Pilbara Minerals

ABN 95 112 425 788

Interim Financial Report

31 December 2019

For personal use only

CONTENTS

DIRECTORS' REPORT

Your Directors present their report on the Group consisting of Pilbara Minerals Limited **("Pilbara Minerals or the Company"**) and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

DIRECTORS

The Directors of the Company who held office during the half-year and up to the date of this report are stated below. Directors were in office for this entire period unless otherwise stated.

Anthony Kiernan	Non-Executive Chairman
Ken Brinsden	Managing Director
Steve Scudamore	Non-Executive Director
Nicholas Cernotta	Non-Executive Director
Sally-Anne Layman	Non-Executive Director

REVIEW OF OPERATIONS

The half-year was characterised by softer market conditions in China and weaker customer demand for lithium raw materials, impacting both spodumene exports from Western Australia and prices received across the entire lithium raw materials and chemicals product suite. The Company responded proactively by moderating production at the Pilgangoora Lithium-Tantalum Project to better align with customer requirements. Mining and processing activities were curtailed, resulting in reduced mining, lower processed tonnes and ultimately lower shipped spodumene concentrate. In response to these conditions, other Australian hard-rock producers also reduced production or placed operations into care and maintenance.

The production moderation strategy is a prudent approach to preserving working capital by utilising existing spodumene concentrate stockpiles to fulfill customer sales orders. It is expected that the moderation of production and mining will continue into the second half of FY 2020 to be more aligned to match customer sales orders.

Plant performance continued to improve over the half-year with several plant optimisation and improvement works completed and commissioned. These works resulted in improved plant stability and lithia recoveries with the first campaign post these works in November 2019 delivering a recovery range of between 63% - 73% during an 18 day period of steady state production, with an average sustained lithia recovery of 67% achieved during this period. Subsequent to the half-year the Company has continued to be encouraged by further improvements in plant recovery.

Despite strong interest from several credible parties, the Board elected in August 2019 not to pursue the partnering process (previously announced in March 2019) due to softening market conditions. The partnering process was to consider the combination of Stage 3 offtake, a potential sell-down of a 20% to 49% interest in the Pilgangoora Project and participation in vertically integrated chemical facilities.

Following this decision, the Company determined that a phased and incremental approach to delivering the Stage 2 5Mtpa expansion would better align with customer demand and would help rationalise capital costs by utilising latent capacity in the Stage 1 operation, thereby reducing capital risk. During the period the Company embarked on technical studies to progress the delivery of an optimised and incremental pathway for the Stage 2 5Mtpa expansion that better aligns with customer timing and volume requirements. A final investment decision is subject to the completion of further studies, with the delivery of the expansion being subject to market conditions and customer requirements.

The Company completed an A$111.5M equity raising during the half-year which comprised of a $36.5M institutional placement, a $55M placement to China's biggest battery manufacturer Contemporary Amperex Technology (CATL), and a $20M Share Purchase Plan.

The equity raising strengthens the Company's balance sheet, provides increased working capital and will ultimately contribute to funding the Company's equity participation in the potential downstream joint venture ("JV") chemical conversion plant in South Korea with POSCO.

The South Korean JV with POSCO remains a key strategic and long-term objective for the Company. During the half-year the Company executed a detailed terms sheet with POSCO in relation to the formation of an incorporated joint venture (JV) in South Korea to develop and operate a 40ktpa lithium hydroxide and carbonate chemical conversion facility. This represented an important next step towards obtaining respective board approvals and ultimately the development of the proposed conversion facility. POSCO have advised that they wish to undertake further technical evaluation of the conversion facility design, as well as further evaluation of the market. It is anticipated that POSCO will require until 30 June 2020 to complete this work. Final investment committee and board approvals, as well as the execution of formal JV documentation is now expected in the September 2020 quarter.

Production and Sales

During the half-year the Company moderated its production in response to customer demand and declining market conditions. This resulted in lower tonnes being mined and produced during the half-year, with stockpiles drawn down to meet customer sales orders. A total of 36,033 dmt of spodumene concentrate was produced during the period.

The strategy also saw a restructure in the business during the September quarter to reduce costs, with the operating team rationalised across the mining and processing areas (and some support employees in Perth) to match operational requirements. This resulted in approximately 40 positions being made redundant, as well as certain one-off restructuring costs being incurred.

Five shipments totalling 53,222 dmt of spodumene concentrate were completed during the half-year. Four of these shipments contained a contracted lithia grade of SC6% Li_2O, with one shipment of SC5.5% Li_2O shipped as part of the Company's strategy to reduce stockpiles including lower grade material produced during the commissioning and ramp up phase.

Tantalite concentrate sales for the half-year totalled 90,327 lbs (pending final reconciliations and assays) and included the first sale of secondary ~ 30% tantalite concentrate.

Table 1: Total ore mined and processed

	Units	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Ore mined	*wmt*	762,531	540,426	640,173	303,177	65,941
Waste mined	*wmt*	2,154,690	2,445,917	1,900,027	868,441	26,046
Total material mined	*wmt*	2,917,220	2,986,342	2,540,200	1,171,618	91,987
Ore processed	*dmt*	420,221	414,223	456,541	202,596	102,251

Table 2: Production and shipments

	Units	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Spodumene concentrate produced	*dmt*	47,789	52,196	63,782	21,322	14,711
Spodumene concentrate shipped	*dmt*	46,598	38,562	43,214	20,044	33,178
Tantalite concentrate produced	*lb*	56,663	33,374	67,075	48,825	11,162
Tantalite concentrate delivered	*lb*	27,821	30,356	38,856	10,765	78,156[1]

[1] Sales estimates pending final assays results.

Process plant improvement projects

During the half-year, improvement and optimisation works contributed to improved plant performance, even though production had been modified. During the first production campaign in November 2019, post completion of the works, the plant achieved an average lithia recovery of 67% during an 18 day period of steady-state production, with a range of 63% to 73%. Since period end the Company has continued to be encouraged by further improvements in plant recoveries.

This increase in lithia recoveries resulted from key plant optimisation and improvement works undertaken during the half-year and were primarily rectifications to work previously performed by the EPC contractor during construction of the plant, and included:

Iron removal – fines product circuit – Installation of additional LIMS (low intensity magnetic separation drums) to remove introduced free iron generated from grinding media wear within the milling circuit. This installation increased the capacity of the LIMS which had been undersized in the original design by the EPC contractor. In addition, the installation of controls to improve the operation of WHIMS (wet high intensity magnetic separation) has also assisted with iron removal.

Grind size – fines product circuit – The introduction of additional plant controls (including some automation) and continued plant surveys have contributed to further grind size control, and therefore improved flotation performance. The classification process for ore sizing (grind size) pre-flotation is an important contributor to float performance (and therefore overall fines lithia recovery).

Overall plant control and automation – The inclusion of additional monitors and control loops have assisted in plant stability and control during production resulting in better plant performance.

Project Development – Stage 2

During the half-year the Company embarked on a number of studies to deliver an optimised and incremental pathway for the Stage 2, 5Mtpa expansion to better align with customer timing and volume requirements.

A phased and incremental expansion will provide several key benefits including reduced upfront capital cost by utilising latent capacity in the Stage 1 plant to deliver the first phase of incremental production tonnes to customers, with subsequent phases of the expansion to be aligned with customer requirements, ensuring maximum flexibility while also reducing capital risk.

A final decision on the suitability of the phased expansion will be subject to the completion of further technical studies.

The timing of any expansion will ultimately be influenced by customer demand profiles and market conditions at the time.

POSCO Joint Venture (JV)

During the half-year the Company executed a detailed terms sheet with POSCO in relation to the formation of an incorporated joint venture in South Korea to develop and operate a 40ktpa LCE lithium hydroxide and carbonate downstream chemical conversion facility.

The formation of the JV is subject to approving the initial business plan, budgets, execution of definitive agreements and board approvals from both parties.

Pilbara Minerals' initial 21% participation in the JV will be largely funded through the previously announced A$79.6M convertible bond agreement to be provided by POSCO Australia Pty Ltd (see ASX announcement: 28th February 2018).

In addition, under revised offtake terms it has been agreed that the JV will provide Pilbara Minerals with a second ranking secured US$25M prepayment to be used to partly fund the Stage 2 expansion of the Pilgangoora Project.

During the half-year, the Company held several meetings with POSCO in South Korea including a visit to the demonstration plant in Gwangyang, to discuss timing and progression of the JV. POSCO also continued to progress its internal investment committee approvals for the development of the chemical conversion facility in South Korea. POSCO have more recently advised that they will undertake additional technical evaluations of the design of the facility, as well as further market evaluations. As a result, it is anticipated POSCO will require until 30 June 2020 to complete these additional evaluations. Final investment committee and board approvals, as well the execution of formal JV documentation is now expected in the September quarter of 2020.

Exploration

During the half-year, exploration work was limited to geological mapping, PQ diamond drilling and geo-met sampling programs within the Pilgangoora Project's mining area. Geological mapping was also undertaken on several regional tenements.

Corporate

During the half-year the Company completed an A$111.5M equity raising. The equity raising included a A$55M strategic placement with leading Chinese battery manufacturer Contemporary Amperex Technology (CATL), a A$36.5M institutional placement and a A$20M Share Purchase Plan (SPP).

The equity raising strengthens the Company's balance sheet and bolsters working capital in support of the Pilgangoora project. Furthermore, funds from the equity raise were earmarked to assist with the funding of the Company's initial 21% interest in the POSCO JV, process plant improvement works and the revised Pilgangoora project Stage 2 expansion studies.

The Company had a cash balance of $105.5M at 31 December 2019.

Operating Result

The following table provides additional information on the Company's result for the half-year and specifically reconciles the cash gross margin[1] to the statutory net loss for the period.

	Q1 FY20	Q2 FY20	Half-Year
Revenue from contracts with customers	14,543	23,225	37,768
Operating cost of sales	(27,908)	(11,695)	(39,603)
Cash gross margin [1,2]	**(13,365)**	**11,530**	**(1,835)**
Depreciation and amortisation	(3,345)	(3,175)	(6,520)
Inventory movement	7,615	(18,389)	(10,774)
Gross loss	**(9,095)**	**(10,034)**	**(19,129)**
Expenses			
Corporate general and administration expense	(3,373)	(3,501)	(6,874)
Exploration and feasibility costs expensed	(997)	(3,004)	(4,001)
Depreciation and amortisation expense	(152)	(167)	(319)
Inventory write down [3]	-	(21,155)	(21,155)
Share based payment expense	(87)	(481)	(568)
Operating loss	**(13,704)**	**(38,342)**	**(52,046)**
Finance income	177	311	488
Finance costs - interest	(5,629)	(5,934)	(11,563)
Finance costs - foreign exchange (loss)/gain	(5,240)	4,974	(266)
Net financing costs	**(10,692)**	**(649)**	**(11,341)**
Loss before income tax expense	**(24,396)**	**(38,991)**	**(63,387)**
Income tax expense	-	-	-
Net loss for the period	**(24,396)**	**(38,991)**	**(63,387)**

1. The cash gross margin is a non-IFRS measure that in the opinion of the Company's directors provides useful information to assess the financial performance of the Company over the reporting period. This non-IFRS measures is unaudited.
2. During the half-year softer market conditions in China and weaker customer demand for lithium raw materials, impacted spodumene concentrate sales. The Company responded proactively during the September quarter to reduced customer demand by moderating production at the Pilgangoora Lithium-Tantalum Project, with the financial benefit of this decision realised in the December quarter. Whilst the September quarter achieved a cash gross margin loss of $13.3M, the moderation strategy resulted in a December quarter cash gross margin profit of $11.5M through the utilisation of existing stockpiles and operating cost reductions.

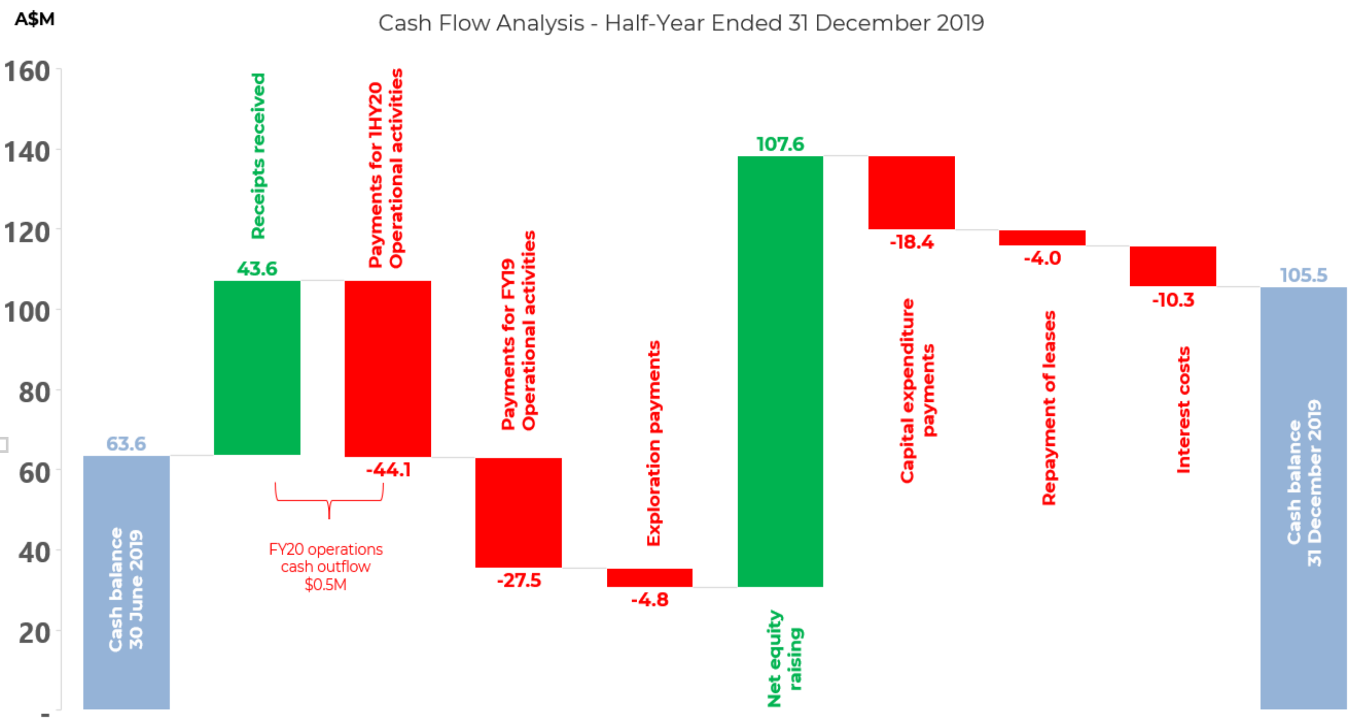
3. The combination of softer market conditions in China for lithium raw materials, lower selling prices for spodumene concentrate, elevated unit costs associated with operating in a moderated production environment and technical learnings gathered from operating the processing plant during the period contributed to an inventory write down of $21.2M. The inventory write-down includes $5.8M related to spodumene concentrate and coarse ore stockpiles and $15.4M for non-current ROM stockpiles.

Liquidity

During the period the Company increased its cash balance by $41.97M to $105.5M at 31 December 2019 (30 June 2019: $63.6M). Significant cashflow movements are summarised in the graph below.

Major cash inflows and outflows during the period included:

- a net $0.5M outflow associated with operating activities conducted during the six months to 31 December 2019 (being receipts of $43.6M and costs paid to suppliers and employees of $44.1M);
- a cash outflow of $27.5M for costs incurred on operating activities during the previous financial year ended 30 June 2019;
- a net cash inflow of $107.6M, (net of fees) related to the successful equity raising completed during the period;
- payments of $23.3M on capital expenditure and exploration activities; and
- interest payments of $8.8M associated with the Company's US$100M secured Nordic bond facility.



SIGNIFICANT CHANGES

There have been no changes in the state of affairs of the consolidated entity that occurred during the half-year under review not otherwise disclosed in this report.

EVENTS SUBSEQUENT TO REPORTING DATE

Other than as disclosed in this financial report, there has not been any matter or circumstance that has arisen since the end of the half-year which has significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial periods.

RESULT OF OPERATIONS

The Company's consolidated loss after tax for the half-year ended 31 December 2019 was $63,387,000 (31 December 2018: loss after tax of $11,899,000). This comprised of a gross loss of $19,129,000 (31 December 2018; gross profit $6,001,000), a non-cash inventory write down of $21,155,000 and finance costs of $11,829,000. The Company's basic loss per share for the period was 3.13 cents per share (31 December 2018: 0.68 cents).

No dividend has been paid during or is recommended for the half-year ended 31 December 2019 (31 December 2018: $Nil).

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with the legislative instrument, amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, KPMG, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 11 and forms part of this Directors' Report for the half-year ended 31 December 2019.

COMPETENT PERSONS STATEMENTS

Information relating to exploration results, the current mineral resource and ore reserve estimates, production targets and forecast information derived from the production targets (including information relating to the proposed expansions of the Pilgangoora Project), each in respect of the Pilgangoora Project, is extracted from the ASX announcement dated 3 August 2018 entitled "Outstanding DFS Results Support Pilgangoora Expansion", the ASX announcement dated 17 September 2018 entitled "Pilgangoora Reserve and Resource Upgrade", the ASX announcement dated 26 March 2019 "Stage 3 Scoping Study Outcomes", the ASX announcement dated 27 August 2019 entitled "Update on Partnering Process and Revised Stage 2" and as updated in the 30 June 2019 Annual Report, and the ASX announcement dated 30 January 2020 "December 2019 Quarterly Activities Report".

Pilbara Minerals confirms that it is not aware of any new information or data that materially affects the information included in these announcements and that all material assumptions and technical parameters underpinning the exploration results, resource and reserve estimates, production targets and forecast financial information derived from the production targets in the announcements continue to apply and have not materially changed.

The scoping or technical studies referred to in this report in respect of the Revised Stage 2 expansion have been undertaken to determine the potential viability of the revised and incremental expansion of Stage 2 and to reach a decision to proceed with more definitive studies. Each scoping study has been prepared to an accuracy level of ±30%. The technical and scoping studies are based on low-level technical and economic assessments and is insufficient to provide assurance of an economic development case at this stage or provide certainty that the conclusions of the studies will be realised.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.

Anthony Kiernan
Chairman
Dated this 20th day of February 2020

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Pilbara Minerals Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Pilbara Minerals Limited for the half-year ended 31 December 2019 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG.

KPMG

R Gambitta
Partner

Perth

20 February 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

As at 31 December 2019

	Notes	31 December 2019 $'000	31 December 2018 $'000
Revenue from contracts with customers	2.1	37,768	14,390
Cost of sales	2.2	(56,897)	(8,389)
Gross (loss)/profit		**(19,129)**	**6,001**
Other income		-	176
Expenses			
General and administration expense		(6,874)	(6,433)
Exploration and feasibility costs expensed		(4,001)	(4,415)
Inventory write-down	2.3	(21,155)	-
Depreciation and amortisation expense		(319)	(93)
Share based payment expense	2.4	(568)	(1,788)
Operating loss		**(52,046)**	**(6,552)**
Finance income		488	963
Finance costs		(11,829)	(6,310)
Net financing costs	2.5	**(11,341)**	**(5,347)**
Loss before income tax expense		**(63,387)**	**(11,899)**
Income tax expense		-	-
Net loss for the period		**(63,387)**	**(11,899)**
Other comprehensive income			
Changes in the fair value of other financial assets		-	-
Total comprehensive loss for the period		**(63,387)**	**(11,899)**
Basic and diluted loss per share for the period (cents per share)		(3.13)	(0.68)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		105,546	63,576
Trade and other receivables		11,076	11,087
Inventories	3.1	37,632	51,197
Total current assets		**154,254**	**125,860**
Non-current assets			
Property, plant, equipment and mine properties	3.2	476,278	433,948
Deferred exploration and evaluation expenditure		6,401	6,401
Inventories	3.1	-	16,062
Total non-current assets		**482,679**	**456,411**
Total assets		**636,933**	**582,271**
Liabilities			
Current liabilities			
Trade and other payables		22,869	48,146
Provisions		1,105	1,953
Borrowings	3.3	35,454	8,912
Total current liabilities		**59,428**	**59,011**
Non-current liabilities			
Provisions		16,767	16,523
Borrowings	3.3	139,324	130,087
Total non-current liabilities		**156,091**	**146,610**
Total liabilities		**215,519**	**205,621**
Net assets		**421,414**	**376,650**
Equity			
Issued capital	4	587,303	479,720
Reserves		2,441	9,216
Retained earnings		(168,330)	(112,286)
Total equity		**421,414**	**376,650**

The notes on pages 16 to 26 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2019

	Notes	Issued Capital $'000	Share-based payment reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018		419,610	18,923	(95,292)	343,241
Loss for the period		-	-	(11,899)	(11,899)
Total comprehensive income/(loss) for the period		-	-	(11,899)	(11,899)
Issue of options and performance rights		-	1,788	-	1,788
Balance at 31 December 2018		**419,610**	**20,711**	**(107,191)**	**333,130**
Balance at 1 July 2019		479,720	9,216	(112,286)	376,650
Loss for the period		-	-	(63,387)	(63,387)
Total comprehensive income/(loss) for the period		-	-	(63,387)	(63,387)
Issue of ordinary shares	4	111,520	-	-	111,520
Share issue costs	4	(3,937)	-	-	(3,937)
Issue of options and performance rights		-	568	-	568
Transfer on conversion/lapse of options		-	(7,343)	7,343	-
Balance at 31 December 2019		**587,303**	**2,441**	**(168,330)**	**421,414**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2019

	Notes	31 December 2019 $'000	31 December 2018 $'000
Cash flows from operating activities			
Receipts from customers		42,544	16,662
Cash paid to suppliers and employees		(71,606)	(20,538)
Payments for exploration and evaluation expenditure		(4,824)	(4,749)
Interest received		448	1,376
Other receipts		574	169
Net cash outflow from operating activities		**(32,864)**	**(7,080)**
Cash flows from investing activities			
Sales proceeds from commercial pre-production activities		-	47,733
Payments for property, plant, equipment and mine properties [1]		(18,440)	(92,642)
Payments for acquired exploration and evaluation expenditure		-	(40)
Net cash outflow from investing activities		**(18,440)**	**(44,949)**
Cash flows from financing activities			
Proceeds from the issue of shares		111,520	-
Capital raising costs		(3,938)	-
Transaction costs related to borrowings		(86)	(1,377)
Transfer from restricted cash		-	12,302
Repayment of borrowings [2]		(4,021)	(225)
Interest and other costs of finance paid		(10,204)	(8,310)
Net cash inflow from financing activities		**93,271**	**2,390**
Net increase/(decrease) in cash held		41,967	(49,639)
Cash and cash equivalents at the beginning of the period		63,576	119,978
Effect of exchange rate fluctuations on cash held		3	(78)
Cash and cash equivalents at the end of the period		**105,546**	**70,261**

1. The prior half-year includes Stage 1 pre-production commissioning and ramp costs, and costs associated with the development and construction of both Stage 1 and Stage 2 of the Pilgangoora Project. The Group declared commercial production effective 1 April 2019, with the Pilgangoora Project considered to have been in the commissioning and ramp-up phase until this date. Prior to the declaration of commercial production, all commissioning and pre-production ramp-up costs incurred at the Pilgangoora Project (net of revenue derived from the sale of spodumene concentrate) were capitalised against project development costs. Similarly, cash flows associated with commissioning and pre-production ramp-up activities were classified as cash flows from investing activities until such time as commercial production was declared.

2. The current half-year represents the apportioned lease repayments following the implementation of *AASB 16 Leases* on 1 July 2019, refer Note 1.

The notes on pages 16 to 26 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Pilbara Minerals Limited (the "Company") is a listed public company incorporated and domiciled in Australia. These consolidated interim financial statements ("interim financial statements") as at and for the six months ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in the exploration, development and mining of minerals.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2019 are available upon request from the Company's registered office at Level 2, 88 Colin Street, West Perth WA 6005 or at *www.pilbaraminerals.com.au*.

Basis of preparation

The interim financial statements are general purpose financial statements prepared in accordance with **AASB 134 Interim Financial Reporting** and the Corporations Act 2001, and **IAS 34 Interim Financial Reporting.**

They do not include all the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2019.

The accounting policies and methods of computation adopted in the preparation of the Interim Financial Report are consistent with those adopted and disclosed in the Group's Annual Financial Report for the financial year ended 30 June 2019.

These interim financial statements were approved by the Board of Directors on 20 February 2020.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have been rounded off to the nearest thousand dollars unless otherwise stated.

The financial report is presented in Australian dollars, except where otherwise stated.

Use of judgements and estimates

In preparing these interim financial statements management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In addition to the estimates and judgements adopted in the preparation of the June 2019 Annual Financial Report the half-year report includes additional estimates which are found in the following note:

- Note 3.2 – Impairment testing for non-financial assets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

New accounting standards – AASB 16 - Leases

The Group has applied the provisions of *AASB 16 Leases* from 1 July 2019 in accordance with the standard and the Group's accounting policies. The Group has not restated comparatives for the 2018 comparative reporting period as permitted under the transitional provisions of the standard by using the modified retrospective method of transition. The changes arising from the new standard were recognised on and from 1 July 2019.

The new standard principally removes the distinction between finance and operating leases with all leases brought onto the balance sheet. Previously payments made for operating leases were expensed to the profit or loss whereas now those payments are allocated between repayment of lease liability borrowings and finance costs.

Accounting policy – Leases
The Group recognises all right of use assets and liabilities, except for leases that are short-term (12 months or less) and low value leases at the lease commencement date. The lease liability is measured at the present value of the future lease payments and includes lease extension options when the Group is reasonably certain that it will exercise the option. The present value of future lease payments is determined by discounting future lease payments using the interest rate implicit in the lease or, if that rate cannot be determined then the Group's borrowing rate, which is generally the case. The right of use asset, at initial recognition, reflects the lease liability and is depreciated over the term of the lease. The present value of the lease liability is increased by the interest cost and decreased by the lease payment each period over the life of the lease. The Group includes right of use leased assets separately in Property, Plant, Equipment and Mine Properties disclosures. All new contracts of the Group are assessed on an ongoing basis to determine if a right of use asset exists and if they require recognition under the requirements of the lease standard.

The impact on the Group at inception on 1 July 2019 was the recognition of $39.3 million right of use assets and a $39.3 million lease liability on the balance sheet. $8.3 million of the lease liability was recognised as a current liability and $31.0 million non-current liability as outlined below:

	1 July 2019 $'000
Finance and operating lease liabilities recognised at 30 June 2019	Nil
Lease liability reconised on adoption of AASB16	39,307
	39,307
Lease liability recognised at 1 July 2019:	
Current liability	8,309
Non-current liability	30,998
	39,307
Right of use asset recognised:	
Property, plant, equipment and mine properties	39,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

During the period $2.2M of lease payments were expensed as operating costs as they related to leases that the Company had defined as short-term and are therefore not reflected on the balance sheet in accordance with standard.

Lease payments of $5.7M during the half-year reduced the lease liability by $4.3M and $1.4M was recognised as lease interest expense (refer Note 2.5).

Going Concern Note

This financial report has been prepared on a going concern basis, which contemplates normal business activities including the realisation of assets and settlement of liabilities in the ordinary course of business.

At 31 December 2019 the Company had cash and cash equivalents of $105.5 million, a net current asset position of $94.8M and an undrawn working capital facility of $21.4 million (US$15.0 million).

The half-year to 31 December 2019 was impacted by softer market conditions in China and weaker customer demand for lithium raw materials, resulting in lower prices. The Company responded prudently to reduced customer demand during the period by moderating production at the Pilgangoora Lithium-Tantalum Project to better align production with customer requirements, thereby preserving working capital and generating cash flow savings.

During October 2019, the Company completed a $111.5 million equity raising to strengthen its balance sheet for the event that weaker market conditions persist. Cash flow forecasts prepared by the Company support the Company's ability to continue as a going concern for at least the next 12 months, including scheduled repayments of principal and interest due under the US$100 million Nordic Bond debt facility, which commence from June 2020. These cashflow forecasts are predicated on the achievement of key underlying assumptions, including forecast spodumene concentrate selling prices, expected spodumene concentrate sales and production levels, and forecast operating cost outcomes.

NOTE 2 - RESULTS FOR THE HALF-YEAR

2.1 Revenue from contracts with customers

	31 December 2019 $'000	31 December 2018 $'000
Sales to customers under contracts	38,468	13,819
Other revenue - provisional pricing adjustments	(745)	-
Recovery of royalties under contracts with customers	45	571
	37,768	14,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

2.2 Cost of sales

	31 December 2019 $'000	31 December 2018 $'000
Mining and processing costs	41,762	3,729
Royalty expenses	2,503	2,541
Depreciation and amortisation	6,520	2,119
Inventory movement	10,774	-
By-product revenue	(4,763)	-
Foreign exchange loss	101	-
	56,897	8,389

2.3 Inventory write-down

	31 December 2019 $'000	31 December 2018 $'000
Inventory write-down	21,155	-

This includes the write-down of stockpiles to net realisable value of $5.8M across spodumene concentrate and coarse ore stockpiles, as well as an inventory write-down of $15.4M for non-current ROM stockpiles.

2.4 Share-based payment expense

The share-based payment expense includes:

	31 December 2019 $'000	31 December 2018 $'000
Share options expense	418	1,575
Performance rights expense	150	213
	568	1,788

Share options

The following table shows options issued during the half-year ending 31 December 2019 and the value attributed to each option granted, by category of holder:

Holder	No. of options	Exercise Price	Expiry Date	Fair Value ($/option)	Total Value ($'000)
Executive Director	2,105,263	$0.4149	31-Dec-22	$0.070	147
Executive Director	2,105,263	$0.4149	31-Dec-22	$0.082	173
Other KMP	2,842,104	$0.4149	31-Dec-22	$0.073	207
Other KMP	2,842,104	$0.4149	31-Dec-22	$0.088	250
Other KMP	7,043,478	$0.3750	01-May-23	$0.080	564
Other employees	2,727,948	$0.4149	31-Dec-22	$0.073	199
Other employees	2,428,264	$0.4149	31-Dec-22	$0.088	214
Other employees	299,684	$0.4149	31-Dec-22	$0.087	26
Other employees	11,849,125	$0.3750	01-May-23	$0.080	948

Performance rights

The following table shows performance rights issued during the half-year ended 31 December 2019 for no consideration and the value attributed to each performance right granted, by the category holder:

Holder	No of performance rights	Expiry Date	Fair Value ($/Right)	Total Value ($'000)
Executive Director	289,226	30-Jun-22	$0.138	40
Executive Director	289,226	30-Jun-22	$0.295	85
Other KMP	390,454	30-Jun-22	$0.146	57
Other KMP	390,454	30-Jun-22	$0.305	119
Other employees	424,442	30-Jun-22	$0.146	62
Other employees	41,171	30-Jun-22	$0.140	6
Other employees	465,613	30-Jun-22	$0.305	142

The share options, with an expiry date of 31 December 2022 and performance rights, with an expiry date of 30 June 2022 issued over ordinary shares are subject to the following vesting conditions as detailed below:

Vesting Condition	Criteria
Service condition	A three-year period commencing from the vesting start date.
Market condition – 50%	Relative Total Shareholder Return (TSR). • The Company to achieve specified relative TSR targets (between the 50th to 85th percentile) against a defined peer group of companies measured over the 3 year vesting period.
Strategic objective conditions – 50%	Measured over the 3 year vesting period: • Production and sales achieved at a rate of 840,000 tonnes per annum of spodumene concentrate, or any such other rate as approved by the Board by the end of FY22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The share options, with an expiry date of 1 May 2023 issued over ordinary shares are subject to the vesting condition detailed below:

Vesting Condition	Criteria
Service condition (Remain employed by the Company during the vesting period)	Tranche 1 (representing 40% of share options) – Two-year period commencing from the vesting start date; and Tranche 2 (representing 60% of share options) – Three-year period commencing from the vesting start date.

2.5 Net financing costs

Net financing costs are as follows:

	31 December 2019 $'000	31 December 2018 $'000
Interest income on bank accounts	488	963
Finance income	488	963
Interest expense - leases [1]	(1,403)	-
Interest expense - borrowings	(9,999)	(216)
Unwind of discount on site rehabilitation provision	(161)	-
Net foreign exchange loss [2]	(266)	(6,094)
Finance costs	(11,829)	(6,310)
Net finance costs recognised in profit or loss	(11,341)	(5,347)

1. Lease interest from the implementation of *AASB 16 Leases* on 1 July 2019, refer Note 1.

2. The unrealised foreign exchange loss relates primarily to the revaluation of the US$100 million denominated bond, cash held in US$ denominated bank accounts and US$ denominated debtors.

2.6 Operating segments

The Group has one reportable operating segment which is exploration, development and mining of minerals in Australia.

The Group's operating segment has been determined with reference to the information and reports the Chief Operating Decision Makers use to make strategic decisions regarding Group resources.

Due to the size and nature of the Group, the Managing Director is considered to be the Chief Operating Decision Maker. Financial information is reported to the Managing Director and Board as a single segment and all significant operating decisions are based upon analysis of the Group as one segment. The financial results of this segment are equivalent to the financial statements of the Group as a whole.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

NOTE 3 - ASSETS AND LIABILITIES

3.1 Inventory

	31 December 2019 $'000	30 June 2019 $'000
Current		
Finished goods [1]	18,818	34,691
Work-in-progress [2]	6,415	6,326
Consumables	12,399	10,180
	37,632	51,197
Non-Current		
Finished goods (carried at NRV)	-	1,734
Work-in-progress [2]	-	14,328
	-	16,062

1. At half-year finished goods are held at NRV (2019: at cost).

2. Work-in-progress includes run of mine (ROM) of $3.1M carried at cost and coarse ore stockpiles of $3.3M which are carried at NRV at half-year end (2019: at cost).

During the half-year the Group recognised a total inventory write-down of $21.2M following softer market conditions in China, lower selling prices for spodumene concentrate, elevated unit costs associated with operating in a moderated production environment and further technical learnings from operation the processing plant. The carrying value of spodumene concentrate and coarse ore stockpiles were revalued to net realisable value (NRV) resulting in write downs in spodumene concentrate of $5.4M and coarse ore stockpiles of $0.4M. Non-current ROM stockpiles were written down by $15.4M.

3.2 Property, plant, equipment and mine properties

Accounting policy – Impairment of non-financial assets

The Group assesses, at each reporting date, whether there any indications that an asset may be impaired. If impairment indicators or triggers exist, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU's) fair value less costs of disposal and its value in use. It is not always necessary to determine both an assets fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

Assessment of Impairment

The Group assesses whether there are indicators that assets or groups of assets, may be impaired at each reporting period. Since the last impairment assessment in June 2019 the Group has determined that the deterioration in spodumene concentrate prices and weaker short-term demand for spodumene concentrate are evidence that impairment indicators are present. With the existence of impairment triggers the Group has undertaken an impairment test to estimate the recoverable amount of the Pilgangoora Mine CGU.

The recoverable amount of the current 2Mtpa capacity Pilgangoora Mine was determined using a life-of-mine (LOM) value in use calculation using cash flow projections based on current reserves. These cashflows were discounted to their present value using a post-tax discount rate that reflects the time value of money and risks associated with the asset.

The CGU for the Pilgangoora Mine includes all the property, plant and equipment of the Group along with closing inventory balances and working capital. Key assumptions around spodumene and tantalum pricing and foreign currency rates were referenced to available market data. As the recoverable amount is sensitive to key inputs the Group also considered a number of sensitivities to these assumptions in assessing the recoverable value.

Based on the recoverable value assessment undertaken, no impairment was required to be recognised for the Pilgangoora Mine CGU at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

3.2 Property, plant, equipment and mine properties

	Property, plant and equipment $'000	Right-of-use lease assets $'000	Mine properties in production $'000	Mine properties in development $'000	Mineral rights $'000	Mine rehabilitation $'000 $'000	Total $'000
At 30 June 2019							
Cost	1,042	-	351,060	16,312	54,804	16,524	439,742
Accumulated depreciation	(363)	-	(5,187)	-	(207)	(37)	(5,794)
Net book value	679	-	345,873	16,312	54,597	16,487	433,948
At 31 December 2019							
Opening net book value	679	-	345,873	16,312	54,597	16,487	433,948
Additions	54	39,950	7,189	2,889	-	-	50,082
Disposals	(2)	(911)	-	-	-	-	(913)
Depreciation charge	(156)	(4,811)	(1,774)	-	(75)	(23)	(6,839)
Net book value	575	34,228	351,288	19,201	54,522	16,464	476,278

As at 31 December 2019 the Group had outstanding contractual capital commitments of $3.1 million which are expected to be settled prior to 31 December 2020.

3.3 Loans and borrowings

	31 December 2019 $'000	30 June 2019 $'000
Current		
Lease liability [1]	8,691	-
Secured debt (US$ denominated bond)	26,763	8,912
Total borrowings - current	35,454	8,912
Non-Current		
Lease liability [1]	26,337	-
Secured debt (US$ denominated bond)	112,987	130,087
Total borrowings - non-current	139,324	130,087

1. Refer to Note 1 for details on the adoption of *AASB 16 Leases* on 1 July 2019.

The US$100 million senior debt bond facility funded the Stage 1 Pilgangoora Project and has a coupon rate of 12% per annum with interest payable quarterly in arrears. The Group has complied with the covenants of the bond facility during the reporting period.

The current portion of the US$100 million senior debt bond facility represents three scheduled principal repayments each of US$6.25 million due in June, September and December 2020 respectively.

The movement in the secured debt from 30 June 2019 predominately reflects an unrealised foreign exchange and amortised borrowing costs totalling $0.8 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2019

4. Capital and Reserves

	31 December 2019		30 June 2019	
	$'000	Number ('000)	$'000	Number ('000)
Fully paid ordinary shares	587,303	2,223,704	479,720	1,851,420
Total share capital on issue at end of period	587,303	2,223,704	479,720	1,851,420
Movements in ordinary shares on issue:				
On issue at beginning of period	479,720	1,851,420	419,610	1,744,513
Shares issued during the period:				
Issued for cash	111,520	371,733	50,000	77,664
Exercise of share options	-	551	10,696	29,243
Share issue costs	(3,937)	-	(586)	-
On issue at end of period	587,303	2,223,704	479,720	1,851,420

During the half-year the Group completed a $111.5M equity raising. This equity raising comprised a $55.0M placement to a leading Chinese battery manufacturer for electric vehicles, Contemporary Amperex Technology (CATL), an institutional placement of $36.5M and a $20.0M Share Purchase Plan. The equity raising resulted in the issue of 371.7M new Pilbara Minerals' ordinary shares at a price of A$0.30 per share.

DIRECTORS' DECLARATION

In the opinion of the Directors of Pilbara Minerals Limited ('the Company'):

1. The financial statements and notes thereto, as set out on pages 12 to 26, are in accordance with the Corporations Act 2001 including:

    a. complying with Accounting Standard ***AASB 134: Interim Financial Reporting***, the Corporations Regulations 2001; and

    b. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year then ended.

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303 (5) of the Corporations Act 2001.

Anthony Kiernan
Chairman

20th February 2020

KPMG

Independent Auditor's Review Report

To the shareholders of Pilbara Minerals Limited

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Pilbara Minerals Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Pilbara Minerals Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2019 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2019
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Pilbara Minerals Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year Period.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Pilbara Minerals Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

R Gambitta
Partner

Perth

20 February 2020