



Mount Gibson Iron Limited

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ASX ANNOUNCEMENT

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December 2020 Half-Year Financial Result

Key Points *(All figures expressed in Australian dollars unless stated otherwise):*

- **Total iron ore sales of 2.3 million wet metric tonnes (Mwmt)** (1H 2019/20: 2.8 Mwmt), comprising 1.1 Mwmt of high-grade direct-shipping ore (**DSO**) and 1.2 Mwmt of low-grade material.
- **Iron ore sales revenue of \$240.7 million** Free on Board (**FOB**) (1H 2019/20: \$230.1 million).
- **Net profit after tax of \$74.5 million** (1H 2019/20: \$44.6 million).
- **Cashflow from operations of \$113.8 million** (1H 2019/20: \$66.4 million) before capitalised waste stripping and mine development activities (totalling \$72.0 million) and plant and equipment purchases (\$14.4 million).
- **Cash, term deposits and liquid investments of \$435.7 million** at 31 December 2020.
- **Koolan Island's major waste stripping phase is well underway and planned for completion later this year**, following which high grade iron ore sales are forecast to materially increase in line with the life of mine plan.
- **Successful completion of the Mid-West low-grade sales program** at Extension Hill, which generated over \$30 million in cashflow since mid-2019 on sales of 4.1 Mwmt.
- New **Shine Iron Ore Project** construction progressing on track to commence sales in the September quarter.
- **Group ore sales guidance for 2020/21 unchanged at 2.8-3.3 Mwmt**, including circa 1.8 Mwmt from Koolan Island. Group cash cost guidance for the full financial year has increased to **\$65-70/wmt FOB** before Shine Project development and pre-production costs (\$30 million), Koolan capitalised waste stripping (\$130 million) and other capital improvement projects (\$25-30 million).

Note: Group cash costs are reported FOB and include all operating, sustaining capital, royalties and corporate costs.

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, commented: "Mount Gibson has delivered a robust financial result for the half-year, reporting a significantly increased net profit after tax of \$74.5 million while progressing the waste stripping phase at the high-grade Koolan Island mine in the Kimberley, successfully concluding the Mid-West low-grade sales program and commencing development of the Shine Project.

"It is satisfying that we continued to generate positive operating cashflows during the waste stripping phase at Koolan Island, which we expect to complete in the second half of calendar 2021. Ongoing strong iron ore prices continue to help us minimise the net investment required for this phase of substantial overburden movement, and positions us well to materially increase production and sales from next financial year onwards, in line with the mine plans for both Koolan Island and Shine."

"Our Mid-West and projects team is now focused on development of the Shine Project which is tracking to commence mining in the June quarter and for initial shipments early in the September quarter. Mount Gibson's robust balance sheet and strengthening future production profile leaves it well placed to continue generating strong financial returns and pursue new growth opportunities."

Summary Results (all currency expressed in Australian dollars)		Half-Year ended 31-Dec-2020	Half-Year ended 31-Dec-2019
Physicals:			
Ore mined	<i>M wmt</i>	1.4	1.4
Ore sold, including previously mined low grade stockpiles	<i>M wmt</i>	2.3	2.8
Realised Price:			
Average realised price, all products, after shipping freight (FOB)	<i>\$/wmt</i>	105	83
Financials:			
Sales revenue, including shipping freight (CFR basis)	<i>\$m</i>	258.8	254.1
Interest income	<i>\$m</i>	3.5	3.9
Cost of sales, including shipping freight (CFR basis)	<i>\$m</i>	(146.9)	(189.5)
Gross profit from continuing operations	<i>\$m</i>	115.4	68.5
Other income, including rail credit	<i>\$m</i>	5.1	4.8
Administration and other expenses	<i>\$m</i>	(6.6)	(5.8)
Finance expenses and marked-to-market movements*	<i>\$m</i>	(7.0)	(3.3)
Profit before tax from continuing operations	<i>\$m</i>	106.9	64.2
Tax expense	<i>\$m</i>	(32.3)	(19.4)
Profit after tax from continuing operations	<i>\$m</i>	74.6	44.8
Loss after tax from discontinued operations	<i>\$m</i>	(0.1)	(0.1)
Net profit after tax	<i>\$m</i>	74.5	44.6
Totals may not add due to rounding.			
*Marked-to-market movements include realised and unrealised foreign exchange, commodity hedging and financial asset movements.			

Earnings Summary

Mount Gibson Iron Limited (**Mount Gibson** or the **Company**) recorded a net profit after tax of \$74.5 million for the half-year ended 31 December 2020 on total iron ore sales of 2.3 Mwmt, comprising 1.1 Mwmt of high grade DSO from Koolan Island and 1.2 Mwmt of low-grade material from the Extension Hill mine in the Mid-West.

The profit result represented a 67% increase on the prior corresponding half-year period, reflecting steady operational performance and higher realised iron ore prices.

Ore sales revenue totalled \$258.8 million inclusive of shipping freight (or \$240.7 million FOB) in the December 2020 half-year compared with \$254.1 million (or \$230.1 million FOB) on total ore sales of 2.8 Mwmt in the December 2019 half-year.

On a pre-tax basis, the profit result for the December 2020 half-year totalled \$106.9 million from continuing operations, an increase of 67% compared with the prior corresponding period (\$64.2 million). The Company recorded a tax expense for accounting purposes in the December 2020 half-year of \$32.3 million, compared with \$19.4 million in the prior corresponding half-year period. The Company anticipates the depletion of existing carry forward tax losses and a return to a cash tax-paying position within the next 12-18 months, subject to operational performance, iron ore prices and exchange rates.

COVID-19 Business Response

During the half-year, Western Australia's positive record in containing community transmission of COVID-19 allowed the staged relaxation of a number of restrictions originally imposed across the business from late March 2020. Notably this allowed a return to standard FIFO rosters (generally 2 weeks on/1 week off) from mid-2020. However, Mount Gibson maintained a range of general site and travel protocols to reduce the risk of virus transmission and remained ready to respond promptly in the event of any reinstatement of

government restrictions. This readiness was demonstrated in January and February 2021 due to a regulatory lockdown over the Perth metropolitan and southern regions of Western Australia, with the reintroduction of regional travel restrictions, mandatory mask-wearing requirements and enhanced site social distancing protocols. Mount Gibson personnel have responded positively to the safety restrictions and no instances of COVID-19 have been reported at Mount Gibson's sites or workplaces.

Realised Pricing

Iron ore prices rose strongly towards the end of the half-year period reflecting increased demand from China as its industrial activity recovered from Coronavirus impacts, and continued supply disruption particularly from Brazil. The Platts Index for 62% Fe iron ore fines for delivery to northern China was approximately US\$100 per dry metric tonne (**dmt**) at the start of the period and rose rapidly near the end of the period, peaking at US\$177/dmt in late December before ending the period at US\$159/dmt. The average price for the half-year was US\$126/dmt compared with US\$95/dmt in the prior corresponding half-year period.

Over the same period, the A\$/US\$ exchange rate also rose significantly, from A\$1.00/US\$0.69 at the start of the period and ending the half-year at US\$0.770. The average for the half-year was US\$0.723 compared with US\$0.685 in the prior corresponding half-year.

Mount Gibson achieved an average realised price for Koolan Island high grade iron ore fines product for the half-year of US\$121/dmt FOB after grade and provisional pricing adjustments and penalties for impurities. Remnant low grade material sold from the Mid-West realised an average price of US\$30/dmt FOB for fines and US\$43/dmt FOB for lump. The weighted average realised price received (including provisional pricing adjustments and net foreign exchange hedging gains) for all products sold was \$105/wmt FOB in the half-year period, compared with \$84/wmt in the 2019/20 financial year.

Cashflow Summary

The Group's cash and liquid investment reserves totalled \$435.7 million at 31 December 2020, compared with \$423.2 million at 30 June 2020, an increase of \$12.5 million.

Cashflow for the December half-year totalled \$52.0 million, comprising cashflow from Koolan Island of \$38.2 million (being operating cashflow of \$105.7 million less \$62.9 million of advance overburden stripping investment and \$4.6 million of capital projects), cashflow from the Mid-West operations of \$20.3 million (including \$4.0 million from the historic rail refund), Shine development costs of \$1.2 million, interest income of \$3.5 million and administration and other costs of \$8.8 million (including realised foreign exchange losses). The period-end total was also after payment of the \$16.3 million cash component of the final 2019/20 dividend and negative working capital movements of \$23.3 million.

Group cash costs averaged \$56/wmt FOB in the half year, before \$67.5 million in advanced overburden stripping and capital projects.

Koolan Island Operations

Following a successful first year of commercial production from the Koolan Island operation during 2019/20, the focus of activity in the December 2020 half-year was on commencing the major part of the overburden stripping phase within the Main Pit. This stripping program is required to access significantly greater volumes of high grade iron ore from the second half of 2021 onwards.

The mine generated earnings before interest and tax of \$98.1 million in the half-year reflecting the volume of ore sales completed in the period and increased demand and pricing for Koolan Island's high grade fines.

Consistent with the mine plan, total material movement increased substantially in the half-year, with 10.7 Mwmt of waste and ore moved in the period, compared with 15.2 Mwmt for the whole of the 2019/20 financial year. Consistent with the focus on waste movement, ore production in the half-year totalled 0.9 Mwmt compared with 1.4 Mwmt in the prior corresponding half year.

While mining volumes were significantly higher in the half-year, activity was impacted by mining interruptions in the December quarter. As reported in November 2020, mining was halted by a localised rockfall on the western end of the Main Pit footwall. The rockfall did not result in any injuries to personnel or damage to equipment and was constrained by the protective meshing installed as part of standard geotechnical controls on the footwall. The rockfall occurred shortly before the planned completion of mining in the impacted area, in which mining was scheduled to resume in the June 2021 quarter. The seawall side of the Main Pit was not impacted by this event and mining in the rest of the Main Pit continued as planned.

The Company is currently finalising its detailed assessment of proposed remedial footwall support measures to safely resume mining in the impacted area and determine appropriate adjustments to the mine plan. It is presently anticipated that these remedial works will involve capital expenditure of approximately \$15 million in 2021 for ground support activities on the upper footwall levels where historical installations are less intensive than on lower levels. The timing to complete this work is under further review and is presently anticipated to be around the end of calendar 2021.

Mining was also interrupted by heavy wet season rains in December, when more than 770mm of rainfall was recorded including over 420mm within one 48 hour period which limited pit access. Mining continued uninterrupted in the upper west end of Main Pit during this period, however total material movement was unavoidably impacted.

Seawall instrumentation continues to demonstrate that the Main Pit seawall, which incorporates the installed impermeable seepage barrier and has been under full tidal loads for over two years, is performing to design expectations.

The average grade of shipments in the December half-year was 63.3% Fe. During the March and June 2021 quarters, shipped product grades are expected temporarily to average 58-61% Fe, reflecting an increased proportion of ore sourced from the upper west end of the Main Pit where ore is lower grade, while the overburden stripping program continues. High-grade (~65% Fe) ore from the lower levels of the Main Pit is targeted for access in the September 2021 quarter, however the precise timing is dependent on implementation of necessary additional footwall support measures described above, and any appropriate changes required to mining practices.

The average cash cost of sales at Koolan Island was \$64/wmt FOB for the half-year before overburden stripping investment of \$62.9 million and capital projects of \$4.6 million. As previously indicated, the planned elevated stripping phase of the mine is scheduled to be substantially completed in the second half of calendar 2021. Thereafter, sales are anticipated to rise and cash costs to decline in step with the reduced waste to ore stripping ratio.

Exploration and Resource Development

The Company is actively assessing potential opportunities to extend the mine life of the Koolan Island operation. Work has to date focused on optimisation of the Main Pit orebody and is now transitioning to known satellite deposits on the Island. Approvals are being sought and preparations are underway for drilling in the 2021 dry season.

Infrastructure Investment – Laawun Airport

As previously reported, the Company has constructed a new 2.1km sealed all-weather airstrip in the centre of the Island, on time and under the \$20 million budget. First crew flights, transporting circa 100 personnel from Perth direct to Koolan Island, commenced on a twice weekly basis in mid-October. A formal opening and naming ceremony of the Laawun Airport was held with the Dambimangari Traditional Owners in late November. The new airstrip has already demonstrated significant safety, efficiency and operating cost benefits to the Koolan Island operation, and the COVID-19 global pandemic has further highlighted the value of this asset.

Mid-West Operations

The low grade sales program from Extension Hill was successfully completed in late December, with sales totalling 1.2 Mwmt for the half-year, at the upper end of guidance. Sales comprised 0.3 Mwmt of low-grade fines and 0.9 Mwmt of low-grade lump material taken from the last remaining stockpiles at the site, and also from recoverable low-grade detrital gravels adjacent to the Extension Hill pit.

The Extension Hill operation generated earnings before interest and tax of \$18.2 million in the half year. Cashflow for the half-year period totalled \$16 million, excluding proceeds from the rail credit refund.

The average cash cost of sales was \$40/wmt FOB for the-half year, at the lower end of guidance, compared with \$41/wmt FOB in the 2019/20 financial year.

Mount Gibson commenced the low-grade (51-54% Fe) sales program from Extension Hill in June 2019 with an initial sales target of approximately 1 Mwmt. Since that time, stronger iron ore prices have supported extensions to the program which have resulted in total sales of approximately 4.1 Mwmt for operating cashflows of over \$30 million.

Transition to final closure and rehabilitation of the Extension Hill site has commenced. The accounting provision for rehabilitation for the Extension Hill mine site as at 31 December 2020 is \$9.2 million and, depending on the timing of plant and infrastructure removal, it is expected that much of this amount will be incurred over the next 12 months.

Redeployment of site personnel and equipment to the Shine project has commenced where appropriate. The Company has also received several expressions of interest regarding the site and its various operating and infrastructure assets which could offset rehabilitation costs.

Extension Hill Rail Refund

In late September 2020, Mount Gibson received the third six monthly payment, totalling \$3.7 million, under its entitlement to a partial cash refund of historical rail access charges from the Mid-West rail leaseholder. This took cumulative total proceeds received since the first payment in 2019 to \$12.1 million. The entitlement is calculated according to volumes railed by third parties on specified segments of the Mid-West rail network and is capped at a total of approximately \$35 million (subject to indexation) and a time limit expiring in 2031. The entitlement is currently accruing at a rate of approximately \$2 million per quarter, with payments due every six months.

Shine Iron Ore Project

Development planning for the Shine Iron Ore Project, located approximately 85km north of Extension Hill, was reactivated in early 2020 having been deferred amid deteriorating market conditions in 2014/15.

In October 2020, Mount Gibson declared initial Ore Reserves of 2.8Mt grading 59.4% Fe in the proposed "Stage 1" pit at Shine. Capital development costs are estimated at \$17-20 million, with forecast production of approximately 1.5 Mwmt/year over an initial two-year period at an average cash operating cost of \$65-70/wmt FOB before royalties.

The sustained increase in iron ore prices and demand in recent months has significantly enhanced the economics and outlook for the Shine Project. Should market conditions remain supportive, there is potential to extend the mine life by a further two years by proceeding with a "Stage 2" pit, based on Measured and Indicated Mineral Resources within the modelled pit shells. The Shine project has total Measured, Indicated and Inferred Hematite Resources of 10.8Mt grading 58.2% Fe.

Activity in the December 2020 half-year focused on site preparation, progressing remaining permitting requirements, and advancing key commercial arrangements. The base development case assumes ore is trucked approximately 300km by road from the mine site to the Company's established export facilities at Geraldton Port. However, potentially more cost-effective alternative transport options remain under advanced negotiation with third parties.

Equipment mobilisation occurred in the December quarter and site works commenced at the start of January 2021, including laydown area clearings and establishment of the site water supply. The mobile mining fleet has been secured and recruitment of key senior site personnel is also largely completed.

Subsequent to period end, Mount Gibson has received relevant mining approvals from regulatory authorities. The project remains on schedule to commence mining in April 2021 to achieve first ore sales early in the September quarter.

Expenditure on the project totalled \$1.2 million in the half-year, and Mount Gibson expects to incur most of the planned capital development expenditure in the June 2021 half-year. In addition, approximately \$15 million is expected to be incurred in the June 2021 quarter on overburden stripping and pre-production activities, assuming mining activity commences in April 2021 as planned.

Group Guidance

Group ore sales guidance for the 2020/21 financial year remains unchanged at 2.8-3.3 Mwmt. As previously disclosed, sales of high-grade DSO from Koolan Island were on plan at 1.1 Mwmt in the December half-year period and are now expected to be at the lower end of guidance for the full year given the mining interruptions experienced in the December quarter. Ore sales from Koolan Island in the March and June 2021 quarters are consequently expected to be broadly similar to volumes in the December quarter before increasing in the September quarter onwards, subject to the implementation of necessary additional footwall ground support measures.

Reflecting the timing and cost impacts of recent weather interruptions and increased geotechnical works required at Koolan Island, Mount Gibson is increasing its Group cash cost guidance for the full 2020/21 financial year to \$65-70/wmt FOB. This estimate excludes key capital estimates for Shine Project development and pre-production costs (\$30 million), Koolan Island capitalised waste stripping (\$130 million) and other improvement projects (\$25-30 million), the latter primarily for an upgrade of the Koolan crushing circuit to cater for increased ore production once the elevated stripping phase is completed later this year.

Within this Group guidance, Koolan Island site cash costs are anticipated to average \$70-75/wmt FOB for the 2020/21 financial year excluding the capital projects mentioned above.

Group cash costs are reported FOB and include all operating, sustaining capital, royalties and corporate costs, but are before capitalised waste stripping, capital upgrade and development projects. Site cash costs are reported FOB on a consistent basis and include royalties, sustaining capital expenditure and allocated corporate costs.

Dividend

Consistent with the Company's established practice, an interim dividend has not been declared. The Mount Gibson Board assesses dividends on an annual basis and will do so in August this year when it reviews the full year financial statements.

Full details of Mount Gibson's financial results for the six months ended 31 December 2020 are available in the Appendix 4D and financial statements released to the ASX today and are also available on the Company's website.

Authorised by:

Peter Kerr, Chief Executive Officer

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Mount Gibson will host an analysts and institutions teleconference at **12.00pm AEST today, Wednesday 24 February 2021**. Investors will be able to listen in to the teleconference by dialing **1300 289 804** immediately prior to the scheduled start time and entering the access code **18314558#** at the prompts. A recording of the teleconference will also be available via the Mount Gibson website after completion of the teleconference. In case of difficulties, operator assistance can be reached by calling 1300 289 804 (Australian callers) or +61 3 8788 6028 (overseas callers).

Competent Person Statement

Mineral Resources:

The information in this report relating to Mineral Resources is based on information compiled by Elizabeth Haren, a Competent Person who is a member and Chartered Professional of the Australasian Institute of Mining and Metallurgy and member of the Australian Institute of Geoscientists. Ms Haren was a full-time employee of, and is a consultant to, Mount Gibson Iron Limited, and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Haren consents to the inclusion in this report of the matters based on her information in the form and context in which it appears.

Ore Reserves

The information in this report relating to Ore Reserves is based on information compiled by Mr Brett Morey, a member of the Australasian Institute of Mining and Metallurgy. Mr Morey is a full-time employee of Mount Gibson Iron Limited and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Morey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.