

# Lynas's Record Results – A Return to Rare Earth Confidence?

Lynas Corporation (ASX: LYC | OTC: LYSDY) (“Lynas”) caused a stir in the Australian markets earlier yesterday, becoming one of the biggest movers with a 9% gain at morning trade. The shares of the rare-earth miner have bounced up twice this month, surrounding the release of the company’s second quarter update published on Tuesday; Lynas revealed record PrNd production of 1,331 tonnes, an impressive 13.2% increase on the previous quarter, beating their own projections.

Lynas commented that the production increases were the result of operational improvements made with the intention of boosting performance.

*“The changes to output volume are expected to be long-term and this seems to have boosted confidence in the team, in spite of a tough year for rare-earth prices. Saying that, this January has seen a slight boost to the RE market, with many claiming it to be the beginning of the end of the slump.”*

Additionally, the company noted that despite continued low prices for rare-earth products, its operating cash flow improved significantly, rising from A\$1.7m to A\$5m.

During the December quarter, planning was also finalised for the first mining campaign at the company’s Mount Weld Project in almost ten years. The Western-Australian volcano stabbing mission, which should provide one year of mill feed, is set to start this month at a cost of around A\$3m. The Mt Weld Central Lanthanide Deposit (CLD) is one of the highest grade rare-earth deposits known. Mt Weld also hosts a further three undeveloped sites rich in mantle-borne-treasures such as

niobium, tantalum, titanium, zirconium and phosphate that present excellent future opportunity.

The Mt Weld deposits are concealed inside a two billion year old volcanic plug; An estimated 1.8km of which has been weathered during this time to form a high grade supergene rare-earth-oxide (REO) deposit. Lynas processes the ore on-site at the Mt Weld Concentration Plant, that concentrated product then finds its way to the Lynas Advanced Material Plant (LAMP) near Kuantan in Malaysia where it will be further refined into materials such as Neodymium/Praseodymium (Nd/Pr).

Despite being a rare-earth element and never being found in its free form in nature, neodymium is as prevalent in the Earth's crust as nickel, copper, and cobalt. It is used in a range of scientific and industrial applications and perhaps best known for creating super-strength magnets when combined with praseodymium.

The LAMP produces Nd/Pr oxide, cerium carbonate, cerium oxide, Lanthanum/Cerium carbonate and Lanthanum/Cerium oxide, and SEG oxide, as well as iron phosphogypsum and magnesium rich gypsum products which are stored on site in dedicated facilities. The company is well-advanced on developing commercial uses for these additional materials, further assisting with efficiency and financial performance. The plant is built on a 100 hectare site that is adjacent to established manufacturers of key chemical reagents, and has access to a skilled labour force and excellent infrastructure.

The company noted that their recent improved financial outcomes were underpinned by boosted production, but the second-quarter update had yet more to give, revealing that Lynas achieved record sales of A\$65m, up from A\$53.8m in the September quarter.

*"We expect demand to remain strong over the coming period and are hopeful the recent firming of lanthanum and cerium*

*prices may also be reflected for other rare earth products.”*

---

## **Lynas releases positive results and confirms operating license**

☒ September was a month of positive news-flow from Lynas Corporation Ltd. (ASX: LYC | OTC: LYSDY). First at the beginning of the month, Lynas revealed that it had finally received renewal of its full operating license for its Malaysian based operation, the Lynas Advanced Materials Plant, “LAMP.” Following this announcement of the operating license, Lynas released its 2016 results for the year ended 30 June 2016.

The operating license has been a contentious issue over the last few years when the Stop Lynas, Save Malaysia Campaign, which began in 2011, successfully delayed the granting of this license thereby delaying the production commencement date. This delay took the company to the brink of bankruptcy.

Since this time, under the guidance of its CEO, Amanda Lacaze, who took the helm in 2014, Lynas has been making huge strides and achieving its project goals.

Now following a rigorous review undertaken by the Atomic Energy License Board (AELB) as well as other independent regulatory bodies in Malaysia, it was concluded that the LAMP project is in full compliance with all applicable regulations. Furthermore as Lynas has now been in operation for four years and data shows that there has been no increase in background radiation levels, the license has been granted until September

2019.

Regarding the Company's financial results, the company made good progress and reported positive production growth, despite the poor pricing environment. The NdPr production facility is now running at full capacity and the business has been breakeven for several quarters.

The increase in production was reflected in higher revenue, which rose to A\$196.1m compared to A\$148.6m in 2014. Production volumes rose significantly for both NdPr and total rare earth oxides (TREO) to 3,897 tonnes (2015: 2,258 tonnes) and 12,630 tonnes (2015: 8,799 tonnes) respectively.

In addition costs continued to be well managed throughout the year and the operating capacity at LAMP was improved due to the commissioning of the fourth NdPr separation train in SX5.

A consideration of the Lynas share price reveals that despite the positive reports, the share price remained relatively constant. The price during September ranged from \$0.055-\$0.063. The highest price was achieved on the 16th of September, the day the report regarding the operating licence was published. Since this time, prices have fallen back to around \$0.055/share.

---

**Alkane ready to seek  
government approval amid  
growing rare earth market**

# optimism

✘ Alkane Resources ('Alkane', ASX: ALK | OTCQX: ANLKY) has continued development at its AUD\$ 1 billion Dubbo Zirconia rare earths project in New South Wales as the Company heads toward the government approval and mine construction phase. Engineering got underway last April when Alkane signed a contract with Hatch Pty Ltd to provide front end and design (FEED) to deliver infrastructure, water and acid plant processing among other aspects on the basis of the Definitive Feasibility Study (DFS) issued in April 2013. The FEED process has given Alkane as accurate an idea as possible about the core costs and ease the necessary funding to bring the project to production. The DFS for the Dubbo Zirconia Project predicted an initial 20 year life with EBITDA of AUD\$5.23 billion and NPV of AUD\$1.23 billion.

Alkane has already managed to secure some very big financial players to arrange the investment banking and product financing support including Credit Suisse, Sumitomo Mitsui Bank and Petra Capital. All the elements are there to get the Project approved in early 2015. The next few week will see Alkane working with foreign governments and project financiers to raise all the capital needed; it should be noted that Alkane will be raising only limited funds from shareholders. While the rare earths market has been sluggish at best in the past few years, highlighted by the production and stock market challenges faced by the two main non-Chinese active producers, Lynas Corp and Molycorp, the current situation is not as dire as expected. Indeed, Alkane chances of reaching the crucial production phase, and ultimate survival, have received a boost from the Lynas's own experience.

Few would have predicted that Lynas would still be operating independently today. Its challenges with a highly politicized environmental movement in Malaysia, where its Lynas Advanced Materials Processing, 'LAMP', facility is based were only

slightly worse than its slow ramp-up phase and constant losses. Recently, Lynas was even able to reassure its investors and the REE market in general that things are not as bad as they appeared less than a year ago. Lynas's shares (ASX: LYC) rose around 9% in the second week of November as the company managed to reassure its investors that the market for rare earths is not so bad. Lynas was recently able to renegotiate the terms of a 225 million USD loan from Japanese lenders as well as securing a less oppressive repayment plan: the bulk of repayment begins in 2016. So far, Lynas would have to make a repayment rate of USD 35 million by next Tuesday and the market has clearly expressed its confidence that the company has the resources to fulfill this obligation. Another condition of the new agreement is that the supply of rare earth oxides in the Japanese market is given priority, although no exact conditions were identified. This request for exclusivity and priority suggests overall REE demand is still high. Indeed, Lynas intended to account for just under a third of the current Japanese demand for rare earths, which is estimated at 32,000 tons per year. Japan has long tried for some time to free itself from its dependence on Chinese REE's.

Molycorp in the United States fared even worse, enduring a massive share price collapse from the heights of a blue-chip to almost penny stock values. Yet both companies are still there, debt burdens and all. Their survival suggests that there is still room for new rare earth entries, especially those able to supply the higher demand critical REE's. Moreover, Alkane carries fewer risks to investors than Lynas because it will be outsourcing its processing, thus avoiding the need to spend at least a billion dollars in its own facility – the very investment that almost broke Lynas and Molycorp. Meanwhile, even as prices and perceived scarcity of REE's is now far from the heydays of 2010-2011, when industrial powers such as Japan and the United States complained about Chinese rare earth export quotas, higher prices for these elements are likely.

Alkane has an additional source of funding for its Dubbo Zirconia Project as gold mining is in full swing at its Tomingley gold mine in New South Wales, Australia. Alkane's gold project came on line last February 14 and it was on time and on budget. Alkane announced the first gold pour at Tomingley with the production of an eight kilo bar, containing about 230 ounces of gold. The Tomingley mine started production on schedule and below budget, said Ian. Alkane will soon be ready to produce at close to, or at, design capacity, generating the cash flow that will help fund, and accelerate the development of, the rare earths operation. The mine holds three gold deposits with a resource of about 14.3 million tons (with 921,000 ounces of contained gold) and it is expected to increase production from the current 60,000 ounces/year to 70,000 ounces over the next few years. Alkane expects the Tomingley gold mine to help generate cash return of at least AUD\$ 300-400/oz. of margin and an initial revenue of about AUD\$ 35 million, given a yearly production of over 60,000 ounces.

---

## **Anti Lynas protests are no cause for concern**

✘ Environmentalists are at it again in Malaysia, as some 1,000 protesters, resumed their anti-Lynas protests, blocking the entrance to the Lynas Advanced Materials Plant (LAMP) in Kuantan, located in the State of Pahang. The resumption of protests, while apparently sudden, was not warranted by any especially damning environmental reports, plant failures, leaks or incidents. In fact, the new wave of protest had been long announced as various anti-Lynas groups had vowed to shut down the facility, sending a 'warning' to

Lynas that it should have abandoned operations by June on Sunday as Malaysians push anew for the closure of the facility ahead of the expiry of the temporary license in September 2014. That deadline was one of the conditions that the Malaysian Atomic Energy Licensing Board set for Lynas (ASX: LYC) when it granted the temporary operating license in September 2012.

In December 2013, Lynas presented the results of its research on waste recycling to the Board, which agreed to the Company's request to build a permanent disposal facility, having met its obligations, even if the site has to be determined. Most importantly, as far as the protesters' claims are concerned, the Board said "the radiation levels onsite and offsite the plant to be within regulatory limits and that its operations were safe and under control". The protests have attracted considerable media attention because among the demonstrators that were arrested, there was one Natalie Lowrey, an Australian. Unlike fifteen of her fellow Malaysian protesters, who were arrested, Ms. Lowrey has not been released. Finally, the arrests were made, not in accordance to government abuse, rather, Kuantan police, secured a court order, just before the arrival of the protesters, banning anyone from being within a 20-metre radius from LAMP.

This is not because, Malaysian authorities want to make an example out of her; No, it's rather simpler than that, as she will likely be charged with breaching the terms of her visa, even if she may also be charged with violating the Malaysia Riot Act as well and could be detained for up to 14 days. Therefore, there is no actual additional risk to Lynas investors stemming from these riots. The protesters staged a march featuring a 'media-friendly' 300km walk (also featuring a 48-year old man making the trek despite having only one leg) from Kuala Lumpur to Kuantan, which grabbed attention. The Save Malaysia Stop Lynas (SMSL) group was usually associated with such actions; this time, the protests were organized by



'Himpunan Hijau', which also demands that LAMP be shut down "after Lynas Corp ignored their ultimatum to leave Malaysia earlier this year". The Malaysian political opposition has learned to use anti-Lynas events to score points, having already failed to make too many waves, launching a number of conspiracy theories about the missing Malaysian Airlines MH370 Boeing 777.

The Kuantan High Court has repeatedly rejected applications filed by environmental activists to close the LAMP rare earth processing plant in Kuantan. Indeed, there are no legal or regulatory obstacles preventing LAMP from continuing operations. On more than one occasion, the Courts demanded the protesters to pay for Lynas's legal expenses in confronting lawsuits launched by environmentalists.

Lynas is developing one of the most prolific rare earth resources in the world at its Mount Weld property in Western Australia. Lynas's LAMP processing facility in Malaysia has had to overcome several legal hurdles. The way the government has handled this latest wave of protests has confirmed that the authorities want to keep the facility and the Company, which may hopefully make Malaysia into a rare earth production leader. Lynas has faced far larger demonstrations in 2012, one of which was over 100,000 bare-footed activists supporting the political opposition led by Anwar Ibrahim (who has exploited the Lynas issue for political leverage in the 2013 general election. It was one of the largest political rallies ever held in Malaysia and it failed to influence the Court's decision. The uncertainty that Lynas had to endure in 2012 was highly motivated by political calculations because of the election. That it still managed to emerge successful in the end is a vindication for its LAMP facility and project. It is interesting to note that Malaysia want to build a nuclear power generation facility by 2021. The government held talks with Russia's nuclear agency Rosatom just days ago. Because of the 2011 Fukushima meltdown, the Malaysian population feels

uncomfortable with nuclear power plants and this has certainly influenced the anti-Lynas sentiment.

---

## Amanda Lacaze comes to rescue Lynas



Lynas has changed captains, signaling that the Board has decided that it wants to change the Company's course. The rare earth producer, still unable to overcome its financial difficulties, has replaced Eric Noyrez with Ms. Amanda Lacaze as CEO. The surprise move suggests that Noyrez may have been 'persuaded' to resign by the Board due to the ongoing delays in the Lynas's Advanced Malaysian Processing plant (LAMP) reaching full capacity.

Noyrez, who held his position for just over a year, led Lynas in a difficult period as the Company conducted the commissioning of the mine in Mt. Weld, Australia, and in the wake of Lynas's start of production after the Company had overcome numerous protests as well as technical and financial problems. Overcoming numerous challenges and achieving a steady production would have led to a transformation of the company and would now make it possible to focus more on commercial success. Amanda Lacaze comes from a telecom background; she was previously CEO of Commander Communications and also served as Vice President of Marketing Australia's leading telecommunications company Telstra, where she helped to expand and strengthen the Company's business. Lacazes also has experience in the chemical, heavy industry, technology and

marketing – among other things – sectors. Lynas has also had to endure a sharp drop in the price of light rare earths even as it should manage to reach its planned production rate of 11,000 tons per year at the end of June.

No official reason was given for Noyrez's departure and Chairman Nick Curtis did not offer any reason; however, Curtis and the Board may have pondered the shift toward Ms' Lacaze's leadership as early as last December when Amanda Lacaze was appointed as non-executive director to the Lynas Board. At the time, she was said to bring "skills in strategic marketing and her focus on delivering outstanding financial performance". Curtis also said that, as a Board member, Ms. Lacaze would be "a great contributor to Lynas, particularly as the company continues its evolution from project developer to industrial producer, which is Amanda's core area of expertise". Should Lacaze succeed in using her expertise to reach Lynas's planned production ramp-up, it would help the Company reduce production costs and improve cash flow. This is crucial given that Lynas's main products, cerium oxide and lanthanum have fallen substantially since reaching peaks in 2011.

Noyrez's departure comes just as Lynas managed to secure an AUD\$ 40 million financing last May to address its cash flow problems. Lynas has close to a billion dollars (RM3 billion) on the Kuantan processing plant and even if it has secured financing to keep going for next year, it still faces the risk of insolvency in the medium term if it cannot meet its production goals and if the price of light rare earths (LREE) continues to drop. If Lynas can manage to run at full steam, it could start to challenge China's dominance, but it must reach this level quickly in order to take advantage of China's 'sabbatical' rare earth mining period, as the government tries to confront the country's massive pollution related to unregulated industrialization. Beijing is also trying to curb the problem of rare earths smuggling, which has flourished until recently, putting further pressure on prices.

As for China, Lynas indicated that it will consider all reasonable solutions to improving its performance and to ensure its long term survival and presumably, this must mean that Lynas is open to Chinese investment as well. China is Australia's main trading partner of Australia and suggests that Canberra may be edging closer to signing a free trade agreement with Beijing.

Image Source

---

## **Growing bilateral ties between Australia and China may benefit Lynas**

Lynas Corp ('Lynas', ASX: LYC) has experienced a rollercoaster ride in the markets even as it has been trying improving performance and increasing production at its Lynas Advanced Materials Processing (LAMP) facility in Malaysia. However, yesterday, Lynas completed and closed its share purchase plan to raise at least AUD\$ 30 million, as announced last April, prompting a 9% share price increase before announcing a trading halt in view of a proposed top up placement. The halt is expected to last until May 30 or when the placement goes through. The funds will allow Lynas to continue operations and "further time to strengthen its financial profile through the buildup of cash flow from



production and sales". Nevertheless, there is some optimism brewing in the Australian rare earths sector.

Lynas has managed to increase production and sales, generating some enthusiasm for its long term performance potential, even though its expenditures have increased 32%, due to higher than expected salary start-up costs at LAMP. Lynas maintained it had sufficient funds to keep running for at least 12 months even before the share raise and the additional placement. Lynas indicated that it will consider all reasonable solutions to improving its performance and to ensure its long term survival. Chinese investment has already helped more than one Australian rare earth mining company, the most notable and recent example of which is Arafura Resources (ASX: ARU), which signed a Memorandum of Understanding with China's Shenghe Resources Holding to help develop its Nolans Rare Earths Project in the Northern Territory.

The possibility of Chinese intervention has increased and the conditions for this in the short term are ideal in 'geopolitical' terms. For starters, while the Pacific Rim region is ripe with tensions and a brewing arms race, the disappearance of Malaysian Airlines flight 370 last March has brought forced Chinese and Australian authorities to work together in a highly sensitive context, which, for better or worse, has set the stage for greater bilateral cooperation. Moreover, the volume of Australian exports of goods and services toward China has surpassed the AUD\$ 100 billion mark in 2013 according to the Australian Bureau of Statistics. Therefore, China now accounts for nearly a third of the volume of Australian exports of goods and services and accounts for a much larger slice of that trade than the next highest countries including runner-up Japan (AUD\$ 50 billion), South Korea (AUD\$ 21 billion ), the United States (AUD\$ 16 billion) and India (AUD\$ 11 billion). Moreover, also in 2013, the volume of trade in both directions between the two countries reached AUD\$ 151 billion or 20 percent more than 2012.

The trend underlines the fact that China is Australia's main trading partner of Australia and suggests that Canberra may be edging closer to signing a free trade agreement with Beijing. Such an agreement has been on the table for many years, it remains under negotiation but similar agreements were recently signed with Japan and South Korea. Insofar as China and Lynas are concerned, the former would gain from Lynas's highly advanced and environmentally superior processing facility. In the past, Australian politics have interfered in a deal involving China, Lynas and/or the Mt. Weld rare earth mines.

Now, companies like state-owned Chinese conglomerate China Nonferrous Metal Mining may aspire to acquire large pieces of Lynas with greater hopes of success as it seems Australian politics may be far more welcoming of such prospects than in the recent past (in 2009, the Australian government blocked China Non-Ferrous Metal Mining from acquiring a majority stake in Lynas in order to preserve resources) – given that the Australian Foreign Investment Review Board would need to approve such an acquisition. According to Morgans, a renowned Australian trading house, the Chinese 'landing' in Australia is already underway: "The Chinese are cementing their position in [Australian] resources, moving from investors to direct control."

---

## **Lynas suffers more losses and needs to secure liquidity**

Australian rare earth producer Lynas Corp has suffered a new loss in the first half of the financial year 2013/14. Lynas needs more capital.

✘ Lynas Corp. (ASX: LYC) reported a loss of AUD\$ 59.29 million in the first half of the 2013/14 financial year. In the same period of last year, Lynas reported a loss of AUD\$ 56.58 million – though it barely started production at its processing facility in Malaysia. Nevertheless, Lynas’s sales have increased to AUD\$ 14.6 million – though the previous year had no sales. The problem is that while production and sales have gotten underway, Lynas’s expenditures have increased 32%, reaching AUD\$ 7.5 million. The Company has attributed these costs to the start-up of the Lynas Advanced Materials Plant (LAMP) facility in Malaysia. Higher staff salaries – by AUD\$ 2.5 million – than expected have also taken away from the bottom line. Lynas will now have to use the next twelve months to find additional capital in order to finance its debt and its planned – and needed – production increase. Lynas has few options in this regard. It could re-capitalize, borrow more or restructure its existing debt; whatever, it decides to do, the market has not been kind. Lynas’s shares dropped 8.5% in Sydney trading on Tuesday, closing at AUD\$ 0.27/share, though reaching a level not seen since April 2009 as the stock reached a low of AUD\$ 0.245/share.

It should be noted that Lynas has to find a solution to resolving its financial issues; yet, it is not as urgent as some of the press has made it appear. Lynas can keep running for at least 12 months according to Alan Jury, □Executive Vice President Corporate Affairs. Mr. Jury also suggested that Lynas is open to any solution; without specifying, this implies any range of measures beyond purely re-financing or re-capitalization approaches. This raises an interesting speculation into what some of the solutions might be. Lynas could even agree to make a deal with a Chinese rare earth company in the same way that some of its fellow Australian rare earth competitors have already done.

In September 2013, Arafura Resources (ASX: ARU) executed a Memorandum of Understanding with China’s Shenghe Resources

Holding (SHA: 600392) to help develop its Nolans Rare Earths Project in the Northern Territory in order to reduce capital and operating costs. Sound impossible? As ironic as it sounds, this may be one of the solutions for Lynas. The Chinese would benefit from Lynas's highly advanced and environmentally superior processing facility. Nevertheless, there are hurdles. Even if a Chinese party interested in investing in Lynas is found – rumors suggest that state-owned Chinese conglomerate China Nonferrous Metal Mining aspires to acquire a large stake of Lynas, Australian politics might get in the way. The Australian Foreign Investment Review Board would need to approve such an acquisition, not so certain given that it would give China even more market power in the rare earths space.

In 2009, in fact, in a similar situation involving Lynas Corp from expanding its operations at Mt. Weld, the Australian government blocked China Non-Ferrous Metal Mining from acquiring a majority stake in Lynas in order to preserve resources. Short of a very convincing argument, bankers may not be all that receptive to Lynas's requests, leaving the sole option of securing a partner with cash. Meanwhile, Lynas continues to endure opposition from self styled environmental groups who are still challenging the presence of LAMP. They insist that Lynas' license to operate is temporary and take advantage of even the most ludicrous opportunity to find fault with the Company. For instance, last December an engineer died at the plant. He suffered a heart attack resulting from purely personal medical causes entirely unrelated to LAMP, which the anti-Lynas crowd tried to exploit as evidence of the plant's alleged dangers. The anti-Lynas movement must be losing support if it has to resort to such ludicrous tactics.

Lynas began test production at LAMP in November 2012 and made the first shipment of 144 tons of rare earth oxide equivalent in the second quarter of 2013. In June 2013, Lynas announced that it would reduce output at the Mt. Weld mine –



due to the difficult demand and low prices – to 11,000 tons per year. In contrast to the Lynas – or also because of its problems perhaps – Lynas's competitor Molycorp (NYSE: MCP) has been increasing production and market capitalization, reaching in the order of USD\$ 1.15 billion. Molycorp's CEO suggested that insofar as Light rare Earths are concerned, world demand is such that Molycorp, Lynas and maybe just another small producer outside of China would be sufficient. Molycorp Inc. (NYSE:MCP) recently announced its financial and operating results for the fourth quarter of 2013 as well as for the year as a whole, commenting that for the entirety of 2013, its sales volume rose 42% and that net revenue for 2013 was \$554.4 million, or 5% percent higher than in 2012.

Lynas does have a few cards in its favor. The LAMP facility is ready to reach its full – if limited due to demand expectations – production volume of 11,000 tons/year in April. Last November, JP Morgan analysts said that Lynas was obtaining premium prices for its products. Finally, Lynas's main competition and customers are in China, which is continuing to regulate industry, leaving mostly the higher end suppliers and eliminating some of the lowest cost regulation-averse producers that undercut the competition.