

Recommendation

Strong BUY; High Risk

Price

12.0c

Valuation

28.5c

Products :

**Tantalite (tantalum)
and Spodumene (lithium)**

- On 29 July, PLS announced that it had received approval to commence on site construction and commissioning of operations at Tabba Tabba.
- There is one further final approval required, which will allow PLS to ship the product. First product is still expected in September.
- Also on 29 July, PLS announced that it has signed MOUs with two Chinese lithium carbonate producers for more than 70% of the planned capacity of Pilgangoora
- On 12 August, PLS announced that it executed an MOU for about 25% of Pilgangoora's planned capacity to supply China's glass and ceramics industry.

Snapshot

Market Cap	\$76m
Shares on Issue	686.7m
Cash on hand (30 June 2015)	\$3.16m
52 Week High	15.5c
52 Week Low	2.2c
1 month / 6 month VWAP	12.4c/9.0c

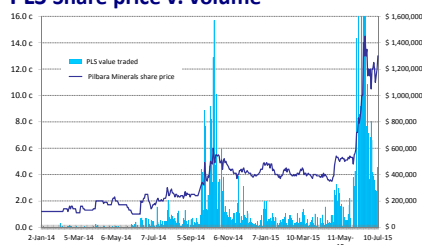
Construction of Tabba Tabba underway

PLS is currently constructing the plant and mine at Tabba Tabba. Of the \$8m project, \$7m has been spent and plant has been transported to site.

First product from Tabba Tabba during September

One further permit is required to allow product to be exported from the site. The final permit is expected very soon.

PLS Share price v. volume



PLS has a 5 year off-take agreement with Global Advanced Metals (GAM) for the product from Tabba Tabba, which is tantalite from which tantalum is produced for which the dominant use is in the production of capacitors for electronics.

Pilgangoora : product sales lined up

Pilgangoora will produce both tantalite and spodumene, an ore of lithium. PLS is able to sell the tantalite to GAM on the same terms as that from Tabba Tabba.

PLS has recently announced 3 MOUs that effectively cover the spodumene to be produced from Pilgangoora :

- MOUs covering more than 70% of the product have been signed with 2 Chinese lithium carbonate producers (ie. for batteries); and
- An MOU for 25% of the product has been signed with a leading Chinese processor and supplier of spodumene and other raw materials to the Chinese glass and ceramics industry.

PLS published a feasibility study on Tabba Tabba in February 2014 and has since raised equity to bring it into production.

In May 2014, PLS announced the acquisition of 100% of Pilgangoora, 55km from Tabba Tabba in the Pilbara region.

PLS is progressing a feasibility study for Pilgangoora and is awaiting a permit to begin production at Tabba Tabba

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Beer & Co valuation 28.5c/share; affirm Strong BUY

PLS is funded to bring Tabba Tabba into operation and then Pilgangoora. Beer & Co confirms our Strong BUY, High Risk recommendation.

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Tabba Tabba in construction

Penultimate approval granted 29 July

On 29 July, 2015, PLS announced that it had received approval of the Mine Plan and the Mine Closure Plans. This followed on from the Works Approval which was granted by the Department of Environmental Regulation on 14 July, 2015.

This approval allows construction and commissioning of the mine and processing facility for the Tabba Tabba Project to proceed. The plant was pre-assembled in Perth and transported to site several weeks ago anticipating the final approvals.

Site construction at Tabba Tabba now underway

First Tabba Tabba product expected in September

First product shipment expected in September

Only one final approval is required before the Tabba Tabba Project is able to commence commercial production, which is the Operating Permit or Licence. This is expected soon.

This will enable first product to be shipped in September.

Pilgangoora : MOUs signed

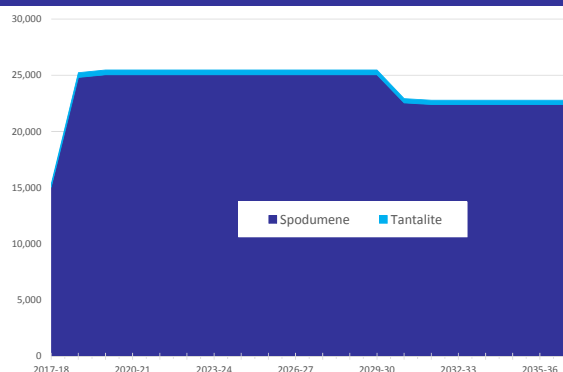
Tabba Tabba is a tantalite project

PLS has a 5 year take or pay contract with Global Advanced Metals (GAM), relating to Tabba Tabba, to produce a tantalite concentrate which it will sell at the mine gate to GAM.

GAM is prepared to take all the tantalite concentrate produced from Pilgangoora also.

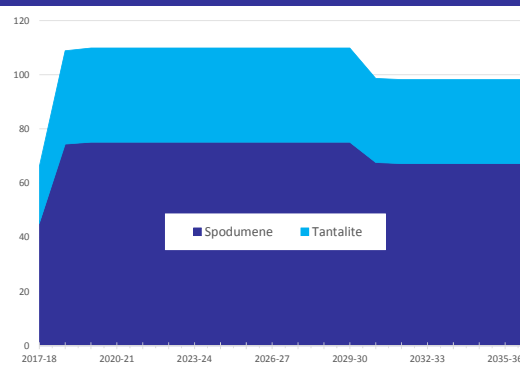
As shown in Figure 1, while Tabba Tabba produces tantalite, Pilgangoora's production will be dominated by spodumene.

Figure 1a : Pilgangoora output, by volume



Source: Beer & Co estimates

Figure 1b : Pilgangoora output, by value



Source: Beer & Co estimates

Hence, being able to place the spodumene is critical to the development of the Pilgangoora project.

Spodumene off-take MOUs signed

While Pilgangoora will produce tantalite, the revenue is dominated by the Lithium bearing ore, spodumene

PLS has recently announced that it has signed Memoranda of Understanding (MOUs) that cover, effectively, all of its projected spodumene.

On 29 July, PLS announced that it had signed MOUs with two leading Chinese lithium carbonate producers for more than 70% of the planned capacity output.

On 12 August, PLS announced that it had signed a further MOU with Chinese industrial group Shantou Fancy Mining Industry Co., Ltd (SFM) for about 25% more of the planned capacity of Pilgangoora.

SFM is a leading Chinese processor and supplier of spodumene and other raw materials to the Chinese glass and ceramics industry.

PLS has now executed MOUs to be placed on the spodumene produced at Pilgangoora

As a result of these three MOUs, PLS has covered effectively all of the expected spodumene output of Pilgangoora, with

- Over two-thirds going to 2 Chinese producers of lithium carbonate; and
- About a quarter going to a Chinese processor and supplier to the glass, ceramics, foundry and metallurgical manufacturing industries.

PLS now fully funded

PLS will be producing net cash from October.

Beer & Co initiated research on PLS in September 2014. At that time, we expected that permits would be granted and first product would be in December 2014.

As a result, we expected that PLS would not require further equity capital. This was as Beer & Co expected that the options on issue at that time would be exercised and that the convertible notes would be converted into equity, as well as Tabba Tabba generating net cash.

PLS raised further equity in June which enables PLS to move to 100% of Tabba Tabba and also covers the extra costs from delays to Tabba Tabba.

On 1 June 2015, PLS announced that it was raising \$6.5m in extra capital by way of :

- Issue of 17m new shares at a price of 4.5c each
 - The VWAP for the 2 months ending on 15 May was 4.5c; and
- \$5.7m in Convertible Notes, with a conversion price set at a discount to the VWAP at the time of conversion
 - The CNs have a 15% coupon rate
 - A total of 71.25m options, with an 18 month term and an exercise price of 5.0c were issued to the purchasers of the CNs

PLS does NOT need further equity

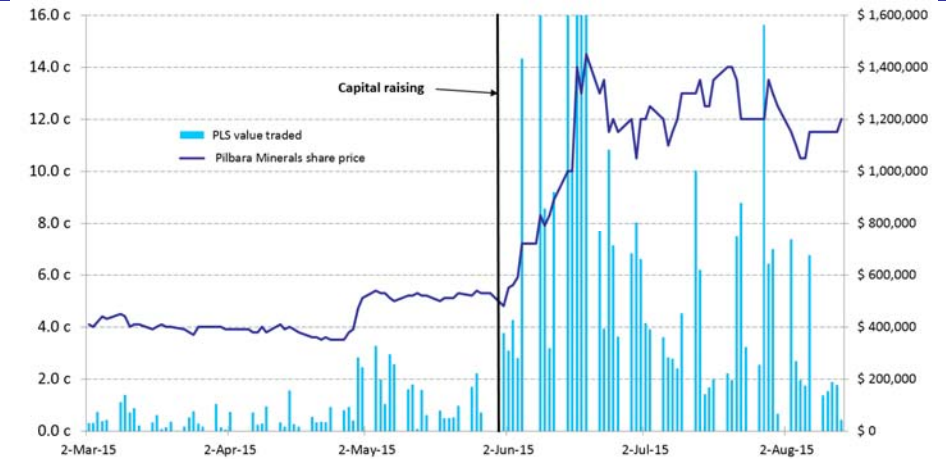
This raising was made necessary as

- The permits for Tabba Tabba have been delayed, so delaying the time from which PLS receives net cash inflow; and
- PLS has also moved to 100% ownership of the Tabba Tabba project, by purchasing the 50% share held by Nagorm, the metallurgical consultants.

Figure 2 shows that the PLS share ran up strongly almost immediately after this capital raising was announced.

Figure 2 : PLS share price v. volume from 1 March 2015

The PLS share price re-rated after the equity raising was announced



Source : IRESS, Beer & Co

Revised Valuation

Beer & Co’s report of 14 July 2105 detailed our valuation ans the basis fo it.

Our valuation at that time was 29.0c.

Beer & Co’s valuation has been revised slightly

Our vluation has been revised due to :

- A (slight) reduciton in the risk factor applied to out projected Tabba Tabba cashflows, recognising the granting of the permits; increasing our vluation of tabba Tabba; and
- Dilution due to the options issued with the CNs.

From 29.0c to 28.5c/share

Figure 3 shows that that the reuslt is a slight fall inBeer & Co’s valuation, from 29.0c to 28.7c., which we have rounded to 28.5c (as ASX trades form 10c to \$2.00 are in 0.5c increments).

Figure 3 : Beer & Co's valuation of PLS, 28.5c/share

discount rate = 12.0 %	risk :	30-Jun-15		14-Aug-15	
		100%	Product	per share	
Tabba Tabba Resources	85 %	\$ 10m	\$ 9m	1.1 c	1.3 c
Tabba Tabba Extensions	65 %	\$ 8m	\$ 5m	0.6 c	0.8 c
Strelly	45 %	\$ 3m	\$ 2m	0.2 c	0.3 c
franking credits	50 %	\$ 3m	\$ 2m	0.2 c	0.2 c
Pilgangoora Indicated	50 %	\$ 177m	\$ 88m	11.0 c	16.1 c
Pilgangoora Inferred	40 %	\$ 32m	\$ 13m	1.6 c	2.5 c
Pilgangoora Extension	20 %	\$ 8m	\$ 2m	0.2 c	0.4 c
franking credits	20 %	\$ 90m	\$ 33m	4.2 c	6.7 c
Corporate	100 %	(\$8m)	(\$8m)	(0.9c)	(0.9c)
Cash / debt	100 %	\$ 4m	\$ 4m	0.5 c	0.5 c
cash raised	100 %	\$ 6m	\$ 6m	0.7 c	0.7 c
TOTAL		\$ 333m	\$ 155m	19.3 c	28.7 c
Shares on issue		330.3m	FPO shares	105.1m options	
		288.2m	issued FY15	105.1m op. ex'd	
		22.7m	issued FY16		

Source: Beer & Co estimates

Conclusions

Beer & Co initiated research on PLS in September 2014. At that time the share price was 2.5c and our valuation was 10c.

Beer & Co's revised, risk weighted valuation is more than 2x the current share price

Despite the delays to Tabba Tabba, Beer & Co has progressively upgraded our valuation, as we have suggested was possible.

Beer & Co sees further upside potential from :

- Successful project delivery and hence de-risking;
- Further upgrades to the Pilgangoora estimate;
- The potential to produce Li_2CO_3 from lepidolite, which is being trialled by Lithium Australia (LIT.ASX), and which has had success with its testwork at Lepidolite Hill
 - LIT recently announced that it had produced a 99.57% Li_2CO_3 10 day continuous mini-plant processing trial;
 - This grade is suitable for both the technical grade and also the higher purity, and projected higher growth, battery grade markets;
- Reduced costs through lower waste to ore for Pilgangoora, as our analysis assumes 10t of waste per tonne of ore, and Figure 6 shows the potential for a lower ratio.

Beer & Co maintains a Strong BUY, High Risk recommendation

Beer & Co's risk weighted valuation is more than 2x the current share price, so Beer & Co maintains our Strong BUY, High Risk recommendation.

Beer & Co Research

Pilbara Minerals (PLS.ASX)

August 2015

Year ended June	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	
Section 1 - P&L								
Sales revenue	\$A m	0	0	17	19	88	130	131
Interest revenue	\$A m	0	0	1	1	1	1	1
Other revenue	\$A m	0	0	0	0	0	0	0
Total Revenue	\$A m	0	0	18	20	89	131	132
Cost of Goods Sold	\$A m	0	0	(8)	(8)	(49)	(68)	(69)
Royalties	\$A m	0	0	0	0	0	0	0
Exploration Expense	\$A m	0	0	0	0	0	0	0
Corporate Costs	\$A m	(1)	(1)	(1)	(1)	(2)	(2)	(2)
Other Operating Expenses	\$A m	0	0	0	0	0	0	0
Total Operating Expenses	\$A m	(1)	(1)	(9)	(9)	(51)	(69)	(70)
EBITDA	\$A m	(1)	(1)	9	11	38	62	62
Dep'n & Amort'n	\$A m	0	0	(8)	(3)	(1)	(3)	(3)
EBIT	\$A m	(1)	(1)	1	8	37	59	59
Interest Expense	\$A m	0	0	0	0	(1)	(1)	(1)
Other	\$A m	0	0	0	0	0	0	0
Pre-Tax Profit	\$A m	(1)	(1)	1	8	36	59	59
Tax Expense	\$A m	0	0	(1)	(2)	(11)	(18)	(18)
NPAT	\$A m	(1)	(1)	1	5	25	41	41
Reported NPAT	\$A m	(1)	(1)	1	5	25	41	41

Section 2 - Key Data

Ordinary shares - year end	m	330.3	619	694	833	833	833	833
Fully diluted shares on issue	m	330.3	619	694	833	833	833	833
Weighted # of shares	m	291.5	612	692	770	833	833	833
Earnings per Share		(0.3c)	(0.1c)	0.1 c	0.7 c	3.0 c	4.9 c	4.9 c
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.5 c	2.2 c	2.5 c

Section 3 - Balance Sheet

Cash	\$A m	1	3	15	20	51	65	67
Receivables	\$A m	0	0	3	2	15	16	16
Other	\$A m	0	0	0	0	0	0	0
CURRENT ASSETS	\$A m	1	3	18	22	65	81	83
Receivables	\$A m	0	0	0	0	0	0	0
P, P & E	\$A m	2	4	1	19	19	18	17
Mining Properties / Exploration	\$A m	4	5	4	3	3	3	3
Other	\$A m	0	0	0	0	0	0	0
NON-CURRENT ASSETS	\$A m	7	9	5	22	22	21	19
TOTAL ASSETS	\$A m	8	12	23	44	87	102	103
Payables	\$A m	0	0	1	1	7	7	7
Debt	\$A m	0	2	0	1	3	3	2
Other	\$A m	0	0	0	0	0	0	0
CURRENT LIABILITIES	\$A m	0	2	1	2	9	10	9
Long Term Debt	\$A m	2	0	10	9	6	3	1
Deferred Tax Liability	\$A m	0	0	0	0	0	0	0
Other	\$A m	0	0	0	0	0	0	0
Provisions	\$A m	0	0	0	0	0	0	0
NON-CURRENT LIABILITIES	\$A m	2	0	10	9	6	3	1
TOTAL LIABILITIES	\$A m	2	2	11	10	15	13	10
NET ASSETS	\$A m	6	11	13	33	72	89	92
Accumulated Profit (Loss)	\$A m	(12)	(13)	(12)	(6)	19	48	68
Reserves	\$A m	1	3	1	13	23	12	(5)
Contributed Equity	\$A m	17	20	23	27	29	29	29
Minority Interest	\$A m	0	0	0	0	0	0	0
Total Equity	\$A m	6	11	13	33	72	89	92

Section 4 - Cashflow

Net Cashflow from operations	\$A m	(4)	(4)	5	(0)	31	42	40
Net Interest Paid	\$A m	0	0	1	1	0	0	0
Taxes Paid	\$A m	0	0	0	0	(4)	(16)	(18)
Change in Working Capital	\$A m	(0)	(2)	(16)	(4)	(49)	(16)	(2)
OPERATING CASHFLOW	\$A m	(4)	(5)	(10)	(3)	(22)	10	20
Exploration Expenditures	\$A m	0	1	2	0	0	0	0
Maintenance Capex	\$A m	0	0	0	1	2	2	2
Expansion Capex	\$A m	2	2	1	19	0	0	0
PPE Acquisitions (Total Capex)	\$A m	2	3	3	20	2	2	2
PPE Divestments	\$A m	0	0	0	0	0	0	0
INVESTING CASHFLOW	\$A m	2	3	3	20	2	2	2
Change in Equity	\$A m	2	4	1	4	3	0	0
Dividends Paid	\$A m	0	0	0	0	(13)	(21)	(21)
Change in Debt	\$A m	2	0	8	0	(1)	(3)	(3)
FINANCING CASHFLOW	\$A m	3	4	9	4	2	(15)	(23)
Free Cashflow	\$A m	(2)	(3)	(7)	17	(20)	(1)	1
Net Cashflow	\$A m	2	1	2	21	(18)	(4)	(2)
Shareholdings								
Neil Biddle		34.438m	5.0%					
Vaughan Blank		33.333m	4.9%					

Commodity price assumptions

Year ended June	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
AUD/USD	0.836	0.750	0.750	0.750	0.750	0.750
Tantalite \$A / lb	83	83	83	83	83	83
Spodumene \$A / lb	3.0	3.0	3.0	3.0	3.0	3.0

Mine Production, PLS share, '000 pounds

Tabba Tabba Ta2O5	0	209	234	268	260	260
Pilgangoora Ta2O5	0	0	0	253	417	421
Pilgangoora Spodumene	0	0	0	15,050	24,810	25,044

Resources, Reserves and assumed mining inventory

Tabba Tabba Ore Reserves

		Ta ₂ O ₅ grade	contained Ta ₂ O ₅
Proved	32 kt	1,420 ppm	100k lb
Probable	101 kt	1,249 ppm	278k lb
Total Reserves	133 kt	1,290 ppm	378k lb
Pit Design	162 kt	1,240 ppm	443k lb

Tabba Tabba Mineral Resources

		Ta ₂ O ₅ grade	contained Ta ₂ O ₅
Measured	30 kt	1,610 ppm	107k lb
Indicated	124 kt	1,260 ppm	346k lb
Inferred	58 kt	925 ppm	119k lb
TOTAL	213 kt	1,220 ppm	572k lb

Beer & Co estimated mining inventory, Tabba Tabba

		Ta ₂ O ₅ grade	contained Ta ₂ O ₅
Reserves	133 kt	1,290 ppm	378k lb
Pit Design	29 kt	1,012 ppm	65k lb
Other M&I Resources	60 kt	626 ppm	83k lb
Inferred	96 kt	662 ppm	140k lb
Along strike	500 kt	600 ppm	661k lb
Strelly, high grade	500 kt	600 ppm	661k lb
Strelly, balance	900 kt	450 ppm	892k lb
TOTAL	2,217 kt	589 ppm	2,881k lb

Pilgangoora Mineral Resources

Category		Ta ₂ O ₅ grade	Contained Ta ₂ O ₅	Li ₂ O grade	Contained Li ₂ O
Indicated	Ta ₂ O ₅	6.0 Mt	233 ppm	1,396 t	3.1 Mlb
	Li ₂ O	4.7 Mt			1.36 %
Inferred	Ta ₂ O ₅	17.8 Mt	208 ppm	3,710 t	8.2 Mlb
	Li ₂ O	15.7 Mt			1.10 %
					172,800 t

Beer & Co estimated mining inventory, Pilgangoora

		Ta ₂ O ₅ grade	Li ₂ O grade
High Grade	12.73 Mt	225 ppm	1.42 %
Other Resources	11.10 Mt	202 ppm	1.27 %
Other Mineralisation	52.88 Mt	200 ppm	1.27 %
TOTAL	76.71 Mt	204 ppm	1.30 %

Asset based Valuation

discount rate = 12.0 %	30 June 2015			#####
	risk :	100%	Product per share	
Tabba Tabba Resources	85 %	\$10m	\$9m	1.1 c
Tabba Tabba Extensions	65 %	\$8m	\$5m	0.6 c
Strelly	45 %	\$3m	\$2m	0.2 c
franking credits	50 %	\$3m	\$2m	0.2 c
Pilgangoora Indicated	50 %	\$177m	\$88m	11.0 c
Pilgangoora Inferred	40 %	\$32m	\$13m	1.6 c
Pilgangoora Extension	20 %	\$8m	\$2m	0.2 c
franking credits	20 %	\$90m	\$33m	4.2 c
Corporate	100 %	(\$8m)	(\$8m)	(0.9c)
Cash / debt	100 %	\$4m	\$4m	0.5 c
cash raised	100 %	\$6m	\$6m	0.7 c
TOTAL		\$333m	\$155m	19.3 c
Shares on issue		330.3m	FPO shares	105.1m options
		288.2m	issued FY15	105.1m op. ex'd
		22.7m	issued FY16	

Financial Ratios

Year ended June	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue	\$A m	0	18	20	89	131
EBITDA	\$A m	(1)	(1)	9	11	38
EBIT	\$A m	(1)	(1)	1	8	37
NPAT (reported)	\$A m	(1)	(1)	1	5	25
Adjusted EPS (cps)		(0.3c)	(0.1c)	0.1 c	0.7 c	3.0 c
EPS Growth (%)			60%	203%	403%	334%
DPS (c)		0.0 c	0.0 c	0.0 c	0.5 c	2.2 c
Dividend Yield (%)		0%	0%	0%	4%	19%
PE adj. (x)		(6)	(89)	86	17	4
EV / EBITDA (x)		(7)	(88)	9	8	2
EV / EBIT (x)		(7)	(88)	53	12	2
Gearing (%)		12%	41%	22%	10%	6%
Return on Assets		(7%)	6%	18%	43%	58%
Return on Equity		(8%)	8%	16%	35%	46%
EBITDA Margin (%)		n/a	n/a	52%	57%	44%
Interest Cover (x)		x	n/a	n/a	n/a	41.8

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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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