

ASX / MEDIA ANNOUNCEMENT

Monday 11 April, 2022

UPDATE ON DOWNSTREAM JOINT VENTURE WITH POSCO

KEY POINTS

- Construction and Ramp Up Budget provided by the JV Company and accepted by Pilbara Minerals, satisfying a material condition precedent.
- Remaining key conditions precedent for completion and formation of the incorporated joint venture (**JV** or **JV Company**) now finalised, with completion of equity subscriptions in the JV Company scheduled for mid-April 2022.
- JV to construct and operate a 43ktpa LHM primary lithium hydroxide chemical processing facility (**Conversion Facility**) in Gwanyang, South Korea, with detailed engineering underway and major civil and construction works expected to commence in the June 2022 Quarter.
- Commissioning of Conversion Facility expected from late 2023.
- Participation in JV supports Pilbara Minerals' strategic objective of becoming a fully integrated lithium raw materials company and diversifies the Company's global customer base, providing exposure to the rapidly growing South Korean lithium chemicals market.

Further to the Company's announcement of 26 October 2021, Australian lithium producer, Pilbara Minerals Limited (ASX: PLS) (**Pilbara Minerals** or **the Company**), is pleased to announce that the key conditions precedent and other completion criteria for the formation of the JV between POSCO and Pilbara Minerals are now satisfied.

Please refer to **Annexure A** for details pertaining to the agreed JV terms previously announced on 26 October 2021.

The formation of the JV and completion of Pilbara Mineral's initial 18% equity subscription in the JV Company (with an option to go to 30%) was conditional on satisfaction of certain conditions precedent. These included the provision of a detailed construction and ramp up budget (**Construction and Ramp Up Budget**) acceptable to the Company for the construction and 18-month ramp-up of the Conversion Facility, as well as Pilbara Minerals filing necessary regulatory approvals with the Korea Trade Investment Promotion Agency (KOTRA) for approval of its initial 18% investment in the JV Company.

Construction and Ramp Up Budget

Since entering into the Shareholders Agreement in October 2021, additional engineering and design work undertaken by POSCO has contributed to the detailed budget for the construction and 18-month ramp-up of the Conversion Facility. The Construction and Ramp Up Budget has now been provided to the Company by POSCO to satisfy this condition precedent to the formation of the JV.

Based on the studies and engineering work undertaken since October 2021, the capital development costs for the Conversion Facility are estimated at USD\$670-720M¹ (excluding any

¹ USD Costs are estimated at a USD:KRW exchange rate of 1200

contingency allowance). After allowing for initial working capital and pre-production financing costs, the total funding requirement for the JV is now expected to be approximately USD\$750-800M.

As previously announced, the JV Company will be funded from a combination of equity from both POSCO (initial 82% equity interest) and Pilbara Minerals (initial 18% equity interest), as well as debt funding. Non-recourse external debt is expected to be secured by POSCO and the JV Company from Korean commercial banks following the establishment of the JV.

At the time the JV is established a maximum gearing ratio of ~58% of external debt is anticipated, but with the ability for the JV to increase the level of debt to 65%, should additional funding be required. This ensures capital development cost increases of up to ~20% (should they arise) of the capital development costs reflected in the Construction and Ramp Up Budget will be able to be funded from external debt.

Pilbara Minerals' initial 18% equity participation in the JV will be largely funded from the A\$79.6M 5-year Convertible Bond being provided by POSCO. Funds will be drawn down under the Convertible Bond upon formation of the JV and completion of other closing conditions, which are expected to be satisfied in mid-April 2022.

Given final detailed engineering, design and procurement works are currently being completed, Pilbara Minerals has prudently decided to apply a capital contingency of 15% to its share of the capital development costs included in the Construction and Ramp Up Budget. This represents a total capital contingency for Pilbara Minerals 18% Share of US\$18M. In the event this contingency is ultimately required, then the Company expects this amount to be funded from the 65% gearing ratio agreed with POSCO as part of the JV debt funding structure.

Based upon the Construction and Ramp Up Budget received from POSCO, operating costs of the Conversion Facility are still expected to continue to be largely consistent with industry peers, following completion of its ramp up.

Pilbara Minerals' Managing Director and CEO, Ken Brinsden, said:

"Pilbara Mineral's longstanding relationship with POSCO continues to go from strength-to-strength, and we are pleased to partner with them to grow lithium chemicals production to support the massive demand growth that is building around the globe."

"With commissioning expected late 2023, this joint venture places both Pilbara Minerals and POSCO in a very strong position to participate as one of the few near-term lithium fine chemicals producers with underwritten raw materials supply that will emerge in the coming two years. It's exciting for both the team at Pilbara and our shareholders to be able to extend our reach in the industry beyond spodumene and merchant markets."

Next Steps for Completion

In accordance with regulatory requirements in South Korea, Pilbara Minerals has now filed its foreign investment report with the Korea Trade Investment Promotion Agency (KOTRA) and received the necessary approval for its initial 18% investment in the JV Company. This was the last remaining material condition precedent to be satisfied before the parties could complete their equity subscription in the JV Company (**Completion**).

Following satisfaction of this requirement, the parties are targeting a Completion date

of mid-April 2022.

At Completion, using funds drawn down from the Convertible Bond being provided by POSCO, Pilbara Minerals will initially subscribe for an 18% interest in the JV Company, with a call option (at Pilbara Minerals' election) available to increase its interest to 30% in the future.

This call option will be available for up to 18 months after the successful ramp-up of the Conversion Facility to 90% of nameplate capacity. The call option will initially be exercisable at cost (plus 3.58% interest per annum) up until the date the Conversion Facility receives independent battery certification from tier 1 battery producers, and thereafter at fair value. This structure provides an important benefit to Pilbara Minerals, including added flexibility to stage its investment over time to reduce its initial exposure during the construction and ramp-up phases of the Conversion Facility.

Project Timeline

The project development timeline for the Conversion Facility will see major construction works likely to commence from the June 2022 Quarter, with detailed engineering and early works already underway. Construction of the first train of the Conversion Facility is expected to be completed by mid-2023, with the second train to be completed approximately three months later.

Category	2021				2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Joint Venture Plant																
BOD Approval																
Establishment of JV																
Engineering																
Plant Construction																
Commissioning																
Ramp-up																

Figure 1: Indicative Project Delivery Schedule

Release authorised by Ken Brinsden, Pilbara Minerals Limited's Managing Director.

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FORWARD LOOKING STATEMENTS AND IMPORTANT INFORMATION

This announcement may contain some references to forecasts, estimates, assumptions and other forward-looking statements. Although the Company believes that its expectations, estimates and forecast outcomes are based on reasonable assumptions, it can give no assurance that they will be achieved. They may be affected by a variety of variables and changes in underlying assumptions that are subject to risk factors associated with the nature of the business, which could cause actual results to differ materially from those expressed herein. All references to dollars (\$) and cents in this announcement are to Australian currency, unless otherwise stated.

Information in this announcement regarding production capacity of the Pilgangoora Project are underpinned by the Company's existing Ore Reserves that have been prepared by a Competent Person in accordance with the JORC Code (2012 Edition) and were released by the Company to ASX on 6 October 2021 (Material Increase in Ore Reserve).

ABOUT PILBARA MINERALS

Pilbara Minerals is the leading ASX-listed lithium company, owning 100% of the world's largest, independent hard-rock lithium operation. Located in Western Australia's resource-rich Pilbara region, the Pilgangoora Project comprising the Pilgan and Ngungaju processing plants produces a spodumene and tantalite concentrate. The significant scale and quality of the operation has attracted a consortium of high quality, global partners including Ganfeng Lithium, General Lithium, Great Wall Motor Company, POSCO, CATL and Yibin Tianyi.

While it continues to deliver a low-cost, quality spodumene to market, Pilbara Minerals is pursuing a growth and diversification strategy to become a sustainable, low-cost lithium producer and fully integrated lithium raw materials and chemicals supplier in the years to come.

Through execution of this strategy, Pilbara Minerals is positioned to become a major player in the rapidly growing lithium supply chain, underpinned by increasing demand for clean energy technologies such as electric vehicles and energy storage as the world pursues a sustainable energy future.

ANNEXURE A - OVERVIEW OF KEY TERMS OF TRANSACTION

Shareholders Agreement

The JV will be operated as a South Korean joint venture, to be incorporated under South Korean law ("**JV Company**").

Initial interests of the participants in the JV will be as follows:

- POSCO – 82%; and
- Pilbara Minerals (through a wholly owned subsidiary) – 18%.

PLS will initially subscribe for 18% and will have a call option to acquire additional shares in the JV Company to increase its percentage interest to 30%. The call option is exercisable up until 18 months following the successful completion of ramp up to 90% nameplate capacity of the Conversion Plant.

The following provisions have been agreed in the Shareholder Deed to provide certain protections for Pilbara Minerals:

- a) should there be a significant cost overrun prior to ramp up of the Conversion Facility which is not capable of being debt financed by the JV (up to a maximum gearing limit of 65%), there is no obligation on either shareholder to contribute additional equity to fund such overruns;
- b) while there is no obligation to do so, should there be a need for JV shareholders to contribute additional equity to fund such cost overruns, Pilbara Minerals may elect to dilute and defer its decision whether or not to contribute its share of the equity contribution until 18 months after the successful ramp up of the Conversion Facility; and
- c) should there be significant cost overruns or the Conversion Plant is substantially delayed in achieving successful ramp up (including achieving certain operating parameters for nameplate capacity, product quality specifications or unit operating costs), Pilbara Minerals will have the right via a put option to exit the JV and sell its shares in the JV to POSCO at the original price paid by the Company.

These protective mechanisms have been deliberately designed to allow sufficient time for the construction, ramp up and establishment of steady state operations at the Conversion Facility to have occurred, ahead of the need for any decision to be made by Pilbara Minerals to contribute further equity into the JV (should it be required). They will ensure Pilbara Minerals can defer any decisions to contribute further equity until such time as the final costs and operating performance of the Conversion Plant are known and the Conversion Plant has demonstrated an 18 month performance record.

Financing of the Conversion Facility's capital costs (inclusive of working capital) by the JV Company is to be based on a target gearing ratio of approximately 42% equity and 58% debt, but with the ability to increase to a maximum of 65% debt if required.

Pilbara Minerals will fund its initial 18% interest almost entirely from funds subscribed under the A\$79.6M Convertible Bond Agreement.

POSCO will maintain a minimum 51% interest in the JV Company for the first 5 years. Pilbara Minerals and its related entities will maintain a minimum interest of 18% (or 30% if the call option is exercised) in the JV Company for 5 years.

The JV Company will be governed by a board of directors comprising representatives of

both POSCO and Pilbara Minerals.

The JV Company and its employees will manage the day-to-day operations of the JV and the Conversion Facility, with certain matters reserved for the decision of the board and shareholders.

All related party matters including any material contracts and sales contracts must be on commercially competitive and arm's length terms.

Other terms customary for incorporated joint ventures have also been agreed including matters reserved for board and shareholder decisions and pre-emptive rights for new issues and disposals of shares by a JV party.

The JV and its formation at Completion is subject to certain conditions precedent, including (but not limited to) the provision of a detailed budget for the construction and ramp up period which is now satisfied, as well as regulatory approvals from any government agencies in South Korea in respect of Pilbara Minerals' foreign investment in the JV Company, which have been received.

Amended Offtake Agreement

- Existing Offtake Agreement of 80ktpa to be assigned from POSCO to the JV Company upon formation of the JV, with the annual supply commitment to be increased to 315ktpa of spodumene concentrate. 75ktpa of the total 315ktpa is conditional on a US\$25 million prepayment facility being made available to Pilbara Minerals by the JV Company.
- Term to be the lesser of 20 years and life of mine of the Pilgangoora Project unless Pilbara Minerals exits the JV in which case the term reduces to 10 years from the commencement of operations.
- Product sold on a CIF (Port of Discharge Basis) with pricing determined on a commercial basis and reflective of the prevailing market price for spodumene concentrate sold on a CIF basis.
- Pricing based on a target lithia grade of 6.0% and adjusted on a pro rata basis for actual lithia grade delivered in accordance with the agreement and determined by independent assays.
- Price reviews permitted on a regular basis throughout the term of the agreement to ensure pricing remains reflective of the prevailing market for spodumene concentrate.
- US\$25 million second ranking secured prepayment facility to be made available by JV Company in consideration for Pilbara Minerals increasing the offtake tonnes to the JV from 240ktpa to 315ktpa of spodumene concentrate. The prepayment facility will be funded from external debt arranged by the JV Company.

A\$79.6 million Convertible Bond Agreement

- Five year repayment term.
- Repayable in full on maturity date (with no amortisation during the term).
- Redeemable at Pilbara Minerals' election at any time without premium but subject to a minimum of \$5 million.
- Interest cost at a 1.5% margin above RBA cash rate accruing six monthly and payable at the earlier of redemption, conversion (that is it must be paid in cash and not

converted) and maturity.

- Convertible to ordinary shares only at Pilbara Minerals' election and at any time during the term up to five days before maturity – convertible at the lesser of 30-day VWAP or five day VWAP of Pilbara Minerals' shares two days prior to conversion notice, less a 7.5% discount.
- PLS cannot issue more than two conversion notices with the first notice converting either 100% or 50% of the bonds. Any subsequent conversion must be for all remaining bonds.
- PLS to provide customary representations and warranties.

There are no major restrictions on conversion by Pilbara Minerals should the Company wish to remove the debt from its balance sheet.

Proceeds may be applied by Pilbara Minerals to fund its initial contributions under the JV.