

# Orocobre Limited Quarterly Report of Operations for the Period Ended 31 March 2020

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BRISBANE, April 22, 2020 - During the quarter the Olaroz Lithium Facility (Olaroz) temporarily stopped production due to Argentine government COVID-19 quarantine restrictions, which in addition to planned maintenance resulted in 21 days of lost production. Despite lower plant availability, cash cost of sales reduced by 3% quarter on quarter (QoQ). Market conditions and product pricing continued to be challenging, however operational cashflow remained positive. Work continues at the Naraha Lithium Hydroxide Plant (Naraha) while site operations at the Olaroz Stage 2 Expansion have stopped due to quarantine restrictions. In light of current operational conditions and uncertain future demand [Orocobre Ltd.](#) (Orocobre) has withdrawn guidance for FY20.

## OLARAZ LITHIUM FACILITY (ORE 66.5%)<sup>1</sup>

- Production for the quarter of 2,732 tonnes was down 11% on the previous corresponding period (PCP) due to the temporary plant shut down. Brine production and pond management continued throughout the quarter. Following the introduction of a strict bio-security protocol production of lithium carbonate recommenced on April 10<sup>th</sup> with a minimum crew
- Sales volume for the quarter was down 29% QoQ to 2,518 tonnes while sales revenue was down 32% QoQ to US\$12.1 million. The realised average price achieved was US\$4,810/tonne on a free on board basis (FOB)<sup>2</sup>. March quarter product pricing was below that of the December quarter with continuing weak demand and aggressive competitor behaviour
- Cash costs for the quarter (on cost of goods sold basis)<sup>3</sup> improved to US\$3,972/tonne, down 3% QoQ, excluding the export tax of US\$181/tonne for the quarter and care and maintenance costs of US\$255/tonne during the plant shutdown
- Operations remained operating cash flow positive with gross cash margins (excluding export tax) of US\$838/tonne, down 28% QoQ mainly due to the lower average price received, partially offset by better cost performance.

## LITHIUM GROWTH PROJECTS

- Construction of the Stage 2 Olaroz Lithium Facility Expansion reached approximately 35% completion prior to the imposition of COVID-19 quarantine restrictions which halted site activities. Site works will resume once these restrictions are lifted, however completion is now expected to be delayed
- Naraha Lithium Hydroxide Plant construction has not been affected by COVID-19 to date with more than 50% of works now completed. The final schedule may be delayed by two months due to late equipment deliveries from overseas.

## BORAX ARGENTINA

- Overall sales volume for the March quarter was 10,690 tonnes, up 24% QoQ and approximately flat on PCP. Operations were temporarily stopped due to COVID-19 restrictions as previously advised; however production has now recommenced with strict bio-security protocols in place
- Sales revenue was up 14% QoQ, however the average price received was down 6% QoQ.

## CORPORATE

- As at 31 March 2020, Orocobre corporate had available cash of US\$163 million of which US\$11.1 million and US\$29.3 million have been set aside as guarantees for the Naraha debt facility and Olaroz Expansion debt facility respectively. Including SDJ and Borax cash and project debt, net group cash at 31 March 2020 was US\$88.2 million, down from US\$115.5 million at 31 December 2019, due to funding of expansion activities
- Following the end of the quarter, the acquisition of [Advantage Lithium Corp.](#) (Advantage) was completed.

## OLAROZ LITHIUM FACILITY

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

## SAFETY

Safety is the number one priority of the Company. From early February, awareness programs were conducted with employees and contractors on signs, symptoms and recommendations to minimise risk of exposure to the COVID-19 virus and prevent contagion. International company-related travel was restricted from February, and domestic travel from March. Towards the end of the quarter, detailed bio-security plans were developed for our operations in accordance with established national regulations and best practice approaches within the industry. These will continue to be revised and adapted in response to changing regulations and examples of best practice.

An emergency committee has been established comprising both Sales de Jujuy and Borax Argentina to coordinate operations, enforce the application of a bio-security protocol and review and update it as circumstances change. This committee analyses possible scenarios in order to plan and enable the company to be ahead of the circumstances and works in close coordination with local health authorities.

One Lost Time Injury was recorded at Olaroz during the quarter involving one of the Expansion contractors. As at 31 March there were 70 days without a Lost Time Injury (LTI).

To enhance control of the contractors associated with construction activities, the Company has focused this quarter on the implementation of SICOP contractor management system. SICOP serves as a centralised control system which provides real-time visibility of contractor certifications, compliance, and performance in accordance with established standards and regulations.

In addition to the Company's ongoing program of work with Dupont in Safety Culture and the consolidation of Intelix as the central safety management database, the Company has also been preparing for ISO re-certification audit which will be conducted in coming months. The Company also conducted a successful shutdown for plant maintenance during the quarter with no incidents recorded during the shutdown period.

## OPERATIONAL UPDATE

## QUALITY

In response to evolving market quality and specification requirements, Olaroz has continued with a product improvement and development program. Quality indicators remain positive with sustained gains on process stability, improved product quality and consistency.

A planned maintenance shutdown was successfully completed in February and when production resumed the processing plant quickly achieved required product specifications.

## PRODUCTIVITY

Production for the March quarter was 2,732 tonnes down from 3,075 tonnes on PCP.

Operations at Olaroz ceased on 20 March 2020 as a result of the Argentine Government's enactment of *Decree of Necessity and Urgency* (DNU) #297/20. Production was also impacted by a scheduled ten day maintenance shutdown in early February, resulting in a total 21 days of lost production during the quarter.

Production recommenced at Olaroz on 10 April 2020 following the specific declaration of Orocobre

operations as essential activities. During April general production, distribution and marketing recommenced with a minimum workforce adhering to robust bio-security protocols to minimise the risk of COVID-19 infection or transmission.

## COSTS/MARGINS

Cash costs for the quarter (on cost of goods sold basis) improved to US\$3,972/tonne, down 3% QoQ and down 5% on PCP. This excludes care and maintenance costs of US\$255/tonne related to the temporary shutdown of operations in March and US\$181/tonne of export duties for the quarter. Gross cash margins for the quarter remained positive at 17% or US\$838/tonne (excluding export tax), down 36% QoQ and 84% on PCP.

A regimented financial plan continued during the quarter with the aim of reducing unit cash costs and sustaining the current competitive position as one of the world's lowest cost, brine based lithium carbonate producers.

Metric	March quarter 2020	December quarter 2019	Change QoQ (%)	PCP (Mar qtr 2019)	Change PCP (%)
Production (tonnes)	2732	3586	-24 %	3075	-11 %
Sales (tonnes)	2518	3287	-23 %	3530	-29 %
Average price received (US\$/tonne) <sup>3</sup>	4810	5419	-11 %	9451	-49 %
Cost of sales (US\$/tonne) <sup>4</sup>	3972	4109	-3 %	4193	-5 %
Revenue (US\$M)	12.1	17.8	-32 %	33.4	-64 %
Gross cash margin (US\$/tonne)	838	1310	-36 %	5258	-84 %
Gross cash margin (%)	17 %	24 %	-28 %	56 %	-69 %
Export tax (US\$/tonne)	181	238	-24 %	776	-77 %

## SALES AND COMMERCIAL

Product sales were 2,518 tonnes of lithium carbonate with an average price of US\$4,810/tonne on an FOB basis and total sales revenue of US\$12.1 million. The average price received during the quarter was down 11% QoQ due to continued market softness and aggressive competitor behaviour.

Orocobre remains focused on growing the proportion of long-term contracts with customers where there is a strong, mutual strategic fit. In addition to the previously announced long-term supply agreements (see ASX Releases dated 20, 21 January 2020), further contracts of such kind are currently under negotiation and are at varying stages. While the worldwide uncertainty created by COVID-19 has slowed progress, Orocobre will continue to work towards this strategy.

## FUTURE GUIDANCE

Orocobre has withdrawn full-year production guidance for FY20 due to current restrictions with production in Argentina and the high likelihood of ongoing disruption of future demand in global markets.

## STAGE 2 EXPANSION AT OLAROS

### PROGRESS TO DATE

As at 31 March, approximately US\$130 million has been spent on the first phase of activities. Siteworks on expansion operations ceased on March 20 and as these activities have not been declared an essential activity have not yet resumed.

Extensive restrictions have been experienced in terms of personnel movement between Argentine Provinces and on-site due to bio-security measures adopted following governmental requirements. Camp capacity has

been severely restricted due to social distancing measures and these issues are expected to affect activities on site until they are lifted.

A range of options continue to be pursued to both conserve capital and optimise progress, however the COVID-19 crisis will cause a delay in project completion.

## NARAHA LITHIUM HYDROXIDE PLANT

### PROGRESS TO DATE

The Naraha Plant, the first of its kind to be built in Japan, is designed to convert industrial grade lithium carbonate feedstock into purified battery grade lithium hydroxide. Feedstock for the 10,000 tonne per annum (tpa) Naraha Plant will be sourced from the Olaroz Lithium Facility's Stage 2 Expansion that will produce industrial grade (>99.0% Li<sub>2</sub>CO<sub>3</sub>) lithium carbonate.

Since construction commenced at the Naraha Plant there have been no LTIs recorded. The Veolia Joint Venture is undertaking weekly safety meetings and regular site safety checks, with project staff continuing to attend safety training in alignment with the project's safety management plan.

As at 31 March, approximately US\$40 million has been spent on the first phase of engineering, civil works and procurement at the Naraha Plant following utilisation of pre-payments to Veolia. Site operations have not been impacted by COVID-19 to date, however equipment deliveries from overseas are expected to be delayed which is likely to impact the final project completion by approximately two months.

### SHARED VALUE PROGRAM AND COMMUNITY

The Company's Shared Value team has been restructured in the last quarter to ensure equal and necessary focus on three key areas:

- 1) Community Empowerment; providing support and liaison for community members and the Company to support greater opportunities for local employment and local supply contracts
- 2) Community Investment; maintaining a focus on the long-term needs of communities and opportunities to enhance quality of life through initiatives independent from the Company's activities
- 3) Community Engagement; ensuring that channels of communication remain open at all levels of the community, particularly given issues of connectivity in the region.

Within these three focus areas, Shared Value programs and initiatives will continue to be developed and delivered in alignment with the five pillars; Health, Education, Empowerment, Transparency, and Production and Natural Resources.

The Company has also initiated a Giving and Volunteering Program to further expand its support and contribution to local communities whilst also providing its employees the opportunity to directly engage and contribute to communities and causes of interest. This Program will provide additional resources to support the Shared Value team's work in Community Empowerment, Investment and Engagement.

Towards the end of the quarter, additional focus was placed on COVID-19 response and overcoming the unique challenges that the pandemic presents for local communities.

### MARKET AND SALES

The existing challenges in the lithium market were compounded by the spread of COVID-19 during the

March quarter impacting operations and logistics throughout the supply chain. As the quarter progressed it became increasingly apparent that customers downstream, particularly those in Europe and the United States (US), were impacted to a greater degree than raw materials and refining operations concentrated in Australia, China and South America. As a result, the supply/demand imbalance grew during the quarter resulting in greater pricing pressure for lithium chemicals.

During the early stages of COVID-19 the pandemic largely appeared contained to China. Shipments to Ex-China customers continued at this time although uncontracted volumes were often sold at lower prices reflecting Chinese customers' absence and a need for suppliers to manage building inventory. As the pandemic breached the borders of China, the supply chain ground to a standstill. Car manufacturers in Europe and the US were the first to shut down operations or switch to producing necessary medical devices, resulting in a wave of closures or reduced operating rates upstream at battery and cathode manufacturers elsewhere. Non-battery customers including glass and ceramic producers were also forced to close manufacturing facilities as a Government directive and/or due to cancelled or indefinite delays to their customer orders.

At the conclusion of the quarter, European and US car plants were expected to be closed for approximately two to three months with an additional one to three months required to ramp operations back to previous levels. Battery and cathode suppliers are expected to adjust operations accordingly. In addition, these markets (Europe and the US) are vulnerable to an economic downturn which is expected to have an impact on lithium demand to early or mid-2021. Furthermore, the impact on electric vehicle (EV) demand of current low oil prices remains uncertain.

Meanwhile the Chinese market has progressively restarted operations. The Government has committed to extending the EV subsidy and 10% sales incentive to 2022. However, Chinese customers have been slow to return to car dealerships and as a result, lithium chemical customers have taken a 'wait-and-see' approach. Given China's economic troubles and low consumer appetite for domestic EV models hopes for the Chinese market rest heavily on further Government stimulus and continued strong sales performance from Tesla, particularly with the release of its highly anticipated Chinese-centric EV model later this year.

Orocobre shares the view that the Ex-China battery supply chain will be impacted by up to six months and economic factors are expected to delay the recovery of battery and non-battery demand to 2021. Non-battery sectors are viewed as being more vulnerable to continued sluggishness as they are highly correlated with GDP. The Chinese market is also expected to experience weak demand with EV customers purchasing opportunistically. Manufacturers are expected to keep inventories low until more definitive signs of improved and sustained demand emerge. Putting these challenges aside, Orocobre remains confident in long-term fundamentals underpinned by unwavering European carbon emissions penalties, global government EV targets and downstream expansion plans that may have been delayed, but not reduced.

BORAX ARGENTINA S.A.

## SAFETY

Borax recorded one LTI during the March quarter. As at 31 March, the Sijes mine had achieved 412 days without an LTI, Tincalayu had achieved 24 days without an LTI and Campo Quijano had achieved 365 days without an LTI.

## PRODUCTION, SALES AND OPERATIONAL UPDATE

The March quarter saw sales of 10,690 tonnes which was up 24% QoQ and approximately the same as the previous corresponding period after adjusting for low value mineral sales in March quarter 2019. Total sales revenue was up 14% QoQ, while the average price received was down 6% QoQ.

Operations were also affected by Argentine government COVID-19 quarantine restrictions with production halted until the business was declared an 'essential activity'. Following the declaration, operations recommenced with some ongoing restrictions due to the bio-security measures.

## COMBINED PRODUCT SALES VOLUME BY QUARTER

Previous Year Quarters		Recent Quarters	
June 2018	10,590	June 2019	11,758
September 2018	9,407	September 2019	12,480
December 2018	10,741	December 2019	8,614
March 2019	13,041 <sup>4</sup>	March 2020	10,690

Business development projects continue to be advanced and most sales that were due during the period of shutdown are likely to be delivered in the June quarter. Many customers of Borax operate in essential industries such as health and agriculture and will be less affected by current COVID-19 related restrictions.

### [Advantage Lithium Corp.](#)

Following the end of the quarter and an annual general meeting and special meeting of [Advantage Lithium Corp.](#) (TSX Venture: AAL) (OTCQX: AVLIF), a statutory plan of arrangement under the Business Corporations Act (British Columbia) (the Arrangement) was approved by Advantage shareholders. Orocobre has now acquired 100% of the issued and outstanding shares of Advantage that it did not already own.

Under the terms of the Arrangement, Advantage shareholders received 0.142 Orocobre shares per Advantage share. Orocobre has issued approximately 15.1 million shares and increased the total issued capital of Orocobre by 5.8%.

The valuation of Advantage based on the exchange ratio of 0.142 shares per the transaction will trigger a non-cash impairment charge of approximately US\$6.1M to be recognised by Orocobre on its investment in Advantage for the shares that it already owned. The impairment calculation will be completed as part of the preparation of Orocobre's 2020 annual financial report.

This transaction will allow Orocobre to continue to develop the Olaroz/Cauchari basin in a cost-effective manner that will optimise extraction of the resource to the benefit of shareholders, local communities, the Provincial and National governments of Argentina and other stakeholders.

Orocobre shareholders have gained exposure to 4.8 million tonnes (Mt) of Measured and Indicated Resources and 1.5 Mt of Inferred Resources (expressed as lithium carbonate equivalent) at Cauchari as detailed in the Orocobre ASX Release dated 7 March 2019. Defined JORC Measured and Indicated Resources at Olaroz/Cauchari now total 11.2 Mt of lithium carbonate equivalent and 1.5Mt of Inferred Resources.

The development of the Cauchari resource will be considered within future plans for the Olaroz Lithium Facility.

## CORPORATE AND ADMINISTRATION

### FINANCE

#### CASH BALANCE

As at 31 March 2020, Orocobre corporate had available cash of US\$163 million of which US\$11.1 million and US\$29.3 million have been set aside as guarantees for the Naraha debt facility and Olaroz Expansion debt facility respectively.

The US\$8.9 million cash reduction from the previous quarter was the result of a US\$7.5 million shareholders loan made to the SDJ Joint Venture to fund Olaroz Stage 1 project finance repayment and sustaining CAPEX, US\$1 million in corporate costs, US\$0.4 million in restructuring costs, and US\$1.3 million in other project payments. This expenditure was partially offset by US\$1.3 million interest income.

Including SDJ and Borax cash and project debt, net group cash at 31 March 2020 was US\$88.2 million, down from US\$115.5 million at 31 December 2019 as calculated below:

	US\$ Millions
ORE Corporate Cash	122.6
ORE Restricted Cash LIOH	11.1
ORE Restricted Cash Expansion	29.3
Total ORE Corporate Cash	163.0
Net Cash from other Entities	0.3
SDJ Cash @66.5%	17.5
SDJ Restricted Cash @ 66.5%	11.4
SDJ External Debt @ 66.5% (*)	(104.0)
Total Proportional Net Group Cash	88.2

During the quarter conditions precedent relating to the US\$180 million Stage 2 financing were achieved allowing the subsequent draw down of this facility to US\$39 million.

## GUIDANCE

In light of current operation conditions and uncertain future lithium demand the Company has withdrawn guidance for FY20.

## INFLATION VERSUS DEVALUATION

The AR\$/US\$ exchange rate depreciated by 8% during the quarter from AR\$59.89/US\$ at 31 December 2019 to AR\$64.47 at 31 March 2020, whilst inflation for the same period was also approximately 8%. When looking at the accumulated 12-month period from 1 April 2019 to 31 March 2020, devaluation of the AR\$ against the US\$ was 49% versus inflation of approximately 48%. Over time, inflation and devaluation generally cancel each other out.

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<sup>1</sup> All figures 100% Olaroz Project basis

<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, corporate costs and restructuring costs

<sup>4</sup> Includes 2,312 tonnes of low value mineral product

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