ABN 95 112 425 788

Annual Financial Report

30 June 2018

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CORPORATE DIRECTORY

Pilbara Minerals Limited

ABN 95 112 425 788
Incorporated in Australia

BOARD OF DIRECTORS

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

COMPANY SECRETARY

Alex Eastwood

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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West Perth WA 6005
Tel: + 61 8 6266 6266
Fax: + 61 8 6266 6288
Website: www.pilbaraminerals.com.au

ASX CODE

PLS

SHARE REGISTER

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009
Tel: +61 8 9389 8033

AUDITORS

KPMG
235 St Georges Terrace
Perth WA 6000

DIRECTORS' REPORT

For the year ended 30 June 2018

The Directors present their report together with the consolidated financial statements of the Group comprising of Pilbara Minerals Limited ("**Pilbara Minerals or the Company**") and its subsidiaries for the financial year ended 30 June 2018 and the auditor's report thereon. The Directors' report and consolidated financial statements are presented in Australian dollars, except where otherwise indicated.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Mr Anthony Kiernan LLB **Chairman and Independent Non-Executive Director** Appointed 1 July 2016	Mr Anthony (Tony) Kiernan is an experienced public company director and former commercial solicitor who has extensive experience in the management and operation of listed public companies. Mr Kiernan is a member of the Remuneration and Nomination Committee. Mr Kiernan is also Chairman of the Fiona Wood Foundation. **Other current ASX directorships:** Mr Kiernan is a director of the following entities, which are listed on the Australian Securities Exchange: • Chalice Gold Mines Limited (since 2007); and • Venturex Resources Limited (since 2010). **Former ASX directorships in the last three years:** BC Iron Limited (2006 to 7 December 2016) and Danakali Limited (2013 to 6 February 2017).
Mr Ken Brinsden BEng (Mining), MAusIMM, MAICD **Chief Executive Officer and Managing Director** Appointed 4 May 2016	Mr Brinsden is a mining engineer with over 23 years' experience in surface and underground mining operations. Since graduation from the Western Australian School of Mines, Mr Brinsden has worked for major mining companies including WMC Resources Limited, Normandy Mining Limited, Central Norseman Gold Corporation, Iluka Resources Limited, Gold Fields Limited and Atlas Iron Limited. Mr Brinsden was appointed as Chief Executive Officer of the Company in January 2016 and subsequently appointed to the Board as Managing Director effective from 4 May 2016. **Other current ASX directorships:** None. **Former ASX directorships in the last three years:** Atlas Iron Limited (22 February 2012 to 27 April 2016).

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Mr Steve Scudamore FCA, MA (Oxon), FAICD, SF Fin **Independent Non-Executive Director** Appointed 18 July 2016	Mr Scudamore is a Fellow of the Institute of Chartered Accountants, England, Wales and Australia (FCA), a Fellow of the Institute of Company Directors (FAICD) and a Senior Fellow of the Financial Services Institute of Australia (SF Fin). Mr Scudamore's career includes 28 years as a partner at KPMG, where he served as a member of KPMG's Global Energy and Natural Resources Group, KPMG's Australian Corporate Finance Executive and Board, and Chairman of Partners in Western Australia. Mr Scudamore is Chairman of the Audit and Risk Committee and is a member of the Remuneration and Nomination Committee. Mr Scudamore is also Chairman of MDA Insurance Pty Ltd, and holds board positions on industry, government and community boards, including as a Trustee of the Western Australian Museum, Chairman of Amana Living Incorporated (formerly Anglican Homes) and a member of Council at Curtin University. Mr Scudamore is also a senior advisor to Lazard Australia. **Other current ASX directorships:** Australis Oil & Gas Limited (since November 2016). **Former ASX directorships in the last three years:** Aquila Resources Pty Ltd (10 December 2012 to 7 June 2016) and Altona Mining Limited (18 March 2013 to 4 April 2018).
Mr Nicholas Cernotta B. Eng (Mining) **Independent Non-Executive Director** Appointed 6 February 2017	Mr Nicholas Cernotta has more than 30 years' experience in the mining industry, spanning various commodities and operations in Australia, Africa, South East and Central Asia, Saudi Arabia and Papua New Guinea. He holds a Bachelor of Mining Engineering and has held senior executive roles with extensive operational experience in both the public and private sectors of the mineral resources industry. Previous roles held include Director of Operations at Fortescue Metals Group Ltd, Chief Operating Officer at MacMahon Contracting and Director of Operation at Barrick Gold. Mr Cernotta is a member of the Audit and Risk Committee and is Chairman of the Remuneration and Nomination Committee. **Other current ASX directorships**: Non-Executive Director of Panoramic Resources Limited (since May 2018). **Former ASX directorships in the last three years:** ServTech Global (October 2016 to November 2017).
Ms Sally-Anne Layman B. Eng (Mining) Hon, B Com **Independent Non-Executive Director** Appointed 20 April 2018	Ms Layman is a mining professional, corporate financier and advisor with 23 years of international and cross-commodity experience. Previously, Ms Layman held a range of senior positions with Macquarie Group Limited, including as Division Director and Joint Head of the Perth office of the Metals, Mining & Agriculture Division. More recently, Ms Layman has worked as a consultant providing financial consulting services to miners and explorers, including strategy and business development. Ms Layman is a member of the Audit and Risk Committee. **Other current ASX directorships**: Non-Executive Director of Perseus Mining Limited (since September 2017), IMDEX Limited (since February 2017) and Gascoyne Resources Limited (since June 2017). **Former ASX directorships in the last three years:** None.

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Mr John Young BAppSc (Geology), Grad Dip – Technology Management, MAusIMM **Executive Director** 4 September 2015 to 31 July 2017 **Non-Executive Director** Appointed 1 August 2017 to 20 April 2018	Mr John Young is a geologist having been engaged on exploration and production projects encompassing gold, uranium and specialty metals. From 2002 to 2006, Mr Young was Exploration Manager for Haddington Resources Limited and was responsible for resource exploration and resource definition for their Bald Hill Tantalum mine. Mr Young's corporate experience has included appointments as Chief Executive Officer of Marenica Energy Limited and Chief Executive Officer and Director of Thor Mining PLC. Mr Young was responsible for exploration and evaluation for both the Pilgangoora and Tabba Tabba projects since their acquisition by the Company, until his resignation. **Other current ASX directorships:** Non-Executive Director of Mosman Oil and Gas Limited and Managing Director of Spitfire Materials Limited (from 29 June 2017). **Former ASX directorships in the last three years:** None.
Mr Neil Biddle BAppSc (Geology), MAusIMM **Executive Director** 30 May 2013 to 19 August 2016 **Non-Executive Director** 20 August 2016 to 26 July 2017	Mr Neil Biddle is a geologist and Corporate Member of the Australasian Institute of Mining and Metallurgy. He has over 30 years professional and management experience in the exploration and mining industry and since 1987 has served on the Board of several ASX listed companies. Mr Biddle was Managing Director of TNG Ltd from 1998 to 2007, Border Gold NL from 1994 to 1998, and Consolidated Victorian Mines from 1991 to 1994. **Other current ASX directorships:** Director of Spitfire Materials Limited (from 29 June 2017). **Former ASX directorships in the last three years:** Arunta Resources Limited (4 April 2013 to 8 April 2015).

COMPANY SECRETARY

Mr Alex Eastwood, B. Economics; LLB

Mr Eastwood was appointed Company Secretary on 1 September 2016 and has more than 20 years' experience as a commercial lawyer, company secretary and corporate finance executive. Mr Eastwood has previously held partnerships with two international law firms and has extensive experience as an executive director in the corporate finance area. Mr Eastwood has also held a number of senior corporate positions with ASX-listed companies including as General Counsel and Company Secretary with Gryphon Minerals Ltd and General Counsel with Imdex Limited.

DIRECTORS' MEETINGS

The number of board and committee meetings attended by each Director of the Company during the financial year are:

	Board Meetings		Audit and Risk Committee		Remuneration and Nomination Committee	
Number of Meetings	17		5		1	
Director	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
Mr Anthony Kiernan	17	17	4	4	1	1
Mr Ken Brinsden	12	16	-	-	-	-
Mr Neil Biddle*	-	1	-	-	-	-
Mr John Young**	12	13	-	-	-	-
Mr Steve Scudamore	17	17	5	5	1	1
Mr Nicholas Cernotta	17	17	4	5	1	1
Ms Sally-Anne Layman***	3	3	1	1	-	-

* Mr Biddle retired as a Non-Executive Director on 26 July 2017.
** Mr Young retired as a Non-Executive Director on 20 April 2018.
*** Ms Layman was appointed as a Non-Executive Director on 20 April 2018.

The Audit and Risk Committee and Remuneration and Nomination Committee consist solely of non-executive directors.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the exploration and development of mineral resources, being primarily the Pilgangoora Project ("**Pilgangoora**" or "**Project**"). During the year the Group commenced the development and commissioning of the Pilgangoora mine and processing facility and started direct shipping ore ("**DSO**") mining operations.

Objectives

The Group's objectives are to:

- complete development and mine the world class lithium-tantalum deposit at the 100% owned Pilgangoora Project located in the Pilbara region of Western Australia;
- continue to conduct exploration activities at the Pilgangoora Project to increase the existing JORC resource and reserve;
- further exploration at its other North Pilbara exploration projects; and
- undertake participation in downstream chemical processing opportunities to leverage the size and quality of the Project.

In order to meet these objectives, the following targets have been set for the 2019 financial year and beyond:

- Safety:
    - total recordable injury frequency rate ("**TRIFR**") of less than 4.5.
- Pilgangoora Stage 1 (**"Stage 1"**) being the 2 million tonnes per annum ("**Mtpa**") Project:
    - first spodumene concentrate shipment in the September quarter; and
    - achieve nameplate production capacity of 320,000dmt per annum of 6.0% spodumene concentrate and 300,000lbs per annum of tantalite product during the 2019 financial year.
- Pilgangoora Stage 2 (**"Stage 2"**) being the 5 Mtpa expansion to produce approximately 800,000 to 850,000dmt per annum of 6.0% spodumene concentrate:
    - make a financial investment decision (**"FID"**) in the first quarter of the 2019 financial year (the DFS having been completed and approved by the Board in August 2018); and
    - target commissioning in the December 2019 quarter.
- To determine a joint venture with POSCO for Pilbara Minerals' 30% participation in the development and operation of a 30,000tpa downstream chemical conversion facility in South Korea.

OPERATING AND FINANCIAL REVIEW

Review of Operations

During the year, the Company largely completed construction works for Stage 1 of the Project and started plant commissioning activities with first fines concentrates produced during commissioning in June 2018. The Company commenced DSO mining operations with the first delivery of DSO product taking place during May 2018 pursuant to the Company's Minegate Sale Agreement with Atlas Iron Limited.

The Company continued to focus on the Stage 2 5Mtpa expansion completing the DFS in early August 2018 which confirmed a compelling case for the Stage 2 expansion to produce approximately 800,000 to 850,000dmt per annum of 6.0% spodumene concentrate.

During the year the Company announced a substantial increase to measure and indicated resource for the Project following successful exploration and infill drill programs.

Review of Principal Business

Pilgangoora Lithium-Tantalum Project

Pilgangoora Stage 1 Development

The primary focus of activities for the year centred on delivery of the Pilgangoora Stage 1 operating mine. Development progressed well during the year with all key project metrics achieved.

The Project was successfully constructed during the year. Despite several cyclones, schedule was maintained with commissioning commencing in the fourth quarter of 2018.

The Company also undertook operations readiness activities for Stage 1 including award of operational contracts, procurement, recruitment, training and systems implementation. Key operational contracts awarded during the year included crushing, mining and haulage services.

A robust operational readiness program was completed to ensure reporting systems, procurement, training and onboarding of operating personnel occurred to support the operation.

Exploration

During the year, the Company completed an extensive program of exploration, and strategic development drilling at Pilgangoora. The Company undertook PQ diamond drilling over key parts of the resource for advanced metallurgical test-work as part of the Stage 2 expansion study. RC grade control drilling also continued over areas within the already defined Central and Monster DSO pits, providing high level confidence in the existing reserve base.

Exploration drilling programs were designed to target extensions to known near-surface pegmatites showing potential to add material tonnes to the existing resource base and assist with final pit designs. Prospects targeted included the Far East, West End, Monster and Central. All up, 165 reverse circulation drill holes were completed for a total of 28,382 metres. In addition, a PQ diamond drilling program including 13 holes for a total of 799 metres of drill core were completed at the Central and Eastern prospects.

New zones of high-grade pegmatite mineralisation have been defined from the RC drilling across multiple prospects, with thick high-grade zones also intersected outside of the current Mineral Resource at the Central and Monster deposits.

Results from the exploration drilling programs culminated in a 36% increase in the Total Measured, Indicated and Inferred Resource inventory to **213Mt grading 1.32% Li_2O (lithia) and 116ppm Ta_2O_5 and 1.08% Fe_2O_3** as shown in the table below:

Category	Tonnage (Mt)	Li_2O (%)	Ta_2O_5 (ppm)	Li_2O (t)	Ta_2O_5 (Mlbs)
Measured	22.1	1.41	146	311,000	7.1
Indicated	107.0	1.34	119	1,435,000	28.0
Inferred	84.2	1.27	105	1,071,000	19.4
Total	**213.3**	**1.32**	**116**	**2,818,000**	**54.6**

Access negotiations to enable exploration activity at Mt Francisco Project (Pilbara 51% and earning up to 80% from Atlas Iron Limited, pending exploration and feasibility expenditure) advanced with both the Mugarinya Land Access Agreement and Kariyarra Heritage Agreements executed in June 2018. The Company submitted an application for an Entry Permit to Mt Francisco to enable exploration activity. The application has been reviewed by the Aboriginal Lands Trust Board, who have passed a positive recommendation to the Minister for Aboriginal Affairs. The Company is awaiting consideration of the recommendation by the Minister before commencing non-ground disturbing exploration activities.

Expansion Studies - Pilgangoora Stage 2 (5Mtpa) Feasibility

In August 2017 the Stage 2 feasibility metallurgical test work program was scoped out in preparation for commencement in September 2018.

In September 2017 the Company commenced work on a DFS for a 5Mtpa expansion. Key technical works were undertaken with respect to mining and mine design, metallurgical test-work, process design, infrastructure, tailings management, hydrogeology and hydrology, power and environmental assessments. Ahead of the DFS, the Company released a positive pre-feasibility study in February 2018 for the 5Mtpa expansion case.

Subsequently, the Company released the DFS in August 2018. The key financial outcomes from the DFS included:

- Stage 2 project post-tax $NPV_{10\%}$ of $2.16 billion before financing, life-of-mine (**"LOM"**) project revenue of $12.20 billion and LOM EBITDA of $6.30 billion;
- Project capital estimate of $231 million +/- 15%; and
- LOM operating cash costs* of US$263/tonne of spodumene concentrate CIF.

*Cash operating costs include mining, processing, transport, state and private royalties, native title costs, port, shipping/freight, site based general and administration costs and an allocation of corporate administration overheads. Cash operating costs are net of Ta2O5 by-product credits.

Tabba Tabba Tantalum Project

Site closure activities at the Tabba Tabba Tantalum Project were completed in June 2017. Formal acceptance from the Department of Mines, Industry Regulation and Safety (formerly Department of Mines and Petroleum) was received during August 2017.

During the year ending 30 June 2018 the Company sold the Tabba Tabba processing plant assets to Tungsten Mining NL for $0.30 million in cash and 7,500,000 ordinary shares in Tungsten Mining NL.

Corporate Review

During the year ending 30 June 2018, the Company signed an offtake agreement to supply 75,000tpa of chemical grade spodumene concentrate from Stage 2 production to China's Great Wall Motor Company ("**Great Wall**") over an initial 5-year term, with Great Wall being able to extend this quantum of supply for up to an additional 10 years via two 5-year options. Under the agreed off-take terms, Great Wall has the ability to secure an additional 75,000tpa of Stage 2 off-take, for a total off-take volume of 150,000tpa, by providing Pilbara with up to US$50 million of debt financing for its Stage 2 expansion via a debt or offtake pre-payment facility.

In combination with the offtake agreement, Great Wall also executed a Subscription Agreement for a A$28 million equity investment in Pilbara Minerals with these proceeds contributing towards the completion of Stage 1 of the Pilgangoora Project and financing the Stage 2 DFS. This equity subscription was completed on 30 October 2017, with the Company issuing 56 million fully paid ordinary shares at 50 cents per share for total proceeds of $28 million.

In February 2018, the Company entered into a broad-based strategic relationship with leading South Korean industrial conglomerate POSCO encompassing long-term off-take, strategic funding and potential joint venture participation in a downstream chemical conversion plant in South Korea. Landmark agreements executed included:

- a binding life-of-mine off-take for an initial 80,000tpa of chemical grade spodumene concentrate from the 5Mtpa Stage 2 Pilgangoora Project, with this volume increasing to up to 240,000tpa on Pilbara's joint venture election to participate in a lithium carbonate/lithium hydroxide conversion plant in South Korea;
- an Equity Subscription Agreement providing a A$79.6 million direct equity investment in Pilbara Minerals. The equity subscription agreement was completed on 29 March 2018, with the Company issuing 82.1 million fully paid shares at a premium of 97 cents per share for total proceeds of $79.6

million; and

- a Convertible Bond Agreement for the provision of A$79.6 million by way of an unsecured convertible bonds to fund the Company's potential 30% joint venture participation in a lithium carbonate/lithium hydroxide conversion plant in South Korea. The bonds would be provided on attractive terms, including the conversion of the bonds to shares being at Pilbara Minerals' sole election.

The proceeds received from the A$79.6 million equity investment from POSCO may be applied to fund working capital as well as the 5Mtpa Stage 2 expansion of the Pilgangoora Project and accelerate plans to bring it into production as soon as possible.

During the December 2017 quarter, the Company signed a 2-year tantalite offtake agreement with Global Advanced Metals Greenbushes Pty Ltd, a wholly-owned subsidiary of the leading vertically integrated global tantalum products provider Global Advanced Metals Pty Ltd, comprising 100,000lbs of contained Ta2O5 as primary 4-5% concentrates.

On 2 August 2017, the Company received proceeds of $13.5 million from Tranche 2 of the share placement (38,671,430 shares at 35 cents per share) announced in June 2017 and $15.3 million from the Company's Share Purchase Plan (43,777,251 shares at 35 cents per share) to complete the $228 million debt and equity funding for Stage 1 of the Pilgangoora Project.

Following satisfaction of all conditions precedent, financial closure for the Company's US$100 million senior secured bond was achieved on 6 October 2017 allowing the Company to draw-down bond proceeds once the Company's project equity contributions were expended. At the date of this report, Pilbara Minerals has drawn down the entire bond balance of US$100 million following satisfaction of all conditions required to draw down the bond, including customary cost-to-complete tests. All proceeds from the draw down have been applied towards project construction and plant commissioning costs at the Pilgangoora project.

During the year the Company issued 49.38 million fully paid ordinary shares following the exercise of 51.98 million unlisted options. Proceeds totalling $19.97 million were received following the exercise of these options.

On 15 August 2017, the Company completed settlement of the Lynas Find tenement acquisition with Novo Litio (formerly Dakota Minerals Limited) following the grant and transfer of the four remaining tenements to Pilbara Minerals. Total consideration of $3 million was paid via the issue of 7,577,671 ordinary fully paid shares in the Company at a share price of 39.59 cents.

On 21 September 2017 the Company executed a sale agreement with Tungsten Mining NL to sell the processing plant assets associated with the Tabba Tabba Tantalum Project. During the year the Company received consideration of $0.3 million in cash and 7,500,000 ordinary shares in Tungsten Mining NL (consideration of $0.3 million). During the June 2018 quarter the Company sold these shares in Tungsten Mining NL for a cash consideration of $4.3 million.

Pilbara Minerals was included in the benchmark S&P/ASX 200 index effective from 18 December 2017, reflecting the increase in its market capitalisation to over $1.87 billion as at that date. As at 30 June 2018, the Company had a market capitalisation of $1.60 billion.

Review of Financial Conditions

The consolidated loss for the year ended 30 June 2018 was $19.42 million (2017 loss: $25.95 million). The loss includes the following non-cash items:

- Non-cash share-based payment expense of $4.63 million (2017: $12.42 million);
- Non-cash depreciation charge of $1.50 million (2017: $0.09 million); and
- Unrealised foreign exchange losses of $6.36 million largely relating to the restatement of the US$ denominated secured bond to the year-end closing foreign exchange rate.

Share Placements and Issues

During the financial year, the Company issued the following shares, excluding options exercised, before costs:

Date	Number of shares	Price per share ($)	Amount issued ($'000)
02 August 2017	43,777,251	$0.35	15,322
03 August 2017	38,671,430	$0.35	13,535
15 August 2017	7,577,671	$0.40	3,000
30 October 2017	56,000,000	$0.50	28,000
29 March 2018	82,065,000	$0.97	79,603
04 April 2018	505,278	$0.89	450

Options Issued

During the financial year, the Company granted the following options:

Option	Grant date	Exercise price	Expiry date	Vested	Options unexercised at 30 June 2018
1,500,000	01/09/2017	$0.45	31/08/2020	750,000[a]	750,000
2,000,000	01/09/2017	$0.45	31/08/2020	-[b]	2,000,000
2,000,000	23/11/2017	$0.90	08/12/2020	1,333,333[c]	2,000,000

[a] The vesting conditions attached to these unlisted options were:

- 50% vest upon a Board determination in respect of the Pilgangoora Project mine development and plant construction being largely complete (both for civil works and mine establishment) and the process plant having achieved a nominal 85% of its design throughput capacity during production runs, at a saleable product specification; and
- 50% vest immediately on the date of allotment.
- A continuing employment service condition at the time the above milestone is achieved.

[b] The vesting conditions attached to these unlisted options were:

- A Board determination in respect of the Pilgangoora Project mine development and plant construction being largely complete (both for civil works and mine establishment) and the process plant having achieved a nominal 85% of its design throughput capacity during production runs, at a saleable product specification; and
- 6 months service condition.
- A continuing employment service condition at the time the above milestone is achieved.

[c] The vesting conditions attached to this set of options were:

- 33.33% vest on the date of allotment;
- 33.33% vest at 30 June 2018, subject to Mr Cernotta not having ceased to be a Director at that date; and
- 33.33% vest at 30 June 2019, subject to Mr Cernotta not having ceased to be a Director at that date.

During the year, a total of $19.97 million was raised following the issue of 49,378,432 ordinary shares upon the exercise of 51,984,847 unlisted options, which included the cashless exercise of 5,800,000 unlisted options into 3,193,585 ordinary shares.

Performance Rights Issued

During the financial year, the Company granted the following performance rights:

Performance rights	Grant date	Expiry date	Vested
316,922 [a]	23/11/2017	30/06/2019	-
451,826[a]	11/05/2018	30/06/2019	-

[a] The vesting conditions attached to these unlisted performance rights were:

- Service Condition: Holder must remain an employee until the period ending 30 June 2019.
- Market Condition: Ranking of relative Total Shareholder Return (TSR) of Pilbara Minerals to a nominated peer group of companies measured over the period 1 July 2017 to 30 June 2019 ("Performance Period").
- Strategic Objective Conditions measured over the Performance Period based on the following metrics:
  - Production capacity development (growth) based on the following performance indicators:
    - Target shipment of Stage 1 product; and
    - FID of the Board in respect of Stage 2 (5Mtpa).
  - Sustainability of operations (sustainability) based on the following performance indicators:
    - Achieve product specifications for target production capacity;
    - Diversify customer sales; and
    - Participation in downstream processing initiatives.

Significant Changes in the State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review, except as already noted in this Directors' Report.

DIVIDENDS

The Directors recommend that no dividend be declared or paid.

EVENTS SUBSEQUENT TO REPORTING DATE

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

LIKELY DEVELOPMENTS

The Group will continue with commissioning activities with ramp up to the plant's overall production capacity and mineral recoveries expected to be reached incrementally during the 2019 financial year. The Group will also focus on the Stage 2 (5 Mtpa) expansion, with FID expected in the first quarter of the 2019 financial year.

ENVIRONMENTAL REGULATION

The Group's operations are subject to significant environmental regulation under both Commonwealth and State legislation in Australia in relation to its mining, development and exploration activities. The Group is committed to achieving a high standard of environmental performance.

Following an internal review by the Group, an irregularity was identified in relation to the Group's existing environmental works approval held in relation to the Pilgangoora Project raising issues of potential non-compliance with the existing works approval following the construction and location of certain infrastructure. Following further work on amendments to the existing approval and discussions with the Department of Water and Environmental Regulation ("**DWER**") an amended works approval has now been issued by DWER, which has specifically addressed the issues and ensures the Groups' operations are in current compliance.

INTERESTS

The relevant interest of each Director in the shares, rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the Directors to the ASX in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Pilbara Minerals Limited		
	Ordinary shares	Options over ordinary shares	Performance rights
Mr Ken Brinsden	869,565	15,000,000[(i)]	316,922 [(iv)]
Mr Anthony Kiernan	287,858	8,000,000[(ii)]	-
Mr Steve Scudamore	142,850	1,333,334[(ii)]	-
Mr Nicholas Cernotta	156,570	2,000,000[(iii)]	-
Ms Sally-Anne Layman	-	-	-

[(i)] Vesting conditions attached to these options are set out in footnote (a) of Note 2.2.1 to the Financial Statements.
[(ii)] Vesting conditions attached to these options are set out in footnote (c) of Note 2.2.1 to the Financial Statements.
[(iii)] Vesting conditions attached to these options are set out in footnote (f) of Note 2.2.1 to the Financial Statements.
[(iv)] Vesting conditions attached to these performance rights are set out in the "Performance Rights Issued" section above.

SHARE OPTIONS

At the date of this report, unissued shares of the Group under option are:

Expiry date	Exercise price	Number of options
16 May 2019[a]	$0.40	27,000,000
08 September 2019[a]	$0.63	13,000,000
07 November 2019[b]	$0.55	500,000
17 November 2019[b]	$0.55	500,000
12 December 2019[c]	$0.63	9,333,334
31 August 2020[d]	$0.45	2,000,000
31 August 2020[e]	$0.45	750,000
08 December 2020[f]	$0.90	2,000,000

[a] Vesting conditions attached to these options are set out in footnote (a) to Note 2.2.1 of the Financial Statements.
[b] Vesting conditions attached to these options are set out in footnote (b) to Note 2.2.1 of the Financial Statements.
[c] Vesting conditions attached to these options are set out in footnote (c) to Note 2.2.1 of the Financial Statements.
[d] Vesting conditions attached to these options are set out in footnote (d) to Note 2.2.1 of the Financial Statements.
[e] Vesting conditions attached to these options are set out in footnote (e) to Note 2.2.1 of the Financial Statements.
[f] Vesting conditions attached to these options are set out in footnote (f) to Note 2.2.1 of the Financial Statements.

PERFORMANCE RIGHTS

At the date of this report, unissued shares of the Group pursuant to the Performance Rights Plan are:

Date performance rights granted	Expiry date	Number of performance rights
23 November 2017[a]	30 June 2019	316,922
11 May 2018[a]	30 June 2019	451,826

[(a)] Vesting conditions attached to these performance rights are set out in the "Performance Rights Issued" section above.

Unless stated there are no other vesting conditions on options or performance rights on issue.

INDEMNIFICATION OF OFFICERS AND AUDITORS

The Company has agreed to indemnify current and past directors and officers of the Company and its controlled entities against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has not, during or since the financial period, indemnified or agreed to indemnify the auditor of the Company against a liability incurred as an auditor.

INSURANCE PREMIUMS

Since the end of the previous financial year, the Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts for current and former directors, officers, and senior executives of the Company and its controlled entities. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

NON-AUDIT SERVICES

KPMG provided non-audit services of $35,000 in the financial year ended 30 June 2018. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services did not compromise the auditor independence requirements of the *Corporations Act 2001* because none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 27 and forms part of the Directors' Report for the financial year ended 30 June 2018.

ROUNDING OF AMOUNTS

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

REMUNERATION REPORT

A. INTRODUCTION

This Remuneration Report outlines the remuneration arrangements for Directors and other Key Management Personnel ("**KMP**") of the Group who are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise). The information provided in this Remuneration Report has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards, and the following sections have been audited in accordance with Section 308(3C) of the *Corporations Act 2001*.

The following were KMP of the Group during the financial year and unless otherwise indicated were KMP for the entire financial year:

Non-Executive Directors	Executive Directors	Other KMP
Mr Anthony Kiernan Mr Steve Scudamore Mr Nicholas Cernotta Ms Sally-Anne Layman[1] Mr John Young[2] Mr Neil Biddle[3]	Mr Ken Brinsden	Mr Brian Lynn Mr Alex Eastwood Mr Dale Henderson[4]

1 Ms Layman was appointed as Non-Executive Director on 20 April 2018.

2 Mr Young resigned as an Executive Director on 31 July 2017 and as Non-Executive Director on 20 April 2018.

3 Mr Biddle resigned as Non-Executive Director on 26 July 2017.

4 Mr Dale Henderson was appointed as Project Director and KMP on 4 September 2017 and as Chief Operating Officer on 5 March 2018.

Within this Remuneration Report reference to 'executive(s)' includes Executive Directors and other KMP.

B. ROLE OF REMUNERATION AND NOMINATION COMMITTEE

The Company has established a Remuneration and Nomination Committee under a formal charter which is comprised of Non-Executive Directors.

The role of the Remuneration and Nomination Committee is to advise the Board each year on remuneration arrangements for Executive Directors, Non-Executive Directors and other KMP in accordance with the Group's remuneration policy approved by the Board. Each year the Committee reviews and makes recommendations to the Board on such remuneration arrangements, including in relation to fixed remuneration for KMP, all awards under the Long-term Incentive Plan and the level of short-term incentives.

During the year ending 30 June 2018 the Remuneration and Nomination Committee consulted with Ernst and Young to obtain information in relation to setting Total Shareholder Return ("**TSR**") targets under the long-term incentive remuneration framework.

Further information relating to the role of the Remuneration and Nomination Committee can be found in the Remuneration and Nomination Committee Charter on the Company's website.

C. FY2018 REMUNERATION POLICY AND FRAMEWORK

The Directors are responsible for ensuring that the remuneration arrangements of its executives are aligned with the Company's overall business strategy and shareholder interests.

As part of the FY2018 Executive Remuneration Framework, the Board determined that an executive remuneration package should include an appropriate balance of fixed remuneration and at-risk performance remuneration. The Board considers reward for performance is market competitive and it is appropriate to align executive reward with the achievement of short-term and long-term strategic objectives to create and drive shareholder value. The Board endeavours to ensure that the executive remuneration framework satisfies the following key criteria in line with appropriate corporate governance practices:

- attract, retain and motivate key executives at important stages of the Company's development linked to strategy and performance;
- reward executives against determined performance goals/targets to achieve successful project development and operations;
- ensure effective benchmarking for total annual remuneration in accordance with market practices and clearly defined peer group of similar companies to ensure remuneration is fair and competitive;
- align executive interests with those of the Company's shareholders; and
- comply with applicable legal requirements and appropriate standards of governance.

Elements of Executive Remuneration

Executive remuneration packages for KMP comprise a mix of the following:

- **Fixed remuneration** which includes base salary and employer superannuation contributions as a fixed guaranteed element of remuneration.
- **Short-term incentives ("STIs")** which comprise generally a cash bonus or incentive. The STIs are structured as performance-based remuneration which are linked to achievement of shorter term performance targets or objectives in a period of 12 months.
- **Long-term incentives ("LTIs")** which comprise a combination of cash incentives and/or participation in the Company's shareholder approved Employee Awards Plan with pre-defined performance targets measured over a longer performance and vesting period. The LTIs are designed to reward performance that drives long-term strategic growth of the Company and delivers shareholder return.

The STI's and LTI's are all "at risk" components of total remuneration and reward is based on the achievement of performance measures.

Targeted remuneration mix

Market trends, strategic business objectives and shareholder interests are considered when determining the mix of remuneration for executives and how each component will drive desired outcomes. Based on these considerations, the target maximum remuneration components for executive KMP for the 2018 financial year were as follows:

Name	Fixed Remuneration	STI (at risk)[1]	LTI (at risk)[1]
Managing Director ("**MD**") and Chief Executive Officer ("**CEO**")	100%	60%	60%
Other KMP	100%	40%	40%

[1] Calculated as a % of Fixed Remuneration comprising base salary and employer superannuation contributions.

Fixed Remuneration for FY2018

For the year ended 30 June 2018, all executive KMP received fixed remuneration in the form of a base cash salary plus superannuation entitlements.

Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee. The nature and amount of fixed remuneration for KMP depends on the nature of the role and market rates for the position, which are determined with the assistance of external advisors (where necessary), surveys and reports, taking into account the experience and qualifications of each individual. The Committee ensures that the remuneration paid to executive KMP is consistent with market conditions and practices and demonstrates a correlation to performance and creation of value for shareholders.

The fixed remuneration paid to executive KMP is detailed in the Directors and KMP remuneration tables below for the years ended 30 June 2017 and 30 June 2018.

Short Term Incentives for FY2018

Subsequent to the year ended 30 June 2018, the Board determined to pay STI to the Managing Director and other executive KMP based on the following performance criteria:

- Safety – the Group achieved a stretch TRIFR target of 4.14 on average against a TRIFR target of 5.0;
- Project Schedule – the Group successfully developed, constructed and achieved first spodumene fines concentrate production from the Pilgangoora Project in June 2018 in line with market expectations;
- Direct Shipping Ore (DSO) Project – the Group funded, developed and achieved minegate sales from DSO operations in a short period of time, meeting product specification and providing early cash flow for the Group;
- Early Support for Stage 2 Expansion – the Group secured strategic offtake agreements and supportive co-commitments for the development of Stage 2 from both Great Wall Motor Company and POSCO for its Stage 2 Expansion – including equity subscriptions in excess of $107 million;
- Downstream Processing Joint Venture Option – as part of its overall strategy to diversify into downstream processing, the Group secured a downstream processing opportunity in South Korea with POSCO with a minimum joint venture participating interest of 30% and funding under a convertible bond of $79.6 million on favourable terms;
- Sale of Tabba Tabba processing plant assets – the Group realised $4.6 million in value on the sale of the processing plant assets used at Tabba Tabba; and

- Project Bond – the Group satisfied various conditions precedents to successfully achieve financial close under its Nordic Senior Secured Bond and has been able to successfully drawdown US$100 million in project funding for the Pilgangoora Project.

As a result of the assessment of each executive KMP's performance against these outcomes, for FY2018 the Board approved payment of the following STIs in the form of cash:

Name	Position	FY 2018 Achieved STI ($)	FY 2018 Achieved STI (%)[1]
Ken Brinsden	MD and CEO	295,650	100%
Dale Henderson[2]	Chief Operating Officer	136,311	82%
Brian Lynn	Chief Financial Officer	142,350	100%
Alex Eastwood	General Counsel and Company Secretary	142,350	100%

[1]% of STI achieved

[2] Mr Henderson achieved an STI of 100% which was reduced in proportion to completed years of service

In addition, at the beginning of the 2018 financial year Mr Lynn and Mr Eastwood received a grant of 375,000 options each in lieu of an STI cash bonus for their contributions during the 2017 financial year in securing project financing for the Pilgangoora Project in an otherwise challenging market. To preserve the Company's cash position during the development of the Pilgangoora Project, options were considered to be the most effective means to reward Mr Lynn and Mr Eastwood.

Further details of these STI bonuses and options are detailed in the Directors and KMP remuneration tables below for the year ended 30 June 2018.

Long Term Incentives for FY2018

During the year ended 30 June 2018, performance based and "at risk" LTIs were awarded to KMP in the form of options, cash incentives and performance rights.

<u>Options</u>

2,750,000 unlisted options over ordinary shares in the Company were granted to KMP, including a one-off grant of 2,000,000 options to Mr Dale Henderson in recognition of him joining the Company as Project Director in September 2017.

For further information on the options including performance and service conditions – refer to the tables below.

<u>Performance Rights and Cash Incentives</u>

As part of the Executive Remuneration Framework for FY2018, long-term "at-risk" performance remuneration included the award of LTIs to executive KMP based on a combination of cash incentives (50%) and performance rights (50%) issued under the Company's Employee Award Plan.

The LTIs were issued to KMP on the following basis:

- the maximum dollar value of LTIs awarded to KMP was determined to be 60% of his total remuneration for the MD and CEO and 40% of total fixed remuneration for other KMP;
- the LTIs will vest subject to pre-determined and weighted performance conditions which are measured over a 2 year vesting period beginning 1 July 2017 and ending 30 June 2019;
- the performance conditions for the LTIs include a 50% weighting towards relative TSR against a defined peer group of companies and 50% weighting on performance conditions aligned to longer term project and strategic objectives of the Company; and
- should performance hurdles be achieved at the end of the 2 year vesting period, the LTIs are to be paid 50% in cash and 50% in ordinary shares pursuant to performance rights issued under the Employee Award Plan.

In determining the face value of the performance rights, the Board set a value which was reflective of the fair value of the Company's shares at the beginning of the 2018 financial year being the date when the FY2018 Executive Remuneration Framework was approved to take effect.

50% of the LTIs are subject to strategic objectives being achieved which are generally based on the following measures determined by the Board:

- Stage 1 development of the Pilgangoora Project remains funded to first production;
- Shipments of Stage 1 spodumene product to achieve FY2019 budgeted tonnes;
- Completion of the DFS, positive financial investment decision and offtake secured for Stage 2 expansion of Pilgangoora Project;
- Product specifications achieved for FY2019 budgeted tonnes; and
- Diversify customer sales.

The other 50% of the LTIs are subject to the Company achieving specified relative TSR targets (between the 50^{th} to 80^{th} percentile) against a defined peer group of companies measured over the 2 year vesting period.

D. ASSESSING PERFORMANCE AND CLAWBACK OF REMUNERATION

The Board is responsible for assessing executive's performance against vesting conditions and determining the STI and LTI components to be paid based upon reports from management, market conditions and Company performance.

In the event of serious misconduct or a material misstatement in the Company's financial statements, the Board may in its discretion cancel or defer performance-based remuneration and may also clawback performance-based remuneration paid in previous financial years.

E. CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH

Executive remuneration is aimed at aligning the strategic and business objectives with the creation of shareholder wealth and return. The table below shows measures of the Group's financial performance over the last five years as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMP. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

	2018	2017	2016	2015	2014
Profit/(loss) for the year attributable to owners of Pilbara Minerals Limited ($'000)	(19,415)	(25,954)	(55,607)	(6,620)*	(3,187)*
Basic earnings/(loss) per share (cents)	(1.19)	(2.11)	(6.76)	(1.12)*	(1.15)*
Dividend payments ($'000)	-	-	-	-	-
Share price - 30 June	$0.87	$0.38	$0.62	$0.11	$0.02
Increase/(decrease) in share price (%)	128.9	(38.7)	463.6	452.6	58.3

* Restated for the change in exploration and evaluation accounting policy.

F. EXECUTIVE CONTRACTUAL ARRANGEMENTS

The agreements relating to remuneration and other terms of employment for the Managing Director and other KMP for the 2018 financial year are set out below.

	K Brinsden Managing Director/ Chief Executive Officer	B Lynn Chief Financial Officer	A Eastwood Company Secretary & General Counsel	D Henderson[1] Chief Operations Officer
Total fixed remuneration per annum inclusive of superannuation	$492,750	$355,875	$355,875	$416,100
Resignation notice	16 weeks	16 weeks	12 weeks	12 weeks
Termination notice for cause	None	None	None	None
Termination notice without cause	12 months	12 months	6 months	6 months
Termination in case of illness or injury or incapacity	Greater of 1 month or NES	Greater of 1 month or NES	Greater of 1 month or NES	Greater of 1 month or NES
Redundancy*	NES	NES	NES	NES

[1] Mr Henderson - employment agreement commenced 4 September 2017 as Project Director and KMP. Mr Henderson was appointed to Chief Operations Officer on 5 March 2018.

* Any payment made to the Executive in lieu of notice is set off against National Employment Standards (NES).

At the start of the year, Mr John Young was employed as Executive Director under an employment agreement with a remunerated salary of $260,000 per annum exclusive of superannuation. On 31 July 2017, Mr Young resigned as an Executive Director and became a Non-Executive Director until his resignation on 20 April 2018.

G. NON-EXECUTIVE DIRECTOR REMUNERATION

Fees and payments to the Non-Executive Directors reflect the demands made, and the responsibilities placed on the Non-Executive Directors. Non-executive director fees and payments are reviewed annually by the Board.

The maximum annual aggregate directors' fee pool limit is $750,000 and was approved by shareholders at the annual general meeting on 24 November 2016.

	From 1 July 2017	18 July 2016
Base fees (annual)		
Non-Executive Chairman	150,000	130,000
Other Non-Executive Directors	70,000	70,000
Committee Fees (annual)		
Chairperson of Committee	10,000	-
Member of Committee	5,000	5,000

Fees are reviewed annually by the Board taking into account comparable roles and market data. The Board reviewed the Chairman's fee and Committee fees with effect from 1 July 2017.

Fees for Non-Executive Directors are not linked to performance of the Company.

Except for Mr Cernotta who was issued 2,000,000 options on 8 December 2017 following receipt of shareholder approval, there were no options or other equity-based instruments issued to Non-Executive Directors in the relevant period.

Directors' and Executive Officers' Remuneration

Details of the remuneration of the Directors and the KMP of the Group are set out in the following tables.

		Fixed Remuneration			Variable Remuneration				Total	Performance Related Remuneration %
		Salary and fees	Other[A]	Post-employment benefit	Non-performance shares[B]	Performance shares[C]	STI Cash Payment[D]	LTI Cash Payment[E]		
Non-Executive Directors										
Anthony Kiernan	2018	136,986	-	13,014	845,958	-	-	-	995,958	0%
	2017	118,722	-	11,279	1,655,064	-	-	-	1,785,065	0%
Steve Scudamore[1]	2018	77,626	-	7,374	211,490	-	-	-	296,490	0%
	2017	65,420	-	6,215	413,766	-	-	-	485,401	0%
Nicholas Cernotta[2]	2018	77,626	-	7,374	666,742	-	-	-	751,742	0%
	2017	27,520	-	2,614	-	-	-	-	30,134	0%
Sally-Anne Layman[3]	2018	13,111	-	1,364	-	-	-	-	14,475	0%
	2017	-	-	-	-	-	-	-	-	0%
John Young[4]	2018	53,273	-	5,061	-	-	-	-	58,334	0%
	2017	193,492	-	16,812	-	-	-	-	210,304	0%
Neil Biddle[5]	2018	4,892	-	-	-	-	-	-	4,892	0%
	2017	68,924	54,867	-	-	-	-	-	123,791	0%
Robert Adamson[6]	2018	-	-	-	-	-	-	-	-	0%
	2017	40,000	-	-	-	-	-	-	40,000	0%
Executive Directors										
Ken Brinsden	2018	472,701	-	20,049	-	848,288	295,650	66,521	1,703,209	71%
	2017	330,384	-	19,622	-	2,961,590	-	-	3,311,596	89%
Other KMP										
Brian Lynn	2018	335,826	-	20,049	-	392,921	142,350	32,029	923,175	61%
	2017	222,446	-	19,798	-	1,481,228	-	-	1,723,472	86%
Alex Eastwood	2018	335,826	-	20,049	-	291,619	142,350	32,029	821,873	57%
	2017	246,795	-	17,604	-	869,563	-	-	1,133,962	77%
Dale Henderson[7]	2018	313,794	-	16,707	-	224,307	136,311	29,925	721,044	54%
	2017	-	-	-	-	-	-	-	-	0%
Alan Boys[8]	2018	-	-	-	-	-	-	-	-	0%
	2017	-	38,000	-	-	-	-	-	38,000	0%
Total Directors and KMP remuneration										
	2018	**1,821,661**	**-**	**111,041**	**1,724,190**	**1,757,135**	**716,661**	**160,504**	**6,291,192**	
	2017	**1,313,703**	**92,867**	**93,944**	**2,068,830**	**5,312,381**	**-**	**-**	**8,881,725**	

[A] Other benefits includes consulting fees.

[B] Non-performance shares only have service based conditions. The amount disclosed in the table above relates to the non-cash value ascribed to share options under Australian Accounting Standards using the Black Scholes option valuation methodology.

[C] The amount disclosed in the table above relates to the non-cash value ascribed to share options and performance rights under Australian Accounting Standards using the Black Scholes and Monte Carlo valuation methodologies.

[D] 2018 STI cash bonuses relate to those declared for FY2018 but paid subsequent to the year ended 30 June 2018.

[E] 2018 LTI cash bonuses relate to accrued bonuses for FY2018 that will be determined subject to satisfying performance conditions at the end of the vesting period (30 June 2019) and paid subsequent to the year ended 30 June 2019.

[1] Mr Scudamore was appointed as Non-Executive Director on 18 July 2016.

[2] Mr Cernotta was appointed a Non-Executive Director on 6 February 2017.

[3] Ms Layman was appointed as Non-Executive Director on 20 April 2018.

[4] Mr Young resigned as an Executive Director on 31 July 2017 and subsequently resigned as Non-Executive Director on 20 April 2018.

[5] Mr Biddle resigned as Non-Executive Director on 26 July 2017.

[6] Mr Adamson resigned as Non-Executive Director on 21 February 2017.

[7] Mr Henderson was appointed as Project Director and KMP on 4 September 2017 and as Chief Operating Officer on 5 March 2018.

[8] Mr Boys acted as Company Secretary until 31 August 2016 and was appointed as Alternate Director from 20 August 2016 until 23 September 2016.

Equity Instruments

Share Based Payment Expense

Details of the share based payment expense for Directors and the KMP of the Group for the year ending 30 June 2018 is shown in the table below:

				Non-performance	Performance		
	Year of Grant	Number of Equity Options	Number of Performance Rights	Equity Options ($)	Equity Options ($)	Performance Rights ($)	Total ($)
Anthony Kiernan	2017	8,000,000	-	845,958	-	-	-
Steve Scudamore	2017	2,000,000	-	211,490	-	-	-
Nicholas Cernotta	2018	2,000,000	-	666,742	-	-	-
Ken Brinsden	2016	15,000,000	-	-	720,530	-	720,530
	2018	-	316,922	-	-	127,758	127,758
							848,288
Brian Lynn	2016	6,000,000	-	-	256,960	-	256,960
	2018	750,000	-	-	75,764	-	75,764
	2018	-	152,592	-	-	60,197	60,197
							392,921
Alex Eastwood	2017	4,000,000	-	-	155,658	-	155,658
	2018	750,000	-	-	75,764	-	75,764
	2018	-	152,592	-	-	60,197	60,197
							291,619
Dale Henderson	2018	2,000,000	-	-	167,855	-	167,855
	2018	-	146,642	-	-	56,452	56,452
							224,307
Total		**40,500,000**	**768,748**	**1,724,190**	**1,452,531**	**304,604**	**1,757,135**

Options over Equity Instruments granted as Compensation Instruments

All options refer to unlisted options over ordinary shares in the Company, which are exercisable on a one-for-one basis under the Employee Award Plan which was approved by shareholders on 25 January 2017.

Details on unlisted options over ordinary shares in the Company that were granted as compensation to each KMP during the FY2018 reporting period and details on unlisted options that vested during the reporting period are as follows:

	No. of options granted during 2018	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	No. of options vested during 2018
Nick Cernotta	2,000,000[1]	23/11/2017	$0.4211	$0.90	08/12/2020	1,333,333
Dale Henderson	2,000,000[2]	01/09/2017	$0.1181	$0.45	31/08/2020	-
Alex Eastwood	750,000[3]	01/09/2017	$0.1181	$0.45	31/08/2020	375,000
Brian Lynn	750,000[3]	01/09/2017	$0.1181	$0.45	31/08/2020	375,000

1 The vesting conditions attached to these unlisted options are as follows:

- 33.33% vest on the date allotment;
- 33.33% vest on 30 June 2018, subject to Mr Cernotta not having ceased to be a Director at that date; and
- 33.33% vest on 30 June 2019, subject to Mr Cernotta not having ceased to be a Director at that date.

2 The vesting conditions attached to these unlisted options are as follows:

- 6 months service condition;

- A Board determination in respect of the Pilgangoora Project mine development and plant construction being largely complete (both for civil works and mine establishment) and the process plant having achieved a nominal 85% of its design throughput capacity during production runs, at a saleable product specification; and
- A continuing employment service condition at the time the above milestone is achieved.

3 The vesting conditions attached to these unlisted options are as follows:

- 50% vest on the date of allotment (issued in recognition of past performance by the KMP in relation to securing funding for the Pilgangoora Project);
- 50% vest upon a Board determination in respect of the Pilgangoora Project mine development and plant construction being largely complete (both for civil works and mine establishment) and the process plant having achieved a nominal 85% of its design throughput capacity during production runs, at a saleable product specification; and
- A continuing employment service condition at the time the above performance milestone is achieved.

The exercise price of the options issued to Mr Cernotta during the year ended 30 June 2018 of 90 cents was based on the Volume Weighted Average Share Price (“**VWAP**”) for the 30-day period ending 17 October 2017, and represented a 42% premium to the closing share price on the date the Board approved the grant of option, subject to obtaining shareholder approval. Following receipt of shareholder approval, the options were issued to Mr Cernotta on 23 November 2017, at which time the Company’s share price had increased to 97 cents.

The exercise price of the options issued to other KMP during the year ended 30 June 2018 of 45 cents represented a 20% premium to the VWAP for the 30 day period ending 31 August 2017.

Fair value of options granted

All options issued as compensation to Director and KMPs are non-cash in nature. They are valued using the Black Scholes option valuation methodology which calculates an implied value for each option based on the Company’s share price volatility, the risk-free rate of return, the life of the option, the Company’s share price at the grant date and the option exercise price. The model inputs for the options granted during the year include:

	Options expiring 8 December 2020	Options expiring 31 August 2020
Exercise price	$0.90	$0.45
Grant date	23 November 2017	01 September 2017
Expiry date	08 December 2020	31 August 2020
Share price at grant date	$0.97	$0.39
Expected volatility of the Company’s shares	75%	63%
Expected dividend yield	0%	0%
Risk-free interest rate	1.92%	2.03%

Exercise of Options granted as Compensation Instruments

During the reporting period, the following ordinary shares were issued on the exercise of unlisted options previously granted as compensation.

	No. of shares	Amount paid per share
Steve Scudamore	666,666	$0.63
Brian Lynn	375,000	$0.45
Alex Eastwood	375,000	$0.45
John Young*	2,250,000	$0.40

* Mr Young resigned during the reporting period. The numbers included in the table only include options exercised up to the date of resignation.

There are no amounts unpaid on any ordinary shares issued as a result of the exercise of unlisted options during the 2018 financial year.

Performance Rights over Equity Instruments granted as Compensation Instruments

Details on performance rights over ordinary shares in the Company that were granted as LTI compensation to each KMP and details on performance rights that vested during the reporting period are shown in the table below:

	No. of performance rights granted during 2018	Grant date[1]	Fair value per performance right at grant date	Expiry date	No. of performance rights vested during 2018
Ken Brinsden	316,922	23/11/2017	$0.965	30/06/2019	-
Dale Henderson	146,642	11/05/2018	$0.910	30/06/2019	-
Alex Eastwood	152,592	11/05/2018	$0.910	30/06/2019	-
Brian Lynn	152,592	11/05/2018	$0.910	30/06/2019	-

1 The Board resolved on 3 October to adopt the FY2018 Executive Remuneration Framework to take effective from 1 July 2017 and in particular to grant 50% of the LTIs for the 2018 financial year in the form of performance rights subject to finalisation of applicable performance conditions. In relation to Mr Brinsden, these performance conditions were finalised and approved by shareholders on 23 November 2017. In respect of the other KMP, the performance conditions for the LTIs issued under the FY2018 Executive Remuneration Framework were not resolved until May 2018. In each case the performance rights were granted following final approval of the performance conditions and necessary approvals.

The VWAP for the 3-month period ending 30 September 2017 of 47 cents was used to determine the number of performance rights issued.

As disclosed above, 50% of the performance rights will vest based on TSR as measured against a defined peer group and 50% will vest on the achievement of performance conditions linked to the Company's strategic objectives.

The performance rights were provided at no cost and expire on the earlier of the expiry date or termination of the KMP's employment.

<u>Fair value of performance rights granted</u>

All performance rights issued as compensation to KMPs are non-cash in nature. They are valued using the Monte Carol simulation model (market based conditions) and the Black Scholes option valuation methodology (non-market based conditions) that takes into account the term of performance rights, the share price at grant date and expected volatility of the underlying performance right, the expected dividend yield, the risk free rate for the term of the performance right and the correlations and volatilities of the peer companies. The model inputs for the performance rights granted during the year include:

	Performance rights granted 23 November 2017	Performance rights granted 11 May 2018
Exercise price	-	-
Grant date	23 November 2017	11 May 2018
Expiry date	30 June 2019	30 June 2019
Share price at grant date	$0.97	$0.91
Expected volatility of the Company's shares	80%	80%
Expected dividend yield	0%	0%
Risk-free interest rate	1.78%	2.02%

Details of Equity Incentives affecting Current and Future Remuneration

Details of vesting profiles of the unlisted options and performance rights held by each KMP of the Group as at 30 June 2018 are detailed below.

	Instrument	No. of options	Grant date	% vested in year	% forfeited in year (A)	Financial year in which grant vests
Ken Brinsden	Options	15,000,000	18/04/2016	33.33%	0%	2017, 2018 and 2019
	Performance Rights	316,922	23/11/2017	0%	0%	2019
Anthony Kiernan	Options	8,000,000	24/11/2016	33.33%	0%	2017, 2018 and 2019
Steve Scudamore	Options	2,000,000	24/11/2016	33.33%	0%	2017, 2018 and 2019
Nick Cernotta	Options	2,000,000	23/11/2017	66.66%	0%	2018 and 2019
Brian Lynn	Options	6,000,000	22/06/2016	33.33%	0%	2017, 2018 and 2019
	Options	750,000	01/09/2018	50.00%	0%	2018 and 2019
	Performance Rights	152,592	11/05/2018	0%	0%	2019
Alex Eastwood	Options	4,000,000	08/08/2016	33.33%	0%	2017, 2018 and 2019
	Options	750,000	01/09/2018	50.00%	0%	2018 and 2019
	Performance Rights	152,592	11/05/2018	0%	0%	2019
Dale Henderson	Options	2,000,000	01/09/2017	0%	0%	2019
	Performance Rights	146,642	11/05/2018	0%	0%	2019

(A) The percentage forfeited in the year represents the reduction from the maximum number of instruments available to vest due to performance criteria not being achieved.

Analysis of Movements in Equity Instruments

The number and total fair value of unlisted options and performance rights over ordinary shares in the Company granted during the reporting period is detailed below.

	Options		Performance Rights	
	Options granted in the year	Fair value of options granted in year (A) ($)	Performance Rights granted in year	Fair value of performance rights granted in the year (A) ($)
Nick Cernotta	2,000,000	842,200	-	-
Ken Brinsden	-	-	316,922	301,393
Brian Lynn	750,000	88,583	152,592	134,281
Alex Eastwood	750,000	88,583	152,592	134,281
Dale Henderson	2,000,000	236,220	146,642	129,045

(A) The value of options and maximum value of performance rights granted during the year is the fair value of the unlisted options and performance rights calculated at grant date. These amounts are allocated to remuneration over their applicable vesting periods.

Unlisted Options over Equity Instruments

The movement during the FY2018 reporting period, by number of unlisted options over ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Held at 1 July 2017	Granted as compensation	Exercised/ transferred	Other changes	Held at 30 June 2018	Vested during the year
Ken Brinsden	15,000,000	-	-	-	15,000,000	5,000,000
Anthony Kiernan	8,000,000	-	-	-	8,000,000	2,666,667
Steve Scudamore	2,000,000	-	(666,666)	-	1,333,334	666,667
Nick Cernotta	-	2,000,000	-	-	2,000,000	1,333,334
Sally-Anne Layman	-	-	-	-	-	-
Neil Biddle[1]	8,000,000	-	(8,000,000)	-	-	-
John Young[2]	5,000,000	-	(5,000,000)	-	-	-
Brian Lynn	6,000,000	750,000	(375,000)	-	6,375,000	2,375,000
Alex Eastwood	4,000,000	750,000	(375,000)	-	4,375,000	2,375,000
Dale Henderson	-	2,000,000	-	-	2,000,000	-

[1] Mr Biddle resigned as Non-Executive Director on 26 July 2017.

[2] Mr Young resigned as an Executive Director on 31 July 2017 and subsequently resigned as Non-Executive Director on 20 April 2018.

Key Management Personal Transactions

Movements in Shares

The movement during the FY2018 reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Held at 1 July 2017	Received on exercise of options	Other changes[1]	Held at 30 June 2018
Ken Brinsden	869,565	-	-	869,565
Neil Biddle[2]	33,221,930	-	(33,221,930)	-
John Young[3]	18,658,356	2,250,000	(20,908,356)	-
Anthony Kiernan	95,000	-	192,858	287,858
Steve Scudamore	-	666,666	(523,816)	142,850
Nicholas Cernotta	-	-	156,570	156,570
Sally-Anne Layman	-	-	-	-
Brian Lynn	-	375,000	(81,135)	293,865
Alex Eastwood	-	375,000	(94,124)	280,876
Dale Henderson	-	-	-	-

[1] Other changes represent shares that were purchased or sold during the year or shares held by KMP or directors who resigned in the year.

[2] Mr Biddle resigned as Non-Executive Director on 26 July 2017.

Mr Young resigned as an Executive Director on 31 July 2017 and subsequently resigned as Non-Executive Director on 20 April 2018.

End of Audited Remuneration Report.

COMPETENT PERSONS STATEMENTS

The Company confirms it is not aware of any new information or data that materially affects the information included in the 29 May 2018 Pilgangoora Mineral Resource Estimate and that all material assumptions and technical parameters underpinning the estimate continue to apply and have not materially changed when referring to its resource announcement made on 29 May 2018.

The Company confirms it is not aware of any new information or data that materially affects the information included in the 29 June 2017 Pilgangoora Ore Reserve Estimate and that all material assumptions and technical parameters underpinning the estimate continue to apply and have not materially changed when referring to its resource announcement made on 29 June 2017.

This Directors' Report is made out in accordance with a resolution of the directors:

Anthony Kiernan
Chairman

Dated this 21st day of August 2018

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 audit of Pilbara Minerals Limited for the financial year ended 30 June 2018 there have been:

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

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

KPMG.

KPMG

R Gambitta
Partner

Perth

21 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Revenue from contracts with customers	2.1.1	10,188	-
Cost of sales	2.1.2	(6,213)	-
Gross profit		**3,975**	-
Other income		1,157	2,074
Expenses			
General and administration		(9,889)	(7,790)
Exploration costs expensed	2.2.2	(7,367)	(9,743)
Depreciation and amortisation expense		(151)	(91)
Loss on sale of property, plant and equipment		-	(16)
Share based payment expense	2.2.1	(4,630)	(12,415)
Other expenses		-	(46)
Operating loss		**(16,905)**	**(28,027)**
Finance income		6,704	2,204
Finance costs		(9,214)	(131)
Net financing income/(costs)	2.3	**(2,510)**	**2,073**
Loss before income tax expense		**(19,415)**	**(25,954)**
Income tax expense	2.6	-	-
Net loss for the period		**(19,415)**	**(25,954)**
Other comprehensive income			
Changes in the fair value of other financial assets		3,975	-
Other financial assets reclassified to profit or loss on disposal		(3,975)	-
Total comprehensive income for the period		-	-
Total comprehensive loss for the period		**(19,415)**	**(25,954)**
Basic and diluted loss per share for the period (cents per share)	2.7	(1.19)	(2.11)

The notes on pages 32 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	2018 $'000	2017 $'000
Assets			
Current assets			
Cash and cash equivalents	4.1.1	119,978	87,248
Restricted cash	4.1.1	12,308	134,322
Trade and other receivables	4.2	12,805	4,155
Inventories	4.3	7,543	43
Total current assets		**152,634**	**225,768**
Non-current assets			
Property, plant, equipment and mine properties	3.2.1	372,985	104,373
Deferred exploration and evaluation expenditure	3.1.1	6,361	6,331
Other financial assets		-	6
Total non-current assets		**379,346**	**110,710**
Total assets		**531,980**	**336,478**
Liabilities			
Current liabilities			
Trade and other payables	4.4	49,733	11,428
Provisions	3.3	867	243
Borrowings	5.2	177	64
Total current liabilities		**50,777**	**11,735**
Non-current liabilities			
Provisions	3.3	6,997	207
Borrowings	5.2	130,965	124,364
Total non-current liabilities		**137,962**	**124,571**
Total liabilities		**188,739**	**136,306**
Net assets		**343,241**	**200,172**
Equity			
Issued capital	5.1.1	419,610	261,756
Reserves	5.1.2	18,923	32,501
Retained earnings		(95,292)	(94,085)
Total equity		**343,241**	**200,172**

The notes on pages 32 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Notes	Issued Capital $'000	Share-based payment reserve $'000	Foreign currency reserve $'000	Investment revaluation reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2016		146,476	21,799	(68)	-	(69,776)	98,431
Loss for the period		-	-	-	-	(25,954)	(25,954)
Total comprehensive income/(loss) for the period		-	-	-	-	(25,954)	(25,954)
Issue of ordinary shares		116,465	-	-	-	-	116,465
Share issue costs		(3,131)	-	-	-	-	(3,131)
Option conversions		1,946	-	-	-	-	1,946
Issue of options		-	12,415	-	-	-	12,415
Transfer on conversion of options		-	(1,713)	-	-	1,713	-
Transfer to reserves		-	-	68	-	(68)	-
Balance at 30 June 2017		261,756	32,501	-	-	(94,085)	200,172
Balance at 1 July 2017		261,756	32,501	-	-	(94,085)	200,172
Loss for the period		-	-	-	-	(19,415)	(19,415)
Other comprehensive income		-	-	-	3,975	-	3,975
Assets reclassified to profit or loss		-	-	-	(3,975)	-	(3,975)
Total comprehensive income/(loss) for the period		-	-	-	-	(19,415)	(19,415)
Issue of ordinary shares	5.1.1	139,910	-	-	-	-	139,910
Share issue costs	5.1.1	(2,026)	-	-	-	-	(2,026)
Option conversions	5.1.1	19,970	-	-	-	-	19,970
Issue of options and performance rights	5.1.2	-	4,630	-	-	-	4,630
Transfer on conversion of options	5.1.2	-	(18,208)	-	-	18,208	-
Balance at 30 June 2018		419,610	18,923	-	-	(95,292)	343,241

The notes on pages 32 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		6,997	-
Cash paid to suppliers and employees		(14,034)	(7,986)
Payments for exploration and evaluation expenditure		(7,238)	(10,523)
Interest received		2,229	2,149
Research and development grants received		3,048	-
Other receipts		-	76
Net cash outflow from operating activities	4.1.2	(8,998)	(16,284)
Cash flows from investing activities			
Payments for property, plant, equipment and mine properties		(219,043)	(44,926)
Payments for acquired exploration and evaluation expenditure		(30)	(7,872)
Proceeds from sale of property, plant and equipment		300	147
Proceeds from sale of investments		4,283	-
Net cash outflow from investing activities		(214,490)	(52,651)
Cash flows from financing activities			
Proceeds from the issue of shares and exercise of options		156,430	68,411
Capital raising costs		(3,044)	(2,112)
Proceeds from borrowings		-	132,310
Transaction costs related to borrowings		(626)	(5,491)
Transfer from/(to) restricted cash		120,709	(136,651)
Repayment of borrowing costs		(161)	(257)
Interest and other costs of finance paid		(17,264)	(67)
Net cash inflow from financing activities		256,044	56,143
Net increase/(decrease) in cash held		32,556	(12,792)
Cash and cash equivalents at the beginning of the period		87,248	100,040
Effect of exchange rate fluctuations on cash held		174	-
Cash and cash equivalents at the end of the period	4.1.1	119,978	87,248

The notes on pages 32 to 63 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

NOTE 1 – BASIS OF PREPARATION

In preparing the 2018 financial statements, Pilbara Minerals Limited ("**the Company**") has grouped notes into sections under six key categories:

1. Basis of Preparation
2. Results for the Year
3. Assets, Liabilities and Provisions supporting Exploration, Evaluation, Development and Mining
4. Working Capital
5. Equity and Funding
6. Other Disclosures

Significant accounting policies specific to each note are included within that note. Accounting policies that are determined to be non-significant are not included in the financial statements.

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

All amounts have been rounded to the nearest thousand, unless otherwise stated in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*.

1.1 Reporting Entity

Pilbara Minerals Limited is a listed public company incorporated and domiciled in Australia.

The Company's registered office is at Level 2, 88 Colin Street, West Perth, WA 6005. These consolidated financial statements comprise the Company and its subsidiaries together referred to as the "**Group**".

The Group is a for-profit entity and is primarily involved in the exploration, development and mining of minerals.

1.2 Basis of Accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("**AAS**") adopted by the Australian Accounting Standards Board ("**AASB**") and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards ("**IFRS**") adopted by the International Accounting Standards Board ("**IASB**"). They were authorised for issue by the Board of Directors on 21 August 2018.

1.3 New and Amended Standards Adopted by the Group

AASB 15 Revenue from Contracts with Customers

The Group has elected to early adopt AASB 15 *Revenue from Contracts with Customers* as issued by the Australian Accounting Standards Board from 1 January 2018 under the full retrospective approach. In accordance with the transition provisions in AASB 15 the new rules have been adopted retrospectively.

There is no restatement of the comparatives as there was no revenue from contracts with customers in the prior period.

AASB 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and replaces the revenue recognition requirements outlined in AASB 118 *Revenue* and AASB 111 *Construction Contracts*.

Refer to note 2.1.1 for further details on the impact of the adoption of the new standard.

1.4 Basis of Consolidation

1.4.1 Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

1.4.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

1.4.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.5 Foreign Currency Translation

1.5.1 Functional and Presentational Currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

1.5.2 Transactions and balances

Foreign currency transactions are translated into foreign currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in profit or loss.

1.6 Use of Judgements and Estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements and estimates which are material to the financial report are found in the following sections:

- Note 2.2.1 – measurement of share-based payment transactions
- Note 3.2 – estimation of ore resources and reserves and deferred stripping costs
- Note 3.3 – measurement of mine rehabilitation provision

1.7 Measurement of Fair Values

The consolidated financial statements have been prepared on the historical cost basis. The Group does not have any assets or liabilities measured at fair value at the reporting date.

A financial asset measured at amortised cost is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

NOTE 2 – RESULTS FOR THE YEAR

Mining of direct shipping ore (DSO) at the Pilgangoora project commenced in January 2018 with first sales under a minegate sale agreement in May 2018. Revenue and expenses incurred in relation to the DSO project are recognised in the profit or loss.

2.1.1 Revenue from contracts with customers

ACCOUNTING POLICY

Revenue from contracts with customers

The Group has early adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2017, resulting in a change to the Group's revenue recognition accounting policy.

The core principal of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step process outlined in AASB 15 which is as follows:

Step 1: Identify the contract with a customer;

Step 2: Identify the performance obligations in the contract and determine at what point they are satisfied;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations; and

Step 5: Recognise the revenue as the performance obligations are satisfied.

The performance obligation is the supply of DSO material pursuant to a minegate sale agreement. Revenue is recognised upon collection of DSO material by the customer at the minegate.

Revenue is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities. The amount of revenue is not considered to be reliably measurable until all material contingencies relating to the sale have been resolved.

	2018 $'000	2017 $'000
Sales to customers under contracts	9,880	-
Recovery of royalties under contracts with customers	308	-
	10,188	-

2.1.2 Cost of sales

	2018 $'000	2017 $'000
Mining costs	3,089	-
Depreciation and amortisation	1,350	-
Royalties	1,844	-
Foreign exchange (gain)/loss	(70)	-
	6,213	-

2.2 Expenses

2.2.1 Share-based payment expense

ACCOUNTING POLICY

Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to holders of equity-based instruments (including employees) are generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-market conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

In determining the fair value of share-based payments granted, a key estimate and judgement is the volatility input assumed within the pricing model. The Company uses historical volatility of the Company to determine an appropriate level of volatility expected, commensurate with the expected instrument's life.

The share-based payment expense included within the Statement of Profit or Loss can be broken down as follows:

	2018 $'000	2017 $'000
Share options expense	4,325	12,415
Performance rights expense	305	-
	4,630	12,415

Share options

The following table shows total options granted (or deemed to be granted) during the year ended 30 June 2018 and the value attributed to each option granted, by holder:

Holder	No. of options	Exercise price	Expiry	Fair Value ($/option)	Value ($'000)	Value expensed ($'000)
Directors	2,000,000	$0.90	08/12/2020	0.4211	842	667
KMP	3,500,000	$0.45	31/08/2020	0.1181	414	353
Subtotal – Options issued current year	**5,500,000**				**1,256**	**1,020**
Options issued in prior years						3,305
TOTAL						**4,325**

Options issued to Directors were approved by shareholders at the AGM on 23 November 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

The number and weighted average exercise prices of unlisted share options are as follows:

	2018		2017	
	Weighted average exercise price	No. of options	Weighted average exercise price	No. of options
Outstanding at 1 July	$0.467	101,568,181	$0.351	109,422,346
Exercised during the period	$0.429	(51,984,847)*	$0.080	(24,420,832)
Lapsed during the period	-	-	$0.288	(1,433,333)
Granted during the period	$0.614	5,500,000	$0.622	18,000,000
Outstanding at 30 June	$0.518	55,083,334	$0.467	101,568,181
Exercisable at 30 June		38,500,000		65,234,847

*This includes 5,800,000 cashless options exercised during the year, subsequently converted to 3,193,585 ordinary shares.

The classes of the options on issue as at 30 June 2018 are as follows:

Options issued	Expiry date	Exercise price	No. of options not yet exercised
30,500,000[a]	16 May 2019	$0.40	27,000,000
13,000,000[a]	08 September 2019	$0.63	13,000,000
500,000[b]	07 November 2019	$0.55	500,000
500,000[b]	17 November 2019	$0.55	500,000
10,000,000[c]	12 December 2019	$0.63	9,333,334
2,000,000[d]	31 August 2020	$0.45	2,000,000
1,500,000[e]	31 August 2020	$0.45	750,000
2,000,000[f]	08 December 2020	$0.90	2,000,000

[a] The vesting conditions attached to these unlisted options were:

- 33.33% vest upon the delivery of a final DFS for the 2Mtpa Pilgangoora Project to a standard acceptable to the Board;
- 33.33% vest upon the funding required to develop the Pilgangoora Project being raised or procured based on parameters acceptable to the Board and a "decision to mine" being made by the Board in respect of the Pilgangoora Project;
- 33.33% vest upon a Board determination in respect of the Pilgangoora Project mine development and plant construction being largely complete (both for civil works and mine establishment) and the process plant having achieved a nominal 85% of its design throughput capacity during production runs, at a saleable product specification; and
- A continuing employment service condition at the time each milestone is achieved.

[b] The vesting conditions attached to these unlisted options were:

- 50% vest upon a Board determination in respect of the funding required to develop the Pilgangoora Project being raised or procured based on parameters acceptable to the Board and a "decision to mine" being made by the Board in respect of the Pilgangoora Project;
- 50% vest upon a Board determination in respect of the Pilgangoora Project mine development and plant construction being largely complete (both for civil works and mine establishment) and the process plant having achieved a nominal 85% of its design throughput capacity during production runs, at a saleable product specification; and
- A continuing employment service condition at the time each milestone is achieved.

[c] The vesting conditions attached to these unlisted options were:

- 33.33% vest on the date of allotment;
- 33.33% vest on 31 December 2017 subject to the Directors remaining in service at that date; and
- 33.33% vest on 31 December 2018 subject to the Directors remaining in service at that date.

[d] The vesting conditions attached to these unlisted options were:

- 6 months service condition;
- a Board determination in respect of the Pilgangoora Project mine development and plant construction being largely complete (both for civil works and mine establishment) and the process plant having achieved a nominal 85% of its design throughput capacity during production runs, at a saleable product specification; and
- A continuing employment service condition at the time the above performance milestone is achieved.

[e] The vesting conditions attached to these unlisted options were:

- 50% vest upon the Pilgangoora Project mine development and plant construction being largely complete (both for civil works and mine establishment) and the process plant having achieved a nominal 85% of its design throughput capacity during production runs, at a saleable product specification; and
- 50% vest immediately on the date of allotment.
- A continuing employment service condition at the time each milestone is achieved.

f The vesting conditions attached to these unlisted options were:

- 33.33% vest on the date of allotment;
- 33.33% vest on 30 June 2018, subject to the Director remaining in service at that date; and
- 33.33% vest on 30 June 2019, subject to the Director remaining in service at that date.

Unless stated, there are no other vesting conditions on options on issue.

Performance rights

The Pilbara Performance Rights Plan ("**Plan**") was introduced following approval at the AGM on 23 November 2017.

Performance rights were granted to the Managing Director and other KMP under the Plan over ordinary shares for no consideration, 50% of awarded rights are based on market conditions and 50% are based on strategic objectives. The vesting condition are as follows:

Vesting Condition	Criteria
Service Condition	A two-year period commencing from the vesting start date.
Market Condition	Relative Total Shareholder Return (TSR).
Strategic Objective Conditions	Measured over the Service Condition period, including: - Production capacity development (Growth) based on the following performance indicators: ▪ Target shipment of Stage 1 product; and ▪ Final investment decision of the Board in respect of Stage 2 (5Mtpa) expansion. - Sustainability of operations (Sustainability) based on the following performance indicators: ▪ Achieve product specifications for target production capacity; ▪ Diversify customer sales; and ▪ Participation in downstream processing initiatives.

The following table shows performance rights affecting the share-based payments expense for the year ended 30 June 2018 and the value attributed to each performance right granted, by the category holder.

Holder	No of performance rights	Expiry Date	Fair value ($/Right)	Total Fair Value ($'00)	Fair value expensed ($'000)
Executive Director	158,461	30/06/2019	0.937	148	74
Executive Director	158,461	30/06/2019	0.965	107	54
KMP	225,913	30/06/2019	0.850	192	96
KMP	225,913	30/06/2019	0.910	206	81
Performance rights issued current year	**768,748**			**653**	**305**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

2.2.2 Exploration and evaluation expenditure

ACCOUNTING POLICY

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditures are those expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Accounting for exploration and evaluation expenditures is assessed separately for each "area of interest". Each "area of interest" is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Exploration and evaluation costs are written off in the year they are incurred, apart from acquisition costs which are carried forward where right of tenure of the area of interest is current, and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned, or the Directors decide that it is not commercially viable, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

Exploration and evaluation assets are transferred to Mine Properties in Development once technical feasibility and commercial viability of an area of interest is demonstrable. Exploration and evaluation assets are tested for impairment, and any impairment loss is recognised, prior to being reclassified.

	2018 $'000	2017 $'000
Costs expensed in relation to areas of interest in the exploration and evaluation phase	(7,367)	(9,743)

The current years expense included $4.5 million for the definitive feasibility study ("DFS") for the Stage 2, 5Mtpa expansion of Pilgangoora project, which was subsequently completed on 2 August 2018. (FY 2017: $6.3 million of feasibility expenditure was expensed in relation to Stage 1 DFS).

2.2.3 Operating lease commitments

ACCOUNTING POLICY

Leases

At inception of an arrangement, the Group determines whether an arrangement is, or contains, a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

Leased assets

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's Statement of Financial Position.

ACCOUNTING POLICY
Lease payments Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The operating lease expense recognised within the Statement of Profit or Loss is as follows:

	2018 $'000	2017 $'000
Operating lease expense	267	214

Future minimum rentals payable under non-cancellable operating leases as at 30 June are, as follows:

	2018 $'000	2017 $'000
Within one year	6,620	314
After one year but not more than five years	22,966	430
	29,586	744

The increase in non-cancellable operating lease commitments during the year relates to contracts entered into for the Pilgangoora project.

2.3 Net Financing Costs

ACCOUNTING POLICY
The Group's finance income and finance costs include: • interest income; • interest expense; • foreign exchange gains and losses; • Income from sale of financial investments; and • Gains and losses on derivatives related to financing activities. Interest income or expense is recognised using the effective interest method. In addition to contracts with customers, the Group receives interest income from monies held in its bank accounts. Interest revenue is recognised on an accruals basis based on the interest rate, deposited amount and time which lapses before the reporting period end date.

Net financing costs can be analysed as follows:

	2018 $'000	2017 $'000
Interest income on bank deposits	2,729	2,204
Income on sale of other financial assets[1]	3,975	-
Finance income	6,704	2,204
Loss on derivative	(1,557)	-
Interest expense – convertible notes	-	(40)
Interest expense – hire purchase assets	-	(33)
Interest expense – borrowings	(1,200)	(27)
Interest expense – other	(28)	(2)
Net unrealised foreign exchange loss[2]	(6,429)	(29)
Finance costs	(9,214)	(131)
Net finance (costs)/income recognised in profit or loss	(2,510)	2,073

Interest costs of $14.798 million directly attributable to the US$ secured bond debt facility were capitalised as part of the cost of the Pilgangoora Project, as a result of it being considered a qualifying development asset.

[1]Income from sale of financial assets relates to proceeds received from the sale of shares in Tungsten Mining NL.

[2]Unrealised foreign exchange loss relates to the revaluation of the US$100 million denominated bond and cash held in US$ denominated bank accounts.

2.4 Operating Segments

The Group's operating segments have been determined with reference to the information and reports the Chief Operating Decision Makers use to make strategic decisions regarding resources. Due to the size and nature of the Group, the Managing Director is considered to be the Chief Operating Decision Maker.

For management purposes, the Group has one operating segment, being mineral exploration, evaluation and development and mining operations in Australia.

Segment results that are reported to the Group's Chief Operating Decision Maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets and head office expenses.

2.4.1 Information about reporting segments

	Mineral exploration, evaluation and development and mining operations	
	2018 $'000	2017 $'000
For the year ended 30 June		
Reportable segment revenue and other income	11,343	2,109
Reportable segment costs expensed	(13,788)	(10,329)
Reportable segment net finance costs expensed	(3,699)	-
Reportable segment loss before income tax	(6,144)	(8,220)
Reportable segment assets	427,784	246,920
Reportable segment liabilities	181,824	134,044
Reconciliation of reportable segment loss and assets		
Loss		
Total loss for reportable segments	(6,144)	(8,220)
Unallocated amounts: corporate expenses	(14,530)	(19,829)
Net finance income/(costs)	1,259	2,095
Loss before income tax	(19,415)	(25,954)
Assets		
Total assets for reportable segments	427,784	246,920
Assets for corporate segment	104,196	89,558
Total assets	531,980	336,478

2.5 Personnel Expenses

ACCOUNTING POLICY

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

The table below sets out personnel costs expensed during the year:

	2018 $'000	2017 $'000
Wages and salaries	4,912	2,898
Superannuation expense	352	239
	5,264	3,137

2.6 Income Tax Expenses

ACCOUNTING POLICY

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Tax consolidation legislation

Pilbara Minerals and its 100% owned Australian resident subsidiaries have implemented the tax consolidation legislation. Current and deferred tax amounts are accounted for in each individual entity as if each entity continued to act as a taxpayer on its own.

Pilbara Minerals recognises its own current and deferred tax amounts and those current tax liabilities, current tax assets and deferred tax assets arising from unused tax credits and unused tax losses which it has assumed from its controlled entities within the tax consolidated Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts payable or receivable from or payable to other entities in the Group. Any difference between the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) controlled entities in the tax consolidated Group.

2.6.1 Income tax expense

	2018 $'000	2017 $'000
Current income tax expense	-	-

2.6.2 Reconciliation of income tax expense

	2018 $'000	2017 $'000
Loss before tax from continuing operations	(19,415)	(25,954)
Tax using the Company's domestic tax rate of 30% (2017: 30%)	(5,825)	(7,786)
Tax effect of items which are not deductible in calculating taxable income:		
Non-deductible expenses		
Share based payment expense	1,389	3,725
Research and development offset	(278)	-
Other	18	20
Tax losses not recognised	11,366	4,445
Temporary differences not brought to account	(6,670)	(404)
Income tax expense reported in the consolidated statement of profit or loss	-	-

Potential deferred tax assets have not been recognised at 30 June 2018 for deductible temporary differences and tax losses because it is not probable that future taxable profit will be available against which the Company can use the benefits. The deferred tax losses not recognised at 30 June 2018 have a tax effected value of $20.1 million (2017: $10.4 million).

2.7 Loss per share

Basic loss per share

	2018	2017
Net loss attributable to ordinary shareholders ($'000)	(19,415)	(25,954)
Issued ordinary shares at 1 July ('000)	1,466,538	1,148,051
Effect of shares issued ('000)	161,686	81,516
Weighted average number of ordinary shares at 30 June ('000)	1,628,224	1,229,567
Basic and diluted loss per share (cents)*	(1.19)	(2.11)

* Due to the fact that the Company made a loss, potential ordinary shares from the exercise of options have been excluded due to their anti-dilutive effect.

NOTE 3 – ASSETS, LIABILITIES AND PROVISIONS SUPPORTING EXPLORATION, EVALUATION, DEVELOPMENT AND MINING

This section focuses on the exploration, evaluation, development and mining assets which form the core of the Group's business, including those assets and liabilities that support the ongoing exploration, evaluation, development and mining activities as well as commitments existing at the year end.

3.1 Exploration and Evaluation Expenditure

ACCOUNTING POLICY
Refer to Note 2.2.2 for the Company's exploration and evaluation expenditure policy.

3.1.1 Exploration and evaluation assets

	2018 $'000	2017 $'000
Costs carried forward in relation to areas of interest in the exploration and evaluation phase	6,361	6,331
Reconciliations: Exploration and evaluation phase		
Carrying amount at the beginning of the year	6,331	263
Acquisitions	30	10,872
Transfer to mine properties in development phase	-	(4,804)
Carrying amount at the end of the year	6,361	6,331

3.1.2 Exploration licence expenditure commitments

The Company has minimum exploration licence commitments as follows:

	2018 $'000	2017 $'000
Within one year	392	482
Later than one year but less than five years	1,179	1,395
Greater than five years	2,096	2,272

3.2 Property, Plant, Equipment and Mine Properties

ACCOUNTING POLICY

Property, Plant and Equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as a separate item of property, plant and equipment.

Depreciation

Depreciation is calculated to write off the cost of items of property plant and equipment less their estimated residual value using either the straight line or units of production methods over either the estimated useful life or the estimated resource. Depreciation is recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- Office equipment 2 to 10 years
- Plant and equipment 5 years
- Motor vehicles 3 to 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted appropriately.

Mine Properties

Mine Properties in Development

Development expenditure relates to costs incurred to access a mineral resource. It represents those costs incurred after the technical and commercial viability of extracting the mineral resource has been demonstrated and an identified mineral reserve is being prepared for production (but is not yet in production).

Development expenditure is capitalised as either a tangible or intangible asset depending on the nature of the costs incurred. Capitalisation of development expenditure ceases once the mining property is capable of commercial production, at which point it is transferred into the relevant category of Property, Plant and Equipment depending on the nature of the asset and depreciated over the useful life of the asset.

Development expenditure includes the direct costs of construction, pre-production costs, borrowing costs incurred during the construction phase, reclassified exploration and evaluation assets (acquisition costs) and subsequent development expenditure on the reclassified areas of interest. These costs are not amortised, the carrying value is assessed for impairment whenever the facts and circumstances suggest that the carrying amount of the asset may exceed the recoverable amount.

Mine Properties in Production

Any development expenditure incurred once a mine property is in production is immediately expensed to the Statement of Profit or Loss except where it is probable that future economic benefits will flow to the Group, in which case it is capitalised as Mine Properties in Production.

Amortisation is provided on a unit of production basis which results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable mineral reserves).

A regular review is undertaken to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. An impairment exists when the carrying value of mine properties exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount and the impairment losses are recognised in profit or loss.

Deferred Stripping

Stripping activity costs incurred are assessed as to whether the benefit accruing from that activity is to provide access to ore than can be used to produce ore inventory, or whether it in addition provides improved access to ore that will be mined in future periods.

To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the Group accounts for the costs of that stripping activity in accordance with the principles of AASB 102 *Inventories*. A stripping activity asset is brought to account if it is probable that future economic benefit (improved access to the ore body) will flow to the Group, the component of the ore body for which access has been improved can be identified and costs relating to the stripping activity can be measured reliably.

The amount of stripping costs that are capitalised is determined based on a comparison of the stripping ratio in the relevant period with the life of mine stripping ratio. To the extent that there is a period of sustained stripping that exceeds the average life of mine stripping ratio, mine waste stripping costs are capitalised to the stripping activity asset and presented within mine properties in production. Such capitalised costs are amortised over the life of that mine on a units of production basis. The life of mine ratio is based on ore reserves of the mine. Changes to the life of mine are accounted for prospectively.

Mineral Rights

Mineral Rights are capitalised exploration and evaluation acquisition costs transferred from Deferred Exploration and Evaluation Expenditure upon a decision to mine, as well as other intangible assets that are transferred from Mine Properties in Development upon completion of development and commencement of commercial production.

Key Estimates and Judgements

i) Resources and Reserves

Resources are estimates of the amount of saleable product that can be economically extracted from the Group's mine properties. In order to calculate resources, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, future capital requirements, short and long-term commodity prices and exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

Estimating the quantity and/or grade of resources requires the size, shape and depth of orebodies to be determined by analysing geological data. This process may require complex and difficult geological judgements and calculations to interpret the data.

The Group determines and reports ore resources under the Australian Code of Reporting for Mineral Resource and Ore Reserves (2012), known as the JORC Code. The JORC Code requires the use of reasonable assumptions to calculate resources. Due to the fact that economic assumptions used to estimate resources may change from period to period, and geological data is generated during the course of operations, estimates of resources may change from period to period. Changes in reported resources may affect the Group's financial results and financial position in a number of ways, including:

- Asset carrying values may be impacted due to changes in estimates of future cash flows;
- Amortisation charged in the profit and loss statement may change where such charges are calculated using the units of production basis;
- Decommissioning, site restoration and environmental provisions may change due to changes in the estimated resources after expectations about the timing or costs of the activities change; and
- Recognition of deferred tax assets, including tax losses.

ii) Deferred Stripping

The Group defers advanced stripping costs incurred during the production stage of its operations. This calculation requires the use of judgements and estimates such as estimates of tonnes of waste to be removed over the life of the mining area and economically recoverable reserves extracted as a result. Changes in a mine's life and design may result in changes to the expected stripping ratio (waste to mineral reserves ratio). Any resulting changes are accounted for prospectively.

3.2.1 Property, plant, equipment and mine properties

	Property, plant and equipment $'000	Hire purchase/ lease equipment $'000	Mine properties in production $'000	Mine properties in development $'000	Mineral rights $'000	Mine rehabilitation $'000	
AT 30 JUNE 2017							
Opening net book value	459	175	-	-	-	199	833
Additions	172	-	-	48,810	50,000	147	99,129
Disposals	(33)	(130)	-	-	-	-	(163)
Transfer and movements	-	-	-	-	4,804	(139)	4,665
Depreciation charge	(91)	-	-	-	-	-	(91)
Balance at 30 June 2017	**507**	**45**	-	**48,810**	**54,804**	**207**	**104,373**
AT 30 JUNE 2018							
Opening net book value	507	45	-	48,810	54,804	207	104,373
Additions	470	640	9,876	237,908	-	6,791	255,685
Capitalised interest	-	-	-	14,798	-	-	14,798
Disposals	(325)	(45)	-	-	-	-	(370)
Depreciation charge	(151)	-	(1,350)	-	-	-	(1,501)
Balance at 30 June 2018	**501**	**640**	**8,526**	**301,516**	**54,804**	**6,998**	**372,985**

Since the release of the Pilgangoora Project's Definitive Feasibility Study in September 2016, the Group has continued with the development and construction of the project, spending $237.9 million during the year. The Group commenced commissioning of the concentrate plant and produced first concentrate in June 2018.

As at 30 June 2018 the Group had outstanding contractual capital commitments of $18.5 million (2017: $28.7 million) which are expected to be settled prior to 30 June 2019.

3.3 Provisions

ACCOUNTING POLICY

Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Mine Rehabilitation

In accordance with the applicable legal requirements, a provision for site rehabilitation in respect of returning the land to its original state is recognised when land is disturbed.

At each reporting date, the site rehabilitation provision is remeasured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and added to, or deducted from, the related asset where it is possible that future economic benefits will flow to the Group.

Key estimates and judgements

Significant judgement is required in determining the provision for mine rehabilitation and closure as there are many factors that will affect the ultimate liability payable to rehabilitate mine sites, including future disturbances caused by further development, changes in technology, changes in regulations, price increases, changes in timing of cash flows which are based on life of mine plans and changes in discount rates. When the factors become known in the future, such differences will impact the mine rehabilitation provision in the period in which the changes become known.

Employee leave benefits

The current provision for employee benefits includes accrued annual and sick leave. The entire amount of the leave provision is recognised as current, since the Group does not have the unconditional right to defer settlement for any of the obligations.

	2018 $'000	2017 $'000
Current – Provisions		
Employee leave benefits	867	243
	867	243
Non-Current – Provisions		
Mine rehabilitation provision	6,997	207
	6,997	207

NOTE 4 – WORKING CAPITAL

4.1 Cash, Cash Equivalents and Restricted Cash

ACCOUNTING POLICY

Cash and cash equivalents comprise cash balances and call deposits with a maturity of less than or equal to six months from the date of acquisition. The carrying value of cash and cash equivalents is considered to approximate fair value.

Restricted cash represents funds whose access is restricted until such time as certain conditions precedent are satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

4.1.1 Cash, cash equivalents and restricted cash

	2018 $'000	2017 $'000
Bank balances	82	118
Call deposits	119,896	87,130
Cash and cash equivalents in the Statement of Financial Position	119,978	87,248
Restricted cash	12,308	134,322
	132,286	**221,570**

The restricted cash balance of $12.3 million represents funds received following settlement of a US$100 million senior secured bond in the prior year (refer Note 5.2). Funds received are required to be held in a US$ denominated escrow bank account in the name of the Company's 100% wholly owned subsidiary Pilgangoora Operations Pty Ltd. During the year ended 30 June 2018, the Company successfully completed customary cost to complete tests prior to drawing down US$89.4M ($118.6M). Subsequent to year end, the Group successfully drew down the remaining balance of restricted cash.

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash on hand and at bank and all call deposits.

	2018 $'000	2017 $'000
Cash, cash equivalents and restricted cash	132,286	221,570
Less: Restricted cash	(12,308)	(134,322)
Cash and cash equivalents in the Statement of Cash Flows	119,978	87,248

4.1.2 Reconciliation of cash flows from operating activities

	2018 $'000	2017 $'000
Cash flows from operating activities		
Loss for the period	(19,415)	(25,954)
Adjustments for:		
- Depreciation and amortisation expense	1,501	91
- (Profit)/Loss on sale of property, plant and equipment	-	16
- Net financing costs	5,005	125
- Inventory write down	-	46
- Share based payment expense	4,630	12,415
Operating loss before changes in working capital and provisions	(8,279)	(13,261)
Change in trade and other receivables	(4,965)	(1,566)
Change in trade payables and employee benefits	4,838	(1,457)
Change in inventories	(592)	-
Net cash used in operating activities	(8,998)	(16,284)

4.2 Trade and Other Receivables

ACCOUNTING POLICY

Trade and other receivables are recognised initially at fair value which is usually the value of the invoice sent to the counterparty and subsequently at the amounts considered recoverable.

The Group undertakes expenditure on activities that are categorised as "eligible expenditure" under the Research and Development Tax Incentive which, dependent upon certain criteria, may be subject to a tax offset. Where a tax offset has been received or is receivable in cash, the Group accounts for the tax offset as follows:

- Where a grant is received or receivable in relation to research and development costs which have been capitalised, the tax offset is deducted from the carrying amount of the asset; or

- Where a grant is received or receivable in relation to research and development costs which have been charged to profit or loss during this or a prior financial year, the tax offset shall be credited to the Statement of Profit or Loss.

	2018 $'000	2017 $'000
Current		
Trade debtors	6,233	-
Goods and services tax receivable	2,841	770
Security deposits	673	673
Research and development grant	-	2,033
Prepayments	1,734	-
Other receivables	1,324	679
	12,805	4,155

The trade debtors balance represents amounts owing to the Group following the sale of direct shipping ore under a minegate sale agreement with Atlas Iron Limited.

4.3 Inventories

ACCOUNTING POLICY

Finished goods and work in progress ore stockpiles are surveyed and valued at the lower of cost and net realisable value. Cost represents the weighted average cost and includes direct materials, direct labour and an appropriate portion of fixed and variable production overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Consumables are valued at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average cost. Any allowance for obsolescence is determined by reference to specific stock items identified.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

	2018 $'000	2017 $'000
Finished goods (DSO)	2,123	-
Work-in-progress	1,733	-
Consumables	3,687	43
	7,543	43

4.4 Trade and Other Payables

ACCOUNTING POLICY

Trade payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually payable within 30 days' net of recognition. Trade payables are recognised initially at the value of the invoice received from a supplier.

	2018 $'000	2017 $'000
Current – Trade and other payables		
Trade payables	8,334	3,855
Accruals	37,460	7,174
Interest payable	356	395
Unearned revenue	2,600	-
Other payables	983	4
	49,733	11,428

NOTE 5 – EQUITY AND FUNDING

5.1 Capital and Reserves

ACCOUNTING POLICY
Ordinary shares are classified as equity. Costs directly attributable to the issue of new ordinary shares are recognised as a deduction from equity, net of any tax effects.

5.1.1 Ordinary shares

	2018 $'000	2018 Number ('000)	2017 $'000	2017 Number ('000)
Fully paid ordinary shares	419,610	1,744,513	261,756	1,466,538
Total share capital on issue at 30 June	419,610	1,744,513	261,756	1,466,538
Movements in ordinary shares on issue:				
On issue at 1 July	261,756	1,466,538	146,476	1,148,051
Shares issued during the period:				
Issued for cash	136,910	220,514	66,465	189,900
Issued for assets	3,000	8,083	50,000	104,167
Exercise of share options	19,970	49,378	1,946	24,420
Share issue costs	(2,026)	-	(3,131)	-
On issue at 30 June	419,610	1,744,513	261,756	1,466,538

During the year ended 30 June 2018 the Company completed the following components of its $95 million equity raising announced in June 2017 at an issue price of 35 cents per ordinary share;

- **Tranche 2 Placement –** issue of 38.7 million ordinary shares to raise $13.5 million which was settled on 2 August 2017 following the receipt of shareholder approval; and
- **Share Purchase Plan –** issue of 43.8 million ordinary shares to raise $15.3 million which was settled on 2 August 2017.

On 30 October 2017, the Company completed a $28 million equity subscription with Great Wall Motor Company and issued 56 million ordinary shares at an issue price of 50 cents per ordinary share.

On 29 March 2018, the Company completed a $79.6 million equity subscription with POSCO and issued 82.1 million ordinary shares at an issue price of 97 cents per ordinary share.

On 15 August 2017, the Company completed settlement of the Novo Litio Ltd (formerly Dakota Minerals Limited) Lynas Find tenement acquisition following the transfer of the four remaining tenements to

Pilbara Minerals. Total consideration of $3 million was paid via the issue of 7,577,671 shares at a share price of 39.59 cents.

On 4 April 2018, the Company issued 505,278 ordinary shares for a production payment ($0.45 million) pursuant to the Njamal Native Title Agreement.

Terms and conditions of ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors with respect to any proceeds of liquidations.

5.1.2 Reserves

	2018 $'000	2017 $'000
Share-based payment reserve	18,923	32,501
	18,923	32,501

	2018 $'000	2017 $'000
Movements in share-based payment reserve:		
Balance at 1 July	32,501	21,799
Share based payment expense following issue of options and performance rights	4,630	12,415
Options exercised and transferred to accumulated losses	(18,208)	(1,713)
Balance at reporting date	18,923	32,501

The share-based payment reserve is used to record the fair value of the options and performance rights issued. Options issued to directors and employees during the year and their associated value impact on the share-based payment reserve are as follows:

Option	Grant date (valuation purposes)*	Share price on date of grant	Exercise price	Expiry date	Valuation (cents per option)
3,500,000 **	01/09/2017	$0.39	$0.45	31/08/2020	11.81
2,000,000**	23/11/2017	$0.97	$0.90	08/12/2020	42.11

* This is the grant date used for valuation purposes and represents the date options are awarded to employees or directors, it is not the date the options are issued.

** The vesting conditions attached to these unlisted options are detailed in Note 2.2.1

All option valuations during the period were performed by an independent third-party valuer. The Black Scholes option valuation methodology was used to value the options. Inputs to the option valuation model included the Company's share price volatility, risk free rates, option life, and the option exercise price. Option volatility was calculated using the share price movement of the Company over the past 12 months up until the date the options were granted.

The key inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

	2018	2017
Expected volatility (weighted average)	67.4%	103.9%
Expected life (weighted average)	3.0 years	2.6 years
Risk free interest rate (based on government bonds) (weighted average)	2.0%	1.7%

Performance rights issued to directors and employees during the year and their associated fair value are as follows:

Performance rights	Grant date (valuation purposes)*	Share price on date of grant	Expiry date	Valuation (cents per right)
158,461	23/11/2017	$0.97	30/06/2019	93.70
158,461	23/11/2017	$0.97	30/06/2019	96.50
225,913	11/05/2018	$0.91	30/06/2019	85.00
225,913	11/05/2018	$0.91	30/06/2019	91.00

The key inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

	2018	2017
Expected volatility (weighted average)	80.0%	-
Expected life (weighted average)	1.4 years	-
Risk free interest rate (based on government bonds) (weighted average)	1.9%	-

5.2 Loans and Borrowings

ACCOUNTING POLICY

Borrowings

Borrowings are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest rate method.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see Note 6.1.

	2018 $'000	2017 $'000
Current		
Lease liability	177	-
Hire purchase liability	-	64
Total borrowings – current	177	64

	2018 $'000	2017 $'000
Non-current		
Lease liability	463	-
Hire purchase liability	-	33
Secured debt (US$ denominated bond bond) (refer Note 5.2.2)	130,502	124,331
Total borrowings – non-current	130,965	124,364

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

5.2.1 Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

	Currency	Nominal interest rate	Year of maturity	2018 Face value $'000	2018 Carrying amount $'000	2017 Face value $'000	2017 Carrying amount $'000
Hire purchase	A$	6.5%	2019	-	-	97	97
Hire purchase	A$	9.2%	2021	640	640	-	-
US$100 million secured bond	US$	12.0%	2022	135,300	130,502	132,310	124,331
Total interest-bearing liabilities				**135,940**	**131,142**	**132,407**	**124,428**

5.2.2 US$ Secured Bond

In the prior year, the Group completed settlement of a US$100 million senior secured bond facility as part of the funding package for the development of the Pilgangoora Project. The bonds were issued by the Company's wholly owned subsidiary, Pilgangoora Operations Pty Limited and are administered by the bond trustee, Nordic Trustee ASA. The coupon rate is 12% per annum with interest payable quarterly in arrears. Pursuant to the bond terms, the proceeds are to be applied towards capital and development costs associated with the Pilgangoora Project following the satisfaction of cost to complete tests. The bond facility is secured against the assets of the Pilgangoora Project.

The carrying amount of the US$ secured bond is made up as follows:

	2018 $'000	2017 $'000
Bond proceeds at inception	132,310	132,310
Unrealised foreign exchange loss/(gain)[1]	2,990	(2,305)
Bond proceeds at 30 June	135,300	130,005
Directly attributable transaction costs	(6,038)	(5,705)
Amortisation of transaction costs	1,240	31
Carrying amount at 30 June	130,502	124,331

[1] The value of the US$ secured bond is required to be re-stated at the end of each financial period utilising the closing foreign exchange rate.

5.2.3 Compliance with loan covenants

Pilbara Minerals has complied with the financial covenants of its borrowing facilities during the year, see note 5.3.1 for details.

5.3 Capital Management

Capital consists of ordinary share capital, retained earnings, reserves and net debt. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern so as to maintain a strong capital base sufficient to maintain future exploration, development and operating activities.

There were no changes to the Group's approach to capital management during the year.

5.3.1 Loan covenants

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

- book to equity ratio must not be less than 50%;
- liquidity ratio of at least A$15 million; and
- current ratio of a minimum of 1:1.

NOTE 6 – OTHER DISCLOSURES

6.1 Financial Risk Management

ACCOUNTING POLICY

The Group classifies non-derivative financial assets into the following categories:

- Financial assets at fair value through profit or loss;
- Held-to-maturity financial assets;
- Loans and receivables; and
- Available-for-sale financial assets.

The Group classifies non-derivative financial liabilities into the following categories:

- Financial liabilities at fair value through profit or loss; and
- Other financial liabilities.

Non-derivative financial assets and financial liabilities – Recognition and de-recognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets – Measurement

Financial assets at fair value through profit or loss
A financial asset is classified as at fair value through profit or loss if it is classified as held for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Held-to-maturity financial assets
These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Loans and receivables
These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

ACCOUNTING POLICY

Available-for-sale financial assets

These assets are initially measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Non-derivative financial liabilities – Measurement

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss. Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Set out below are details of the Group's financial assets and liabilities at the end of the reporting period.

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	119,978	87,248
Restricted cash	12,308	134,322
Trade and other receivables	12,806	4,155
Other financial assets	-	6
Total financial assets	**145,092**	**225,731**
Financial liabilities		
Trade and other payables	49,733	11,428
Borrowings	131,142	124,428
Total financial liabilities	**180,875**	**135,856**

6.1.1 Overview

The Group has exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Interest risk

The Company's Board of Directors has ultimate responsibility for setting the Company's risk appetite, for overseeing the risk management framework designed and implemented by management and for satisfying itself that the risk management framework is sound. The Board is also responsible for monitoring and reviewing the Company's risk profile. The Board has established a separate Audit and Risk Committee whose role is set out in the Company's Audit and Risk Committee Charter. The Audit and Risk Committee is responsible for governance of risk management across the Company, leading the strategic direction regarding the management of material business risks and reviewing the effectiveness of the risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all of its financial commitments and maintain the capacity to fund the exploration, evaluation, development and operation of the Pilgangoora Project and ancillary exploration activities.

The principal financial instruments as at the reporting date include cash, receivables, payables and loan and finance agreements.

Set out below is information about exposures to the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital.

6.1.2 Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's cash at bank, term deposits as well as credit exposure to trade customers, including outstanding receivables and committed transactions. Credit risk represents the potential financial loss if companies fail to perform as contracted.

The carrying amount of financial assets represents the maximum credit exposure.

The Group limits its exposure to credit risk by only transacting with high credit quality financial institutions. During the year the Group maintained all cash, cash equivalents and restricted cash balances with banks and financial institutions holding a AA- rating based on S&P Global ratings.

The trade and other receivables balance consist of 49% of trade receivables and 22% of receivables from the Australian Tax Office for goods and services tax refund.

All revenue from operations are related trade receivables balances are due from Atlas Iron Limited pursuant to a minegate sale agreement for direct shipping ore sales. The receivables balances are monitored on an ongoing basis.

6.1.3 Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group also manages liquidity risk by producing cash flow forecasts to ensure that there is a clear and up-to-date view of the short to medium term funding requirements and the possible sources of those funds. The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements:

	Carrying amount $'000	Contractual cashflows				
		Total $'000	Six months or less $'000	Six to 12 months $'000	One to two years $'000	Two to five years $'000
30 June 2018						
Non-derivative financial liabilities						
Lease liability	640	640	89	89	177	285
Secured debt	130,502	191,111	8,118	8,118	24,692	150,183
Trade and other payables	49,733	49,733	49,733	-	-	-
	180,875	241,484	57,940	8,207	24,869	150,468
30 June 2017						
Non-derivative financial liabilities						
Hire purchase	97	102	34	34	34	-
Secured debt	124,331	199,233	7,800	7,800	15,601	168,032
Trade and other payables	11,428	11,428	11,428	-	-	-
	135,856	210,763	19,262	7,834	15,635	168,032

The secured debt has certain financial covenants that if breached could cause early repayment. The Group is not anticipating any breach of covenants.

6.1.4 Market risk

Market risk is the risk that changes in market prices – such as commodity price, foreign exchange rates and interest rates – will affect the Group's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Group's exposure to market risk has changed during the period ending 30 June 2018 due to conversion of proceeds from the senior secured bond facility (US$100 million) into Australian dollars resulting in exposure to foreign exchange risk. The Group has increased foreign exchange exposure following commencement of direct shipping ore operations during the year, with the receipt of sale proceeds in US dollars.

a) Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency. The Group manages its foreign exchange risk exposure arising from future commercial transactions through sensitivity analysis, cash flow management and forecasting.

The Group is exposed to foreign exchange risk principally through holding US$ denominated restricted cash, borrowings and trade receivables.

The Group's exposure to foreign currency risk at balance date was as follows:

	2018 USD $'000	2017 USD $'000
Restricted cash	8,124	103,321
Borrowings	100,000	100,000
Trade receivables	4,363	-

The year-end exchange rate used to recalculate the US$ dominated balances on 30 June 2018 was 0.7391 (2017 exchange rate of 0.7692).

Group sensitivity

Based on financial instruments held at 30 June 2018, had the Australian dollar strengthened/ weakened by 10% against the US dollar, with all other variables held constant, the Group's loss for the year would have been $13.156 million higher/$10.764 million lower (2017: $392,000 higher/$480,000 lower), as a result of foreign exchange gains/ losses on translation of US dollar denominated restricted cash and borrowings.

b) Interest Rate Risk

Interest rate risk arises from the Group's cash, cash equivalents and restricted cash earning interest at variable rates. The significance and management of the risks to the Group are dependent on several factors including:

- Interest rates;
- Level of cash, liquid investments and borrowings and their term; and
- Maturing dates of investments.

On 21 June 2017, the Group completed settlement of a US$100 million senior secured bond facility. The bond has a fixed coupon rate of 12% per annum resulting in a nil sensitivity.

At the end of the Reporting Period, the Group's exposure to interest rate risk and effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

	2018 Weighted average interest rate	2018 Balance $'000	2017 Weighted average interest rate	2017 Balance $'000
Cash, cash equivalents and restricted cash	2.09%	132,286	1.08%	221,570

The risk is managed by the Group by maintaining an appropriate mix between short-term and floating rate cash, cash equivalents and restricted cash.

Group sensitivity

Based on the financial instruments at 30 June 2018, if interest rates had changed by +/-50 basis points from the year-end rates, with all other variables held constant, loss and equity for the year would have been $661,000 lower/$661,000 higher.

6.1.5 Interest risk

The Company and the Group are exposed to interest rate risk as entities in the Group borrow funds at fixed interest rates.

The Group's exposure to interest rate on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

6.1.6 Fair values

The carrying value of cash and cash equivalents, restricted cash, other receivables, trade creditors, other creditors and accruals are considered to be a reasonable approximation of fair value.

The fair value of the future contractual principal and interest cashflows associated with the bond is $151.54 million. Fair value was determined with reference to price quotations in an active market at 30 June 2018.

6.2 Related Parties

6.2.1 Key management personnel

The following people were considered as key management personnel during the financial year:

	Position	Appointed	Resigned
Ken Brinsden	Managing Director	18 January 2016	
Anthony Kiernan	Non-executive Chairman	1 July 2016	
Steve Scudamore	Non-executive Director	18 July 2016	
Nicholas Cernotta	Non-executive Director	6 February 2017	
Sally-Anne Layman	Non-executive Director	20 April 2018	
Alex Eastwood	Company Secretary and General Counsel	1 September 2016	
Brian Lynn	Chief Financial Officer	22 June 2016	
Dale Henderson	Project Director Chief Operating Officer	4 September 2017 5 March 2018	
Neil Biddle	Non-executive Director	20 August 2016	26 July 2017
John Young	Executive Director Non-Executive Director	4 September 2015 1 August 2017	31 July 2017 20 April 2018

Key management personnel compensation comprised the following:

	2018 $	2017 $
Short term employee benefits	2,538,322	1,406,570
Post-employment benefits	111,041	93,944
Other long term employee benefits	160,504	-
Share-based payments (non-cash)	3,481,325	7,381,211
	6,291,192	8,881,725

Compensation of the Group's key management personnel includes salaries, and contributions to a post-employment defined contribution plan. Information regarding individual directors and executive's compensation and some equity instruments are required to be disclosed by s300A of the Corporations Act and Corporations Regulations 2M.3.03 and are provided in the Remuneration Report section of the Directors' Report.

6.3 Group Entities

6.3.1 Parent Entity

Pilbara Minerals Limited

The consolidated financial statements include the financial statements of Pilbara Minerals Limited and the subsidiaries listed in the following table.

6.3.2 Significant Subsidiaries

	Country of incorporation	2018	2017
Tabba Tabba Tantalum Pty Ltd	Australia	100%	100%
Sturt Resources Ltd*	Australia	0%	100%
Pilbara Lithium Pty Ltd	Australia	100%	100%
Pilgangoora Holdings Pty Ltd	Australia	100%	100%
Pilgangoora Operations Pty Ltd	Australia	100%	100%

* On 28 January 2018, the Group disposed of its 100% equity in its subsidiary, Sturt Resources Ltd.

6.4 Parent Entity Disclosures

As at, and throughout the financial year ending 30 June 2018, the parent company of the Group was Pilbara Minerals Limited. The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements.

	2018 $'000	2017 $'000
Results of the parent entity		
Loss for the period	(12,150)	(27,539)
Total comprehensive loss for the period	(12,150)	(27,539)
Financial position of the parent entity at year end		
Current assets	43,416	93,999
Total assets	406,723	204,333
Current liabilities	50,414	11,308
Total liabilities	57,875	5,841
Total equity of the parent comprising of:		
Share capital	419,610	261,756
Share-based payment reserve	18,923	32,501
Accumulated losses	(89,685)	(95,765)
Total equity	**348,848**	**198,492**

6.5 Subsequent Events

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

6.6 Significant Changes in the Current Reporting Period

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of those standards and interpretations is set out below:

AASB 9 *Financial Instruments*

AASB 9 (2014), published in December 2014, replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement* and is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

The revisions to the classification and measurement requirements and hedging changes are not currently expected to have a significant impact to the Group. Changes in relation to the expected credit loss model for calculating impairment on financial assets are not expected to have a material impact based on the short-term nature of the Group's assets.

The Group will continue to assess the impact of this standard as contracts are entered into for the Pilgangoora Project.

The changes in the Group's accounting policies from the adoption of AASB 9 will be applied retrospectively from 1 July 2018 onwards, with the practical expedients permitted under the standard and the comparative period numbers will not be restated.

AASB 16 *Leases*

AASB 16 replaces the AASB 117 *Leases,* Interpretation 4 *Determining whether an Arrangement contains a Lease.,* Interpretation 115 *Operating Leases-Incentives* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee. Lease liabilities will be capitalised on the balance sheet by recognising a lease liability for the present value obligation of a 'right-of-use' asset. The right of use asset is calculated based on the lease liability plus initial direct costs, prepaid lease payments and estimated restoration costs less lease incentives received. Upon adoption, this will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in expense recognition, with interest and depreciation replacing operating lease expense. There are exemptions for short-term leases and leases of low-value items.

As at 30 June 2018, the Group has $29,586,000 of non-cancellable operating lease commitments, predominantly relating to Build Own Operate contracts relating to the Pilgangoora project. The Group is considering the available transition options under AASB 16, including a change in reported earnings before interest, tax, depreciation and amortisation (EBITDA) and the expected increase in lease assets and liabilities recognised. The lease standard is also expected to have an impact on deferred tax balances, depending on the lease arrangements in place at the time the new standard is effective.

The Group has commenced the process of evaluating the impact of the new lease standard and expects that certain service agreements are likely to include leases under AASB 16. The Group has certain contracts including mining contractor, haulage and power supply agreements that contain both a fixed monthly charge and a variable monthly expense based on production and/or throughput requirements. The fixed monthly charge is considered to represent the present value of the total obligation and is expected to be accounted for as a lease liability and a 'right of use' asset. The variable expense is recorded as an expense in profit or loss as incurred.

Based on its best estimate, if the Company was to early adopt the standard as at 30 June 2018, the impact would have been to recognise a right of use asset and lease liability of approximately $33 million, under the modified retrospective approach. The Company will continue to assess the impact of the standard on current contracts and contracts being entered into ahead of adopting AASB 16.

AASB 16 is effective from annual reporting periods beginning on or after 1 July 2019. A lessee can choose to apply the standard using a full retrospective or a modified retrospective approach.

6.7 Auditor's Remuneration

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2018 $	2017 $
Audit services – KPMG	113,865	83,000
Advisory service – KPMG	35,000	7,455
Total auditor's remuneration – KPMG	148,865	90,455

PILBARA MINERALS LIMITED

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Pilbara Minerals Limited ("the Company"):

   (a) the consolidated financial statements and notes set out on pages 28 to 63 and the Remuneration Report contained within the Directors' Report are in accordance with the *Corporations Act 2001*, including:

      (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

      (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

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

   (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2018.

This declaration is made in accordance with a resolution of the Directors.

Anthony Kiernan
Director

21st August 2018

Independent Auditor's Report

To the shareholders of Pilbara Minerals Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Pilbara Minerals Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Pilbara Minerals Limited (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KPMG

Mine Properties in development ($252.7 million)	
Refer to Note 3.2.1 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Existence, accuracy and completeness of capitalised expenditure incurred as part of the development of the Pilgangoora Project was considered to be a key audit matter due to the size of the capitalised expenditure ($252.7 million) representing 48% of total assets. The Group used judgement in the identification and allocation of cost between operating expenditure and capital expenditure. The risks we focused on included: • the existence of capital expenditure; • the appropriateness for capitalisation of the expenditure; and • the determination of the extent to which borrowing costs relate to the qualifying asset being Pilgangoora Project.	Our procedures included: • Test of controls relating to the authorisation and accuracy of the recording and classification of capital expenditure; • Assessment of the allocation of costs between operating expenditure, ore stockpiles and capital expenditure by inspecting underlying documentation on a sample basis and assessing the nature of the underlying activity; • Selecting a sample of supplier and contractor invoices raised prior to year end and post year end. We checked the timing of recorded expenditure against the details of the service description on the invoice; and • A recalculation of borrowing costs incurred in respect of the bond borrowings of US$100 million and assessed that the borrowing costs capitalised related to the Pilgangoora Project being the qualifying asset.

Other Information

Other Information is financial and non-financial information in Pilbara Minerals Limited’s annual reporting which is provided in addition to the Financial Report and the Auditor’s Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor’s Report was the Director’s Report. The Chairman’s Report, Managing Director’s Report, ASX additional information and other operational update reports are expected to be made available to us after the date of the Auditor's Report, but prior to the issuance of Pilbara Minerals Limited’s Annual Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor’s Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*

- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Pilbara Minerals Limited for the year ended 30 June 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG.

KPMG

R Gambitta
Partner

Perth

21 August 2018