
QUARTERLY REPORT FOR THE PERIOD ENDING 30 JUNE 2019

SUMMARY

- ENVIRONMENT, SAFETY & HEALTH
 - Lynas Malaysia reached the significant milestone of 1 year lost time injury (LTI) free in July
 - Lynas Malaysia received external recognition of its excellent sustainability performance:
 - Awarded a gold medal in EcoVadis CSR assessment, rating Lynas Malaysia among the top 5% of evaluated companies
 - Department of Environment (DoE) 3rd party audit of operations found 21 Best Practices, 1 minor observation and zero non-conformances
 - Atomic Energy Licensing Board (AELB) audit rated Lynas Malaysia as 'very satisfactory'
- FINANCIAL PERFORMANCE
 - Quarterly operating cash flow of A\$37m despite low market pricing for NdPr
 - Financing costs at A\$6.1m included a further principal repayment of A\$2.7m
 - Closing cash balance of A\$89.7m (March quarter: A\$67.1m)
 - New terms for JARE loan facility were announced that provide a strong foundation for growth
- QUARTERLY PRODUCTION
 - Quarterly NdPr production was maintained at approx. 1,500 tonnes in a softer market:
 - 1,505 tonnes NdPr produced
 - Total REO production of 4,651 tonnes
- SALES & MARKETING
 - REO sales volume of 4,723 tonnes
 - Market demand and pricing was variable driven by continuing trade tensions:
 - Inside China demand remained soft
 - Despite strengthening towards quarter end, average market price for NdPr remained low
 - Within this low price environment, Lynas limited NdPr sales to strategic customers leading to a small inventory build
 - End of quarter inventory of NdPr products was 323 tonnes
 - NdPr inventory will be used to support continued growth of strategic customers
 - Heightened interest in Rare Earths as a critical material for global supply chains

CEO REVIEW

After proving the ability to produce at Lynas NEXT rates during the September, December and March quarters, quarterly production of NdPr was maintained at about 1,500 tonnes in the June quarter, as foreshadowed in our shareholder letter dated 21 June 2019. At this level, we met demand from our strategic customers and built a small amount of inventory.

Following an extended period of softness in the published NdPr price, there was a strong price uplift later in the quarter. However, the market remains volatile with the price settling back to lower levels by mid July. In these volatile conditions, we remain committed to our strategy of reserving NdPr for our strategic customers. Demand is growing strongly within this key customer base and Lynas will continue this strategy of reserving production to meet the current and future needs of these strategic customers in the current quarter.

Sales revenue remained strong at A\$87.5m, despite lower prices and our strategy to limit NdPr sales to our strategic business partners. As at 30 June 2019, NdPr inventory was 323 tonnes. Sales receipts increased to A\$106m following strong sales performance in the March quarter.

At Mt Weld, overburden removal for our Mining Campaign 3 is now substantially complete. Duncan ore, with higher levels of Heavy Rare Earths including Dysprosium (Dy), will be included in the concentrator feed blend during the September quarter. This ore is expected to arrive in Malaysia late in the quarter for processing.

We continue to work with the Malaysian government to seek agreement to conditions for the renewal of our operating licence which is due on 2 September 2019. We are pleased to see increased focus in Malaysia on the opportunities to encourage downstream industry growth in Rare Earths processing.

The June quarter was significant for Lynas as we held our first Investor Day and announced our Lynas 2025 growth plans on 21 May 2019. Lynas 2025 includes a plan to invest up to \$500m in: a new cracking & leaching plant in Western Australia, additional downstream processing in Malaysia; and a Rare Earths separation facility in the United States through our proposed joint venture with Blue Line Corporation.

During the quarter there was heightened interest in both Lynas and the Rare Earths market as a result of geopolitical and macroeconomic factors. Lynas is ideally positioned as a preferred supplier to rest of world customers and Lynas 2025 will assist us to benefit from forecast demand growth in these markets.

MALAYSIA UPDATE

The Lynas Malaysia plant produces two solid residues as follows:

- **WLP** – Iron phosphogypsum, classified as very low level radioactive material in accordance with IAEA guidelines, regulated by the Atomic Energy Licensing Board (AELB).
- **NUF** – Magnesium rich gypsum which is non-radioactive and non-toxic. As a “scheduled waste” under Malaysian regulations, it is regulated by the Department of Environment (DOE).

Lynas remains confident of a resolution to the remaining issues related to our WLP residue. We continue to work with the Malaysian government to seek agreement on conditions for the renewal of our operating licence which is due on 2 September 2019. We have applied for renewal of the operating licence, and other work relating to the renewal of our operating license is being completed in line with normal licence renewal processes.

On 14 February 2019, Lynas announced an agreed pathway for the management of NUF residue, including commercialization options for NUF and long term NUF disposal. We understand that MESTECC may postpone finalisation of the NUF solution until finalisation of the conditions for renewal of our operating licence. In the meantime, NUF is stored at the Lynas Malaysia plant in residue storage facilities that comply with international guidelines, pursuant to rolling monthly permissions from the DOE.

The Deputy Minister of MESTECC stated in Malaysian Parliament on 9 July 2019 that the conditions for the renewal of Lynas Malaysia’s operating licence will be decided by Cabinet and announced in mid-August 2019.

SAFETY AND ENVIRONMENT

Lynas is committed to ensuring that the Company’s operations in Australia and Malaysia are consistent with national and international safety and sustainability best practice. 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 June 2019, was 0.9 per million hours worked. There was one lost time injury at Mt Weld (a soft tissue injury to elbow) during the June quarter. In early July, Lynas Malaysia achieved the excellent milestone of 1 year LTI free. This is an important outcome and reflects our determination to operate in a way that is safe for our employees, our communities and the environment.

Lynas Malaysia achieved a “Gold” recognition level from EcoVadis which puts us in the top 5% of companies evaluated by EcoVadis. EcoVadis provides business sustainability ratings and improvement tools for global supply chains and more than 55,000 businesses are on the EcoVadis network. Lynas participates in the EcoVadis program through our involvement in the Together for Sustainability chemical initiative. This program is designed to support some of our key manufacturing customers to foster supply chain transparency and innovation.

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.

At Mt Weld, the management of tailings has been an ongoing focus since the start of operations in 2011. The most recent storage facility TSF3 has been in operation since September 2018. The combination of tailings management procedures using advanced flocculants, Amphirof mudfarming and Swamp Dozer contouring has achieved safe, stable, high strength, solid tailings that meet closure criteria.

In line with our commitment to safety and the environment, and to meet the needs of our investors, our response to the Investor Mining & Tailings Safety Initiative Questionnaire for the Mt Weld tailings facilities is now available on our website at www.lynascorp.com.

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

MARKETING & SALES

	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Sales Volume REOt	4299	3896	5522	5030	4723
Sales Revenue	A\$91.7m	A\$105.6m	A\$79.9m	A\$101.3m	A\$87.5m
Average Selling Price	A\$21.3/kg	A\$27.1/kg	A\$14.5/kg	A\$20.1/kg	A\$18.5/kg
Sales Receipts (cash)	A\$99m	A\$105m	A\$77m	A\$88m	A\$106m

During the June quarter, Lynas decided to reserve NdPr production for strategic customers, temporarily stockpiling any excess. This decision limited sales of NdPr in the June quarter, but will support the expected growth of our key partners in the future.

The US-China trade tensions have brought Rare Earths back into the spotlight, raising concerns regarding security of supply and risks associated with single sourcing. This has translated into renewed interest in Lynas as a secure supplier able to mitigate sourcing risks through long term agreements, in line with the strategy that Lynas has presented to the market for several years. However, the roll-out of this strategy varies depending on market segments:

- While most magnet buyers seek long term security of supply with multiple supply chains, demand is currently weakened by the Chinese economy and the temporary slow growth of the automotive market. Additional contracts in this sector will be negotiated into the future.

- In the catalyst market, negotiations have proceeded more quickly as buyers address the best sourcing strategies for their long term business. As an example, Lynas has now pre-sold most of its Lanthanum supply for the next 12 months.

The reminder of the importance of Rare Earths arising from the US-China trade tensions triggered a rapid upwards correction of the NdPr price. The spot price for NdPr increased by up to 50% in June but has settled back to lower levels in early July. Despite these market price increases, we remain committed to our strategy of reserving NdPr for strategic customers.

NdPr China Domestic Price (VAT excluded)								
	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Apr	May	June
US\$/kg	43.7	40.8	39.3	38.5	39.1	34.6	36.9	45.8
Base 100	100	93	90	88	89	79	84	105

Increases in prices for Heavy Rare Earths (HRE), especially Dy and Tb, are more directly linked to fundamental changes in the supply-demand balance. As shown in the table below, the price of Dy in June was up to 60% higher than the average prices of the prior quarters. Demand for these magnet heat stabilizers (Dy and Tb) increased quickly as magnet demand growth is driven by high power electric motors used, in particular, for hybrid electric vehicles (HEV), plug-in hybrid electric vehicles (PHEV) and battery electric vehicles (BEV). At the same time, the Chinese central government has reduced the production of these elements from ionic clay and has banned the import of alternative raw materials from Myanmar. Both of these initiatives were to address significant environmental issues. The subsequent squeeze in supply-demand for Dy and Tb has led to what we believe to be a sustainable price increase.

Dy China Domestic Price (VAT excluded)								
	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Apr	May	June
US\$/kg	156	144	146	160	221	193	217	253
Base 100	100	92	94	103	142	124	139	162

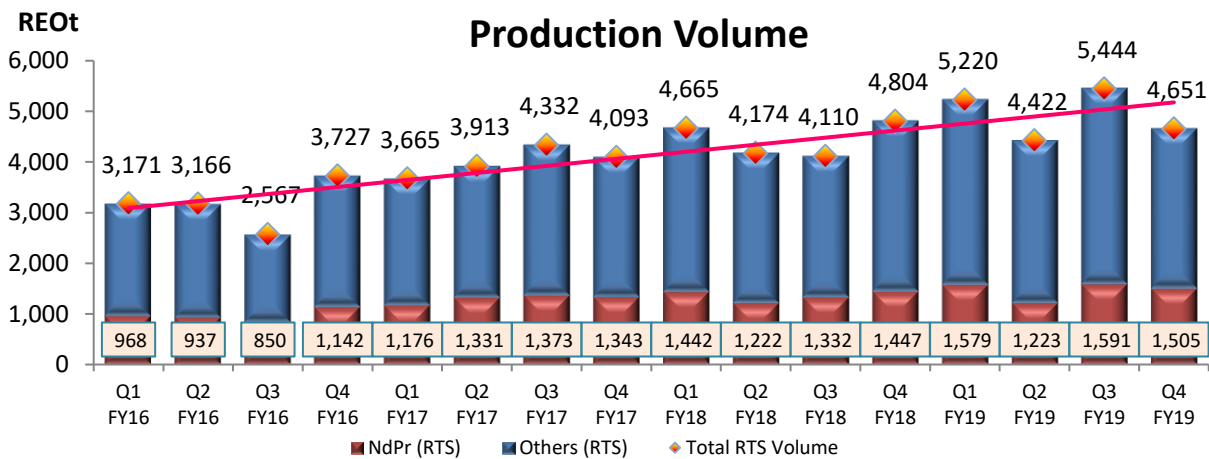
In light of this, the announcement of Lynas' intention to build an HRE separation facility as part of a joint venture with Blue Line Corporation in the United States, became significant news in the Rare Earths business. The proposed joint venture, which would operate according to Lynas' high environmental standards, attracted strong interest from a range of stakeholders including magnet makers, key magnet buyers and government representatives. This project is being studied together with our partner Blue Line and further developments will be communicated as they occur. The project has the potential to create a strong position

for Lynas in the critical HRE market, in addition to Lynas’ current position as the second largest supplier of Light Rare Earths. The proposed joint venture would also support the development of the magnet industry and downstream industries in the US.

OPERATIONS

	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Ready for Sale Production Volume Total	4110 REOt	4804 REOt	5220 REOt	4422 REOt	5444 REOt	4651 REOt
Ready for Sale Production Volume NdPr	1332 REOt	1447 REOt	1579 REOt	1223 REOt	1591 REOt	1505 REOt

After proving the ability to operate at Lynas NEXT rates in the 3 prior quarters, total production of NdPr products was maintained at about 1,500 tonnes in the June quarter, as foreshadowed in our shareholder letter dated 21 June 2019. A key production focus for the quarter was the stabilisation and optimisation of the new separated Nd and Pr circuits to meet a range of product specifications (over a dozen in total).



A third, larger water storage pond constructed as part of the Lynas NEXT project has now been commissioned and will reduce the impact of future water supply disruptions at the Lynas Malaysia plant.

At the Lynas Mt Weld mine, overburden removal for Mining Campaign 3 is substantially complete and mining activities have commenced with close geological control of mining and stockpiling.

A reagent trial to avoid the heating of the flotation slurry commenced at the start of April as an opportunity to reduce energy consumption. Optimisation of conditions is still in progress.

Commissioning of the Pre-Rougher Stack Cell, one of the Lynas NEXT initiatives, commenced at the start of May. The Stack Cell incorporates froth washing to reduce entrainment. The Stack Cell concentrate meets spec and is being sent to final concentrate.

Reclamation of Duncan ore from the stockpile for crushing and screening has commenced. Duncan ore will be included in the concentrator feed blend from the start of the current quarter (ending 30 September 2019) and should reach Malaysia late in the quarter. The Duncan ore zone is an extension of the higher grade Central Lanthanide Deposit (CLD) with higher levels of Heavy Rare Earths including Dy.



Mt Weld Pit looking north. Mining Campaign 3 cut back on western side



Extra flotation capacity from Stack Cell (Mt Weld)



Third Process Water Pond will reduce the risk of water supply disruptions (Lynas Malaysia)



Swamp Dozer profiling of TSF3 after MudMaster compaction. High strength enabling stable landform for future rehab/closure (Mt Weld)

FINANCE

CASH POSITION

A summarised cash flow for the quarter ended 30 June 2019 is set out below.

CASH FLOW	A\$ million	A\$ million
	June 19 quarter	June 19 YTD
Operating Cash Flows		
Receipts from customers (net of sales commissions)	105.5	375.9
Costs of production (including royalties)	(59.5)	(233.7)
Administration, overhead and other payments	(9.0)	(38.1)
TOTAL OPERATING CASH FLOWS	37.0	104.1
Capex and development	(9.0)	(32.3)
Net movement in term deposits	0.3	(10.3)
TOTAL INVESTING CASH FLOWS	(8.7)	(42.6)
Repayment of borrowings	(2.7)	(7.0)
Net interest paid	(3.4)	(7.8)
TOTAL FINANCING CASH FLOWS	(6.1)	(14.8)
TOTAL MOVEMENT OF FUNDS IN THE QUARTER	22.2	46.7
Net exchange rate adjustment	0.4	0.7
OPENING CASH BALANCE	67.1	42.3
CLOSING CASH BALANCE 30 JUNE 2019	89.7	89.7

Cash outflows during the June quarter can be summarised as follows:

- Operating cash outflows increased from the prior quarter largely due to the receipt of long outstanding GST receivables in the March quarter.

- Administration costs were higher than expected as a result of costs associated with the ongoing regulatory matters in Malaysia and takeover defence costs associated with the proposal received in March.
- Development and CAPEX related cash outflows were A\$9.0m. This included the final significant expenditure related to Lynas NEXT and was an increase from the previous quarter due to an increase in mining activities at Mt Weld.
- A repayment of US\$1.9m (A\$2.7m) was made on the JARE facility as part of the debt refinancing as announced on 27 June 2019, reducing the JARE loan to US\$145.0m.
- Interest payments were made during the June quarter of US\$2.9m (A\$4.3m) on the convertible bonds and the JARE loan. This was offset by A\$0.9m in interest received.

FOREX

The currency composition of the Group's cash at 30 June 2019 was A\$16.0m, US\$27.2m and MYR 96.9m. The A\$ weakened against the US\$ while remaining steady with the MYR over the quarter, resulting in a slight foreign exchange gain for the period.

CORPORATE

The 2019 Annual General Meeting of Lynas shareholders will be held at 10am (Sydney time) on Tuesday 26 November 2019 at the Westin Hotel, 1 Martin Place, Sydney. A notice of meeting will be issued closer to that date.