

# Orocobre June Quarter 2021 Key Highlights

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BRISBANE, July 21, 2021 - [Orocobre Ltd.](#) (TSX: ORL) (ASX: ORE) -

Olaroz Lithium Facility (Olaroz) operations continue to deliver improving cashflows with a Gross Cash Margin of \$4,371/tonne following further improvement in the sales price of lithium chemicals and a continued focus on costs.<sup>1</sup> Realised average price was US\$8,476/tonne up 45% quarter on quarter (QoQ) on a free on board basis (FOB<sup>2</sup>) with prices up 170% over the past nine months. Costs were US\$4,105/t<sup>3</sup>. The proportion of battery grade production reached a record level at 66%. Market conditions continue to improve which is reflected in increasing price forecasts by analysts and industry commentators.

## OLAROZ LITHIUM FACILITY (ORE 66.5%)<sup>4</sup>

- Activities continue to focus on the health and well-being of our staff, contractors and communities while maintaining production and expansion works with no COVID-19 related stoppages during the period. Approximately 60% of the operational workforce has now had their first dose of a vaccine
- Production of 3,300 tonnes was up 31% on the previous corresponding period (PCP) and up 2% QoQ, despite the proportion of battery grade production increasing to 66% from 55% QoQ
- Sales volume of 2,549 tonnes was up 59% on PCP, but down 16% QoQ due to global shipping delays and the requirement to hold additional stock in Japan to guarantee smooth delivery into the Prime Planet Energy and Solutions (PPES) contract
- Sales revenue was up 22% QoQ to US\$21.6 million with the realised average price achieved up 45% QoQ to US\$8,476/tonne FOB<sup>2</sup>. Prices have now increased by nearly 170% over the last nine months
- Cash costs (on a cost of goods sold basis)<sup>3</sup> were up 5% to US\$4,105/tonne on PCP excluding the export tax of US\$407/tonne with proportional sales of battery grade material nearly doubling over that period
- Gross cash margin was up materially to US\$4,371/t, generating a gross margin of 52%
- In the upcoming half, a proportion of sales will be into contracts that were agreed in December 2020 reflecting prices of that time. The average price in the December half will reflect improved market conditions partially offset by lagged pricing and will be approximately US\$9,000/tonne FOB<sup>2</sup> subject to shipping and delivery schedules

## LITHIUM GROWTH PROJECTS

- During the June quarter work at Olaroz Stage 2 continued with strong adherence to the COVID-19 Bio-Security Protocol. At the end of June, most infrastructure is complete, nearly 80% of ponds are built and soda ash and carbonation plants are 10% and 14% complete respectively. Additional accommodation facilities were completed in the quarter with over 650 personnel on site
- Stage 2 is expected to be complete in H1 CY22 and to commence production the following half. Production will ramp up over two years to full capacity of 25,000 tonnes per annum (ktpa) of primary grade lithium carbonate by H2 CY24
- Naraha site operations have continued throughout the period with construction now mostly complete and pre-commissioning works underway. Commissioning will be delayed until Q1 CY22 due to COVID-19 related delays of travel to site by Veolia's international commissioning engineers and technicians
- A scoping study into a further expansion at Olaroz (Stage 3) has commenced. The study will investigate options for additional production of 25-50ktpa from Olaroz, Cauchari or a combination of both, leveraging existing Stage 1 and 2 infrastructure
- Discussions continue with Toyota Tsusho Corporation (TTC) regarding an expansion of lithium hydroxide production to meet forecast growth in demand

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<sup>1</sup> All figures presented in this report are unaudited

<sup>2</sup> Orocobre report price as "FOB" (Free On Board) which excludes insurance and freight charges included in "CIF" (Cost, Insurance, Freight) pricing. Therefore, the Company's reported prices are net of freight (shipping), insurance and sales commission. FOB prices are reported by the Company to provide clarity on

the sales revenue that is recognized by SDJ, the joint venture company in Argentina

<sup>3</sup> Excludes royalties, export tax and corporate costs

<sup>4</sup> All figures 100% Olaroz Project basis

## BORAX ARGENTINA

- Overall sales volume for the June quarter was 11,188 tonnes, up 9% QoQ and down 9% on PCP
- Sales revenue was down 5% QoQ due to lower average prices that were down 13% QoQ due to sales mix

## CORPORATE

- On 19 April 2021, Orocobre and Galaxy Resources (ASX:GXY, "Galaxy") announced that they entered into a binding Merger Implementation Deed (MID) under which the two companies will merge via a Galaxy Scheme of Arrangement (Scheme) pursuant to which Orocobre will acquire 100% of the shares in Galaxy
- Galaxy shareholders will receive 0.569 Orocobre shares for each Galaxy share held at the Scheme record date. Upon implementation of the Scheme, Orocobre shareholders will own 54.3% of the fully diluted share capital of the combined entity and Galaxy shareholders will own the remaining 45.7%
- The Scheme booklet was dispatched to Galaxy shareholders on 7 July 2021 and the Scheme meeting for Galaxy shareholders will be held on 6 August with Scheme implementation expected on 25 August
- At 30 June 2021, Orocobre corporate had available cash of ~US\$238.3 million of which US\$11.1 million and US\$109.5 million have been set aside as pre-completion guarantees for the Naraha debt facility and Olaroz Expansion debt facility respectively
- Including Sales de Jujuy (SDJ) and Borax cash and project debt, net group cash at 30 June 2021 was US\$68.1 million, down from US\$97.7 million at 31 March 2021

## OLAROZ LITHIUM FACILITY

[Click here for more information on Olaroz](#)

## SAFETY AND COVID-19

During the June quarter the team continued preventive actions to manage any impact from ongoing infections across the country with our first and most effective barrier remaining a strong Bio-Security Protocol. Local communities and including our employees are currently being vaccinated in cooperation with the local Susques hospital. Approximately 60% of the workforce (including contractors) have now been vaccinated with their first dose.

Daily monitoring of the workforce health continues throughout 14 day rosters that apply to all personnel and include those employees who would normally reside in local communities.

Additional accommodation facilities have been installed to enable the growing construction workforce to operate within the COVID-19 Bio-Security Protocol.

Improved safety performance was achieved during FY21 with a TRIFR of 2.3 (FY20: 3.0). By 30 June Olaroz Lithium Facility achieved 124 days without an LTI.

## OPERATIONAL UPDATE

### QUALITY

Product quality remains a key focus of the operational team. Key metrics such as brine concentration, magnetic particles and product consistency continue to show positive results.

### PRODUCTION

Production for the June quarter was 3,300 tonnes, up 31% from 2,511 tonnes in the PCP with 66% of production being battery grade lithium carbonate. Brine concentration remains at higher levels than in recent years resulting in high daily production rates, higher plant recovery and continued low costs.

## SALES AND COMMERCIAL

Product sales were 2,549 tonnes of lithium carbonate up 59% on PCP but down 16% QoQ due to global shipping delays and the requirement to hold additional stock in Japan to guarantee smooth delivery into the PPES contract.

Total sales revenue was up 22% QoQ to US\$21.6 million and up 245% on PCP which was affected by initial COVID-19 disruptions. The average price received was up 45% QoQ to US\$8,476/tonne on an FOB<sup>3</sup> basis and up 117% on PCP with significantly stronger pricing relative to a year ago.

In the upcoming half, a proportion of sales will be into contracts that were agreed in December 2020 reflecting prices of that time. The average price in the December half will reflect improved market conditions partially offset by lagged pricing and will be approximately US\$9,000/tonne FOB<sup>2</sup> subject to shipping and delivery schedules.

More than 50% of forecast sales for the September 2021 quarter are expected to be allocated to long term battery grade contracts. The percentage of battery grade product sales is expected to remain above 50% during FY22.

## COSTS/MARGINS

Cash cost of goods sold for the quarter (including COVID-19 related costs) increased by only 5% on PCP to US\$4,105/tonne<sup>3</sup> despite the proportion of battery grade sales nearly doubling. This excludes export duties for the quarter of US\$407/tonne. Costs increased by 6% QoQ with the proportion of battery grade sales increasing from 47% to 57% QoQ.

Total cost of sales has been maintained at low levels demonstrating the significant focus and reduction of fixed cost within the operating business. Lower reagent usage due to improved process efficiency and an increase in the export incentive refund with higher product prices have also contributed to the strong cost performance.

Gross cash margins for the quarter returned to being strongly positive at US\$4,371/tonne, this is expected to remain positive with supportive pricing in Q1 FY22.

## STAGE 2 EXPANSION AT OLAROS

### PROJECT STATUS

During the June quarter work at Olaros Stage 2 continued with strong adherence to the COVID-19 Bio-Security Protocol. Additional accommodation facilities were completed with more than 650 personnel on site. Most infrastructure is now complete, nearly 80% of ponds are built and the soda ash and carbonation plants are 10% and 14% complete respectively.

Stage 2 is expected to be complete in H1 CY22 and to commence production the following half. Production will ramp up over two years to full capacity of 25ktpa of primary grade lithium carbonate by H2 CY24.

### CARBONATION, LIME AND SODA ASH FACILITIES

Carbonate plant soda ash handling facilities construction continued during the quarter with some delays due

to COVID-19, bad weather and high winds. Mitigation actions have been identified to minimise any disruption to the schedule. Foundations for the soda ash and carbonation buildings are 91% and 65% complete respectively. All of the steel structure for the carbonation and soda ash plants is on site including cladding, roofing and overhead cranes.

Planning for liming plant #3 is well underway and contracts have been awarded. This additional liming capacity is expected to be available by the end of the year.

## FUTURE MILESTONES

Work in H2 CY21 will focus on delivery of additional gas fired power generators, completion of ponds and construction of liming plant #3. In the first half of CY22 all new production wells, soda ash facilities and the carbonation plant will be completed.

## NARAHA LITHIUM HYDROXIDE PLANT

### PROGRESS TO DATE

The Naraha Plant, the first of its kind to be built in Japan, is designed to convert primary grade lithium carbonate feedstock into battery grade lithium hydroxide. Feedstock for the 10 ktpa Naraha Plant will be sourced from the Olaroz Lithium Facility's Stage 2 Expansion that will produce primary grade (>99.0%  $\text{Li}_2\text{CO}_3$ ) lithium carbonate.

Since construction commenced at the Naraha Plant there have been no LTIs recorded with nearly 250,000 hours worked on the project.

At 30 June, approximately US\$56.7 million has been spent on engineering, civil works, electrical, instrumentation, fabrication and procurement at the Naraha Plant. Capex spend has remained relatively static due to the agreed payment schedule with Veolia, the EPC contractor.

Site operations have continued throughout the period with construction now mostly complete and pre-commissioning works underway. Commissioning will be delayed until Q1 CY22 due to COVID-19 related delays of travel to site by Veolia's international commissioning engineers and technicians.

## SHARED VALUE PROGRAM AND COMMUNITY

The Shared Value team built on their knowledge of local communities and sustainability with a combination of remote work and a number of visits to communities that are directly and indirectly influenced by the company's operations. Key actions during the quarter included:

### Community Relations

- Management of work rosters within COVID-19 limitations: Communication with Community Coordinators, local government contacts and local suppliers to manage and confirm the date and location of PCR sample collection (COVID-19 tests) and the transfer schedules for rostered employees
- The Shared Value team accompanied provincial officials in the re-commissioning of the Autonomous Photovoltaic Power Plant in Olaroz Chico, which supplies solar electricity to the town. The system capacity has tripled from 50 Kw to 150 Kw. The Shared Value team also participated in the inauguration ceremony of a modular community health centre. The hospital unit has an inpatient ward, pharmacy, laboratory, cardiology area and consulting rooms
- During the month of June, on-site monitoring and follow-up of activities were carried out with local suppliers of laundry services with the aim of strengthening links and encouraging open dialogue
- Construction of Liming Plant N° 3 has been awarded to a local joint venture. It has also been determined that external civil works and HDPE pipe laying will be quoted only with suppliers from the local community

### Community development programs

#### Program to Support Food Independence: Family Food Production Units UPAF

During the quarter, the communities continued harvesting vegetables for the spring-summer season with very good yields; information on production and temperature data continues being collected. The families began preparing the land for sowing of autumn-winter vegetables. The community of Olaroz Chico has completed the construction of their greenhouses and will start planting seedlings. In Coranzulí, the work of the families extended to school greenhouses managing cultural work and planting. The programme was expanded to the production of laying hens to provide animal protein for the families' diets.

#### Community Investment Programme

The work planned for this period with the Coranzuli Community Hall is 80% complete with an investment of US\$25,000. The community values the delivery of the commitment considering the COVID19 context made it difficult to manage the implementation of this initiative.

### MARKET

#### Demand

Demand for lithium chemicals remained strong across all key geographies and customer segments (industrial applications and battery materials) in response to improved business confidence levels.

Customers' concerns for securing supply also intensified during the June quarter as evidenced by enquires for delivery of volumes in 2021 being higher than originally requested. Existing and prospective customers have also engaged earlier than usual to secure product volumes for future years.

Lithium chemical prices continued to grow during the quarter with strong demand from the Electric Vehicle ("EV") sector where sales in the period January to May reached two million vehicles (compared to 750k in 2020 and 850k in 2019 over the same months).

Whilst lithium carbonate prices stabilised in China, global weighted average prices reported by Benchmark Minerals increased by 15.6% during the quarter from US\$10,752/tonne in March to US\$12,432/tonne in June as prices ex- China continued rising and narrowing the gap with China. Lithium Hydroxide prices once again established a premium over carbonate prices during the June quarter with weighted average prices of US\$13,873/tonne as reported by Benchmark Minerals.

The commitment from Government, OEMs, and the Energy Sector to accelerate the development of the lithium battery supply chain grew firmly during the June quarter. Planned global capacity of Gigafactory's increased by ~ 460 GWh (12%) to approximately 4,200 GWh by 2030 based on committed investments announced during the June quarter. Such indicators continue to put pressure on development of lithium chemical supply and widen the estimated supply deficit.

#### Supply

Estimated lithium chemical production and conversion in China increased to ~20,500 tonnes of lithium carbonate per month during the June quarter from ~14,500 tonnes per month during the preceding nine months. Lithium hydroxide capacity over the same periods increased to ~14,500 tonnes per month from ~12,300 tonnes per month. The overall increase in production of lithium chemicals was in response to the accelerated demand from the EV sector and was partially achieved with incremental supply from Chinese brines during the spring period which assisted in stabilising lithium carbonate domestic prices. Australian spodumene producers also lifted utilisation rates and exports to China benefitting from a significant increase in prices during the period.

New partnerships were established between lithium chemical producers and lithium mineral explorers with the purpose of developing additional supply of lithium chemicals in response to growing demand. Supply forecasts of lithium chemicals have been revised up during the quarter considering recent announcements, however, it continues to fall short of meeting the revised estimates of demand.

## BORAX ARGENTINA S.A.

### SAFETY

Following a major focus on safety, TRIFR for FY21 has improved to 2.6 from 8.8 in FY20.

Since the safety review last year there have not been any LTI or Environmental incidents at the three operational Borax sites. As at 30 June, Sijes celebrated one year without recordable incidents, Tincalayu achieved 350 days and Campo Quijano has had 309 days without an LTI.

Good progress has been achieved with recycling waste where a new agreement with an external company was signed to utilise some of this material. The first shipment occurred in May with 23 tons of scrap metal and one tonne of batteries. A further shipment occurred in June with five tonnes of plastic material.

The COVID-19 Bio-Security Protocol remains in place at Borax and approximately 40% of employees are now vaccinated with at least one dose.

Intelix is currently being implemented in Borax which will improve reporting, investigation and tracking of corrective actions related to adverse events. The Management team has been trained in leading indicators and KPI objectives were set for FY22. Some of the Dupont initiatives implemented in SDJ are being considered for implementation at Borax.

### PRODUCTION, SALES AND OPERATIONAL UPDATE

June quarter sales were 11,188 tonnes, up 9% QoQ and down approximately 9% from the PCP. Total sales revenue was down 5% QoQ with the average price received down 13% QoQ due to lower sales of chemicals and higher sales of lower priced mineral products. Operations have continued under the Orocobre Bio-Security Protocol.

### CORPORATE AND ADMINISTRATION

#### MERGER WITH GALAXY RESOURCES

On 19 April 2021, Orocobre and Galaxy Resources (ASX:GXY, "Galaxy") announced that they entered into a binding Merger Implementation Deed (MID) under which the two companies will merge via a Galaxy Scheme of Arrangement (Scheme) pursuant to which Orocobre will acquire 100% of the shares in Galaxy.

Galaxy shareholders will receive 0.569 Orocobre shares for each Galaxy share held at the Scheme record date. Upon implementation of the Scheme, Orocobre shareholders will own 54.3% of the fully diluted share capital of the combined entity and Galaxy shareholders will own the remaining 45.7%.

The Scheme is unanimously recommended by the Board of Galaxy and each Galaxy Director intends to vote all the shares that they hold in Galaxy in favour of the Scheme (in both cases, subject to no superior proposal emerging and the Independent Expert continuing to conclude that the Scheme is "fair and reasonable" and in the best interests of Galaxy shareholders).

The Scheme is endorsed and supported by the Board of Orocobre, subject to no proposal for Orocobre emerging.

As part of the proposed Scheme, Martin Rowley will become Non-Executive Chairman, Robert Hubbard will become Deputy Chairman, and Mart?n P?rez de Solay will remain CEO and Managing Director of the merged group, with a highly experienced and complementary Board and management team drawn from the combined group.

The First Hearing in the Supreme Court of Western Australia was conducted on 2 July 2021 and the Court made orders to convene a meeting of Galaxy shareholders to consider and vote on the Scheme and to dispatch an explanatory statement along with the Scheme booklet.

Subsequently, the Scheme booklet was dispatched to Galaxy shareholders on 7 July 2021 and the Scheme meeting for Galaxy shareholders will be held on 6 August.

## FINANCE

### CASH BALANCE

At 30 June 2021, Orocobre corporate had available cash of ~US\$238.3 million of which US\$11.1 million and US\$109.5 million have been set aside as pre-completion guarantees for the Naraha debt facility and Olaroz Expansion debt facility respectively.

The US\$3.3 million corporate net cash reduction from the previous quarter was the result of US\$0.7 million advanced to SDJ Joint Venture as a shareholder loan to largely fund finance payments, US\$2.5 million corporate costs and US\$0.2 million other project payments partially offset by US\$ 0.1 million of net interest income and forex.

Including SDJ and Borax cash and project debt, net group cash at 30 June 2021 was US\$68.1 million, down from US\$97.7 million at 31 March 2021 due to drawdown of project finance for the Olaroz Stage 2 expansion and Naraha project payments.

### ARGENTINA ECONOMIC CONDITIONS

Currency: The official foreign exchange rate depreciated by 4% in the June quarter from AR\$92 at 31 March 2021, to AR\$95.72 at 30 June 2021. The accumulated 12-month period from 1 July 2020 to 30 Jun 2021 resulted in a ~36% devaluation of the AR\$ against the US\$.

Inflation: June inflation was 3.2% and accumulated ~11% in the quarter. The accumulated 12-month period from 1 July 2020 to 30 Jun 2021 resulted in inflation of approximately ~50%.

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