b) a number of operational efficiency/compliance works; and c) product mix improvements including adding separated Nd and Pr, additional separated La and Ce, and more grades of La and Ce products. Priorities include improving plant reliability and recoveries at both the Kuantan and Mt Weld sites, improving our understanding of the Mt Weld mineral resource, and optimising water use at Mt Weld.

Key Lynas NEXT improvements at Mt Weld during the September quarter included:

- A major update of the Mt Weld Mineral Resource and Ore Reserve Statement was announced on 6 August 2018 with a 70% increase in Mineral Resource and a 60% increase in Ore Reserve. Transition and fresh mineralisation were included for the first time as Inferred Resource. The Duncan deposit was included in the Ore Reserve for the first time. The updated Ore Reserve has confirmed a 25+ year life at Lynas NEXT rates (600t NdPr/month).
- The construction of the third Tailings Storage Facility (TSF3) was completed and commissioning is underway.
- A sump has been excavated in the eastern diverson channel and two of the four planned aquifer re-injection wells have been drilled and installed.

Key Lynas NEXT improvements at Lynas Malaysia during the September quarter included:

- Ramp up and optimisation of the SX8 solvent extraction circuits to increase La and Ce separation capacity and to remove impurities.
- Decommissioning of SX7 T1, T2 circuits (which removes Samarium from NdPr) and transfer of the contents to the new higher capacity SX7 Train 4 circuit (previously one of the two SX6 circuits made redundant by SX8). The higher capacity SX7 T4 circuit ran in parallel with SX7 T3 to clear the backlog of work in progress. SX7 Train 3 will be redeployed to remove Sm from Nd.

- The major construction work for the new SX circuits to produce separated Nd and Pr has been completed with only minor changes required prior to commissioning next quarter.
- The new tunnel furnace bunkering and blending systems have been installed and commissioning will commence next quarter.

Mining Campaign 2 resumed after TSF3 construction and the last load of ore was extracted on 1 October.

## CASH OUTFLOWS

Cash outflows during the September quarter, as presented in the Appendix 5B, can be summarised as follows:

- Actual cash outflow for the quarter was A$81.5m, excluding interest, debt and deposit related flows. On the same basis, the forecast cash outflow for this quarter was A$82.8m.
- Net interest payments of A$0.5m primarily related to withholding tax payments on the half yearly interest payments on the JARE facility and on the remaining convertible bonds.
- In line with the cash sweep mechanism described below, no further debt repayments were made during the quarter.
- Development and CAPEX related cash outflows were A$9.5m (mining campaign A$0.4m and CAPEX A$9.1m, of which A$7.8m related to Lynas NEXT). This was A$2m lower than forecast. The reduced cash flow is timing related with no change to the overall profile. As described above, Lynas interrupted the mining campaign and utilised the same crew of external contractors to work on an additional tailings storage facility (TSF3), allowing the Company to complete the new TSF on time in a very cost effective manner. In the December quarter, cash outflows for development and CAPEX are expected to be A$9.5m, with mining campaign costs comprising about one third of that total.
- Production related cash outflows at A$52.6m were higher than forecast at A$51.0m, but lower than the previous quarter when production cash outflows were A$54.6m. The negative variance included GST refunds in Malaysia that were not received during the quarter. The outstanding GST refund due to the Company is A$5.6m, of which about half had been forecast to be received in the September quarter. The refunds are now expected to be received over the next 12 months.
- Staff costs at A$11.5m were in line with forecast. In the December quarter, staff costs are expected to reduce to A$10.5m.
- Administration related cash outflows of A$5.1m, which includes commissions and export logistic costs, were lower than the forecast of A$6.5m. The variance was due to commission payments which required further verification and which will now be paid in the December quarter. December quarter

cash outflows are expected to increase to A$9.3m due to these partially delayed commission payments, plus higher overall commission payments due to the increased proportion of sales into the Japanese market. The other key variance is costs, including costs associated with the review process in Malaysia.

## FINANCE

### CASH POSITION

A summarised cash flow for the quarter ended 30 September 2018 is set out below.

| CASH FLOW | A$ million | A$ million |
|---|---|---|
| **OPENING CASH BALANCE 1 JULY 2018** | | **42.3** |
| **INFLOWS** | | |
| Net cash receipts from the sale of goods | 105.2 | |
| **TOTAL INFLOW OF FUNDS IN THE QUARTER** | | **105.2** |
| **OUTFLOWS** | | |
| Royalty costs | (2.2) | |
| Ongoing operational, production and administration costs | (69.3) | |
| Net interest and other costs of finance paid | (0.5) | |
| Other capital expenditure | (9.5) | |
| **TOTAL OUTFLOW OF FUNDS IN THE QUARTER** | | **(81.5)** |
| Net exchange rate adjustment | | (0.2) |
| **CLOSING CASH BALANCE 30 SEPTEMBER 2018** | | **65.8** |
| **Summary of Cash Balance** | | |
| Cash on Hand and at Call | | 65.8 |
| **CLOSING CASH BALANCE 30 SEPTEMBER 2018** | | **65.8** |

The Group received A$105.2m in sales this quarter compared to A$98.6m in the June 2018 quarter. Any related commission payments and export logistic costs are not deducted as they are shown as cash flows from operating activities under the administration category.

Total cash at 30 September 2018 of A$65.8m is fully unrestricted.

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$50.0m, and (ii) 50% of the proceeds above a cumulative balance of US$50.0m.

### FOREX

The currency composition of the Group's cash at 30 September 2018 was A$2.5m, US$19.1m and MYR 110.1m. The A$ weakened against the US$, and the A$ fluctuated throughout the period against the MYR, resulting in a marginal foreign exchange loss for the period.

## CORPORATE

The 2018 Annual General Meeting of Lynas shareholders will be held at 10am (Sydney time) on Tuesday 27 November 2018 at the Hilton Hotel, 488 George Street, Sydney.