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## QUARTERLY REPORT

### FOR THE PERIOD ENDING 31 DECEMBER 2013

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#### HIGHLIGHTS

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- Production and sales in the December quarter increased versus the prior quarter reflecting the progressive completion of work programs in the cracking and leaching units of the Lynas Advanced Materials Plant (LAMP). Total tonnes produced for the quarter were 741 tonnes, on an REO equivalent basis, a near three-fold increase on the prior quarter. Total tonnes shipped were 409 tonnes, on an REO equivalent basis, up 87% on the prior quarter. The difference in production and shipments largely relates to the timing of sales at the end of the quarter. In addition, the cerium and lanthanum borrowed in 2012 for the pre-seeding of the LAMP was produced and largely returned by the end of the quarter.
- The average selling price decreased by 5% to US\$21.48/kg REO (revenue basis), from US\$22.70/kg REO (revenue basis) in the prior quarter. This reflected the sales mix in the December quarter containing a higher proportion of cerium sales than the prior quarter. The “basket price” averaged US\$22.62/kg on a China domestic basis during the December quarter.
- Subsequent to the end of the quarter, some temporary interruptions occurred in the product finishing areas of the LAMP. Product flow through certain process tanks was disrupted and one electrical control unit had an outage. Changes have been made to address these issues. As a result of these changes, the Company does not expect any recurrence. The Company expects production levels in the March quarter to increase above production levels in the December quarter. While the Company remains focused on producing 11,000tpa REO from Phase 1, there may be a delay in achieving that run rate until the June quarter.
- Lynas received the relevant administrative approvals for the Phase 2 LAMP assets in late November, allowing these assets to be operated. During the quarter, the Company started using some Phase 2 downstream assets, such as product finishing units and tunnel furnaces, to optimise its customer product range. However, a decision to use the additional capacity of 11,000 tonnes per annum will be determined primarily by market conditions.
- The Company had \$74.7m of cash as at 31 December 2013. As previously announced, in November 2013 Lynas received a A\$14.1m cash payment from the Australian Taxation Office relating to eligible research and development expenditure incurred during the year ended 30 June 2013, principally on the development of the Lynas Mt Weld Rare Earths Project.
- In December, the Company was pleased to announce the appointment of Amanda Lacaze as a Non-Executive Director of the Company, effective 1 January 2014. Ms Lacaze is a highly credentialed director who currently serves on the boards of ING Bank Australia Ltd, McPherson’s Ltd, the Advisory Board of the CMOS research group at UTS, and is a member of Chief Executive Women and the Australian Institute of Company Directors.
- The 12-month rolling Lost Time Injury Frequency Rate as at the end of December 2013 was 1.0 per million hours worked.

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## **OPERATIONS**

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### **WESTERN AUSTRALIA OPERATIONS**

Ramp up of the Phase 2 Concentration Plant continued during the quarter.

The Plant operated at 100% of Phase 2 design capacity during the October and November operating campaigns. The performance of the Plant, operating on a campaign basis, has been very satisfactory over recent months. Until concentrate stocks run down, the Plant will continue to operate on a campaign basis, synchronised to demand from the LAMP.

At the end of December, 15,371 dry tonnes of concentrate containing 5,888 tonnes REO were bagged ready for export. Concentrate stocks reduced by 17% compared to the end of September.

During the quarter, the Company was engaged in discussions and planning with regulators and vendors for the improvement and expansion of the tailings storage facility at Mt Weld.

### **MALAYSIA OPERATIONS**

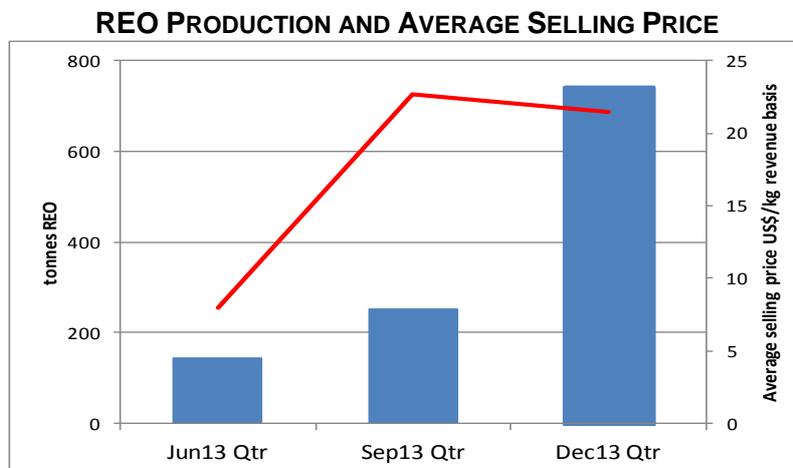
#### **PRODUCTION AND SALES**

Total tonnes produced for the December 2013 quarter were 741 tonnes on an REO equivalent basis, representing a near three-fold increase from the prior quarter. Total tonnes shipped in the December quarter were 409 tonnes on an REO equivalent basis, an increase of 87% from the prior quarter. The difference in production and shipments largely relates to the timing of sales at the end of the quarter.

In addition, the cerium and lanthanum borrowed in 2012 for the pre-seeding the LAMP was produced and largely returned by the end of the quarter. The balance was returned in January.

Despite significant rainfall in early December causing flooding which restricted access in and around the Kuantan city area, the Gebeng Industrial Estate, in which the LAMP is situated, was not directly affected by flooding. Notwithstanding the disruption to transport and infrastructure services in the region, LAMP production in December continued the trend of month-on-month improvement through the quarter.

Work programs implemented last year to address production issues in the cracking and leaching units of the LAMP have resulted in the incidence of operational issues in the cracking and leaching units being reduced substantially during the quarter. However, the Company continues to identify areas for further improvement in materials handling, concurrent with the continuous operations and increases in plant utilisation. Subsequent to the end of the quarter, some temporary interruptions occurred in the product finishing areas of the LAMP. Product flow through certain process tanks was disrupted and one electrical control unit had an outage. Changes have been made to address these issues. As a result of these changes, the Company does not expect any recurrence.



#### **ORGANISATIONAL CHANGES**

The LAMP's organisational structure has evolved in line with operational experience. This includes the implementation of a number of organisational and personnel changes such as changes to shift supervision, repairs and maintenance procedures and modifications to process automation. The Company continues to seek areas where there are opportunities for further improvement.

#### **PRODUCTION AND SALES OUTLOOK**

Primarily due to the temporary interruptions in the product finishing areas of the LAMP, which due to changes made are not expected to reoccur, the production rate in January was similar to the monthly average in the December quarter.

While the Company remains focused on producing 11,000tpa REO from Phase 1, there may be a delay in achieving that run rate until the June quarter. The Company expects production levels in the March quarter to increase above production levels in the December quarter. In addition, the Company expects to show a sustained increase in future quarters as production variability issues are mitigated.

Sales volumes in the March quarter-to-date have improved versus the prior quarter. Further, due to a favourable product mix in the quarter-to-date, the average selling price has risen to around US\$25/kg.

#### **PRODUCTION COSTS**

Lynas continues to consider and implement measures to reduce its production costs and the Company reiterates cash cost guidance of \$14-15/kg REO at a 22,000tpa REO production rate. Unit cash costs are estimated to be 70% variable costs and 30% fixed costs at a 22,000tpa REO rate. In addition, approximately 30% of costs are in the Australian operations (A\$ denominated) and approximately 70% of costs are in the Malaysian operations (US\$ denominated or US\$-linked currencies), including a small proportion for freight costs.

## **SYNTHETIC MINERAL PRODUCTS PROGRAM**

Market trials and product testing continue across the range of synthetic gypsum products with further work being done with potential customers in agriculture and building and construction materials, as well as the relevant regulatory agencies. Two products containing the solid by-product of community concern have already been independently tested and proven to be non-leachable, non-radioactive and non-toxic.

Field trials have been completed at various locations in Western Australia using NUF-based products that produced wheat and canola crops. Pot trials involving a product containing NUF, WLP and agricultural beneficial additives have also been completed in conjunction with the University of Western Australia. Field trials using other NUF-based products are in progress and early results show good emergence (no dead seeds, good germination, no early toxicity).

Lynas is currently in discussion with a number of parties about producing granulated products for use in broad acre trials.

The Company is also evaluating the construction of a road using roadbase materials containing WLP that will be tested and monitored by an independent expert over a period of 12 months to demonstrate the performance of the material.

## **PHASE 2 EXPANSION AT THE LAMP**

Lynas received the relevant administrative approvals for the Phase 2 LAMP assets in late November, allowing these assets to be operated. During the quarter, the Company started using some Phase 2 downstream assets, such as product finishing units and tunnel furnaces, to optimise its customer product range. However, a decision to use the additional capacity of 11,000 tonnes per annum will be determined by market conditions primarily.

Subsequent to the end of the quarter, the Company achieved first feed to kiln in the two rotary kilns in Phase 2. The cracking and leaching units in Phase 2 are expected to provide the Company with asset optimisation opportunities as the LAMP operates at the targeted production rate of 11,000tpa.

## **CUSTOMER VISIT AT THE LAMP**

In November 2013, Lynas hosted a visit to the LAMP for a large number of existing and potential customers from Japan, the US, Europe, China and South East Asia. The major customers who attended are well-known industry leaders representing approximately half the global demand of rare earths. The visit was very successful with many customers impressed by the scale and sustainability credentials of the LAMP. During and after the visit, Lynas entered in to a number of new customer negotiations to capitalise on identified opportunities.

## SUSTAINABILITY

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The 12-month rolling Lost Time Injury Frequency Rate for Lynas global operations (employees and contractors) as at the end of December 2013 was 1.0.

*(Note: Frequency rate definition based on Australian Standard: AS1885.1 – 1990, Workplace Injury and Disease Recording Standard)*

The establishment of the annual David Davidson Safety Leadership Award was announced at the Company's Annual General Meeting in November 2013.

### Western Australia

Certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards was maintained after Bureau Veritas Surveillance Audit during the quarter.

Lynas was reappointed as chair of the Laverton Leonora Cross Cultural Association (LLCCA). The LLCCA was set up in partnership with local community and Aboriginal organisations, government agencies and mining companies for mutual benefit. The primary purpose is to provide and enhance the employment, training, economic development and retention of Aboriginal people.

### Malaysia

During the quarter, Lynas Malaysia achieved certification to the OHSAS 18001 (Occupational Health and Safety Management Systems), ISO 14001 (Environmental Management Systems) and ISO 9001 (Quality Management Systems) standards following a detailed audit by Bureau Veritas.

During the quarter, a Lynas Malaysia employee suffered a fatal heart attack while on site. The company expresses its deepest sympathies to the family.

Lynas hosted a total of 672 visitors at the LAMP in the December quarter. These included local community groups, university students and government agencies.

The Company donated vouchers exchangeable at a local department store for school uniforms and stationery supplies to 200 kindergarten children selected in collaboration with Pahang State Community Development Department (KEMAS) under the Ministry of Rural and Regional Development. The recipients were from low-income families, some of which were affected by the recent floods on the East Coast of Malaysia.

## FINANCE

### CASH POSITION

A summarised cash flow for the quarter ended 31 December 2013 is set out below.

CASH FLOW	A\$M
<b>OPENING CASH BALANCE 1 OCTOBER 2013</b>	<b>101.0</b>
<b>INFLOWS</b>	
Cash Receipts from the sale of goods	6.9
Interest income	0.9
Security deposits refunded	0.4
Receipt of government grant	14.1
<b>TOTAL INFLOW OF FUNDS IN THE QUARTER</b>	<b>22.3</b>
<b>OUTFLOWS</b>	
Mt Weld Concentration Plant – Phase 1	-
Malaysian Advanced Materials Plant – Phase 1	(0.2)
Mt Weld Concentration Plant – Phase 2	-
Malaysian Advanced Materials Plant – Phase 2	(6.1)
Other capital expenditure	(0.4)
Security deposits paid	(2.1)
Interest expense and other costs of finance	(2.3)
Ongoing operational, production and administration costs	(37.9)
Royalty Costs	(0.3)
<b>TOTAL OUTFLOW OF FUNDS IN THE QUARTER</b>	<b>(49.3)</b>
<b>Net exchange rate adjustment</b>	<b>0.7</b>
<b>CLOSING CASH BALANCES 31 DECEMBER 2013</b>	<b>74.7</b>
<b>Summary of Cash Balance</b>	
Cash on Hand and at Call (incl. Term Deposits)	67.2
Funds for Phase 2 Construction (Restricted Cash)	7.5
<b>CLOSING CASH BALANCES 31 DECEMBER 2013</b>	<b>74.7</b>

Total cash at 31 December 2013 of A\$74.7m was represented by unrestricted cash of A\$67.2m plus restricted cash of A\$7.5m (which is now available principally to fund the semi-annual interest payable to Sojitz which is next due in March 2014). Interest income received in the quarter from unrestricted and restricted cash totalled A\$0.9m.

Subsequent to the end of the quarter, the Company made the first scheduled principal repayment of US\$10 million under the US\$225 million Sojitz / JOGMEC loan facility.

## **CASH MANAGEMENT**

The Company continued its program of judicious cash management during the quarter, focusing on the deferral of discretionary expenditure and reducing net cash outflow.

In addition, the Company is reassessing its working capital requirements, and its proposed capital expenditures.

## **FOREX**

The currency composition of the Group's unrestricted cash at 31 December 2013 was A\$49.9m, US\$10.0m and MYR17.4m, while the currency composition of the restricted cash was A\$nil, US\$4.9m and MYR5.9m. During the quarter the Australian dollar depreciated by 5% against the US\$ and depreciated by 2% against the Ringgit resulting in an exchange rate adjustment for the quarter of \$0.7m.

## **RESEARCH AND DEVELOPMENT TAX CLAIM**

As foreshadowed in the Quarterly Activities Report that was released on 31 October 2013, Lynas received A\$14.1m from the Australian Tax Office during the period relating to eligible research and development expenditure incurred during the year ended 30 June 2013, principally on the development of the Mt Weld Rare Earths Project.

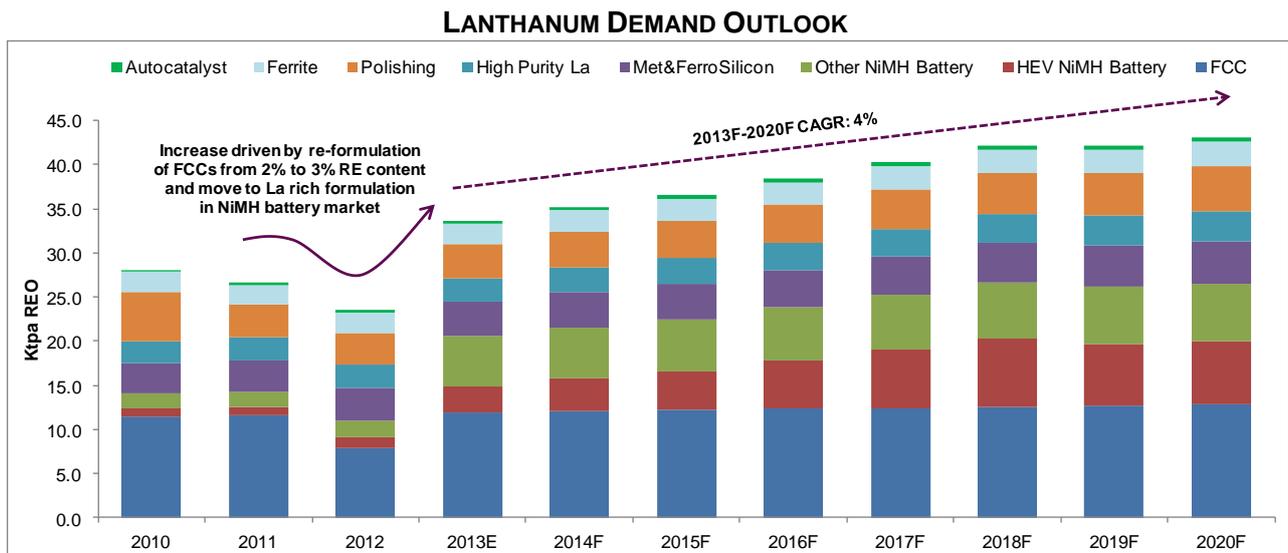
## APPENDIX - RARE EARTHS MARKET

### GLOBAL DEMAND OUTLOOK

Based on forecast demand in key end markets including; the automotive, renewable energy, electronics, lighting and oil refining sectors, Lynas believes that the global rare earths market could grow at 5-6% per annum to 2020, with demand for some elements growing at even higher rates. Long term volume visibility and security, and where necessary, long term price visibility, is important to justify the investment by both customers and producers to drive this growth potential.

#### Lanthanum

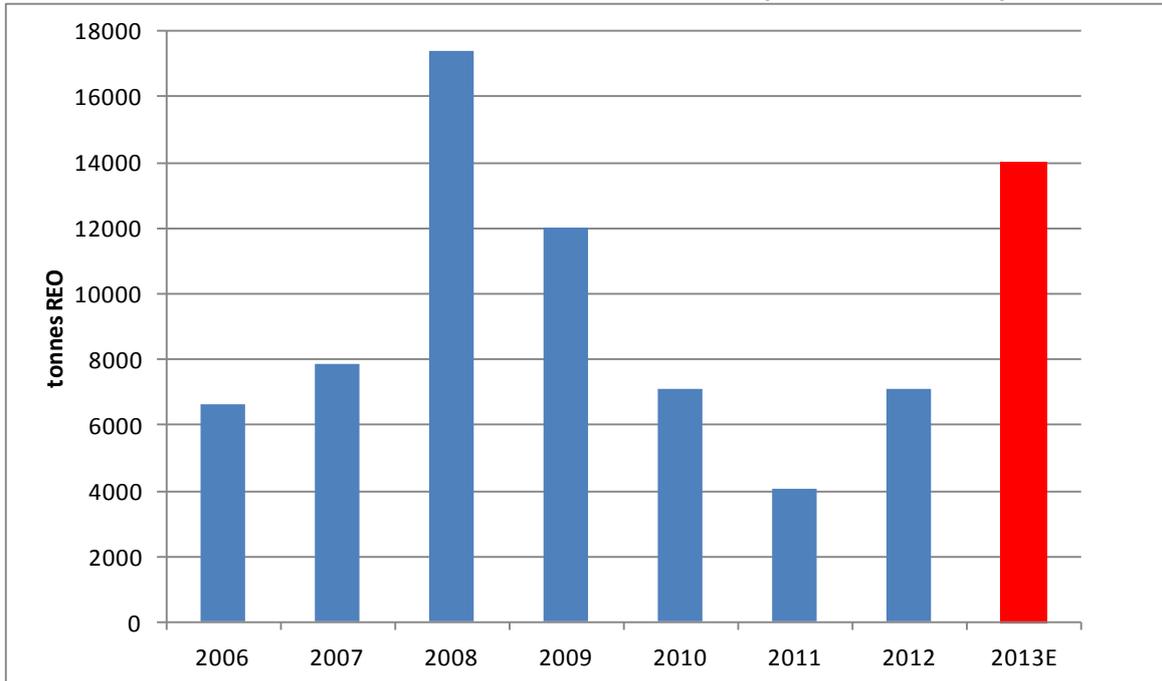
Lynas believes the lanthanum market outlook is robust. Demand growth is being driven by the switch to lanthanum-rich metal in nickel metal hydride batteries for hybrid electric vehicles (HEVs), at a time when the major application using lanthanum, fluid cracking catalysts (FCC), is demonstrating steady growth. Around 70% of lanthanum products are consumed outside China. Consequently, Lynas believes that the lanthanum market could grow by at least 4% per annum through to 2020.



Source: Lynas and industry sources

As evidence of improving market conditions, the chart below shows that Chinese exports of lanthanum products in 2013 (year to November) have increased to levels, on an annualised basis, that are higher than the annual averages during 2006-2009.

**CHINESE EXPORTS OF LANTHANUM PRODUCTS (REO EQUIVALENT)**



Source: Chinese customs statistics. Note: 2013 data annualised. Lanthanum products include metal, oxide, carbonate and chloride

*Lanthanum pricing*

In January 2014, Lynas announced it would not accept new orders for lanthanum at prices below US\$15/kg.

**GLOBAL SUPPLY OUTLOOK**

In early 2014, the Chinese government officially released a consolidation plan for the rare earth industry. The State Council, China’s top administrative authority, passed a proposal by the Ministry of Industries and Information Technology (MIIT) to form a large rare earth consolidation group in its rare earth industry, according to the MIIT. The Chinese government will support six major companies, including Aluminum Corporation of China, Baogang group, China Minmetals Corporation, Ganzhou Rare Earth Group, Guangdong Rare Earth Group and Xiamen Tungsten Ltd to lead the reorganisation of the rare earth industry.

Environmentally sustainable chemicals production, including rare earths, involves significant capital and operating expenditure to safely manage waste gases, water and solid residues. Such infrastructure requires relatively large scale operations to justify the investment. China has put in place various production control measures, such as quotas, and regularly enforces these through periodic inspections and audits of producing companies, at least twice per annum.

The velocity of new supply is now likely to be very slow and there are very few funded projects worldwide. New supply, over time, is likely to come from existing producers expanding capacity. As evidence, Lynas now has the existing capability to supply an additional 11,000tpa REO from its Phase 2 assets as and when market conditions warrant bringing this supply to market.



## RARE EARTHS PRICES

Compared with the prior quarter, the average Mount Weld distribution (basket price) increased by 4% to US\$22.62/kg on a China domestic basis. Since the end of December, the “basket price” on a China domestic basis has decreased to US\$21.25/kg.

Rare Earths Prices (US\$/kg)			
Rare Earths Oxide	China domestic		
	Average Price Over Quarter		
Purity 99% min	Q4 2012	Q3 2013	Q4 2013
Lanthanum Oxide	8.18	4.75	4.23
Cerium Oxide	8.18	4.65	4.17
Neodymium Oxide	60.60	52.55	54.04
Praseodymium Oxide	60.79	80.68	95.07
Samarium Oxide	8.19	5.24	3.71
Dysprosium Oxide	452.71	345.69	313.40
Europium Oxide	937.74	720.93	768.45
Terbium Oxide	709.92	622.35	612.62

Source: Metal Pages

**Disclaimer:** The Rare Earths market data on pages 8-10 have been sourced from independent analysis of end application demand, along with Lynas estimates of quantities of Rare Earths end use in various key applications as well as official China sources (e.g. Xinhua). Although Lynas believes that the outcomes expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. Forward-looking statements are based on assumptions and contingencies which are subject to change without notice. Factors that could cause actual results to differ materially from those in forward-looking statements include new Rare Earths applications, the development of economic Rare Earths substitutes, and general economic, market or business conditions. While Lynas has made every reasonable effort to ensure the veracity of the information presented, Lynas does not guarantee the accuracy and reliability of the estimates, forecasts and conclusions contained herein. Accordingly, the Rare Earths market data in this presentation should be used for general guidance only. There can be no guarantee that actual outcomes will not differ materially from forward-looking statements.