



Mount Gibson Iron

Mount Gibson Iron Limited

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ASX ANNOUNCEMENT

25 August 2022

Financial Results for 2021/22 Financial Year

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

- **Total iron ore sales of 1.65 million wet metric tonnes (Mwmt)** generating ore sales revenue of **\$131.1 million** Free on Board (FOB) (2020/21: 3.0 Mwmt and \$311.7 million).
- **Loss after tax of \$174.1 million** (2020/21: \$64.0 million profit after tax), including previously guided pre-tax impairments of \$184.6 million reflecting the impacts of recent lower iron ore prices.
- **Cash and investment reserves of \$125.6 million** at 30 June 2022 (30 June 2021: \$364.7 million) after a net outflow during the year of \$239.1 million reflecting significant overburden stripping and capital project investments at the high grade Koolan Island operation (\$188.2 million), outflows from the suspended Shine operation (\$29.5 million), net corporate and exploration costs (\$11.9 million), working capital movements and payment of the \$12.2 million cash component of the previous year's final dividend.
- **Increase in mined high grade iron ore** from the Koolan Island operation with the **waste-to-ore stripping ratio now declining rapidly** to average circa 2:1 in 2022/23, with an average of 3.5:1 in the December 2022 half and 1:1 in the June 2023 half. Mined grades **are now consistently 65% Fe**.
- **Repair and recovery plans** following the recent fire in the product screen area of the Koolan Island processing plant are underway, with interim arrangements involving the use of mobile crushing equipment expected to generate up to 70% of targeted processing and shipping volumes as plant repairs are undertaken over the December half-year period.
- **A dividend has not been declared for 2021/22** given the substantial operating investments undertaken over the past year and the current priority focus on the resumption of the growth trajectory in high grade sales at the Koolan Island operation.
- **Targeted ore sales for 2022/23 of 3.2-3.7 Mwmt** from Koolan Island, a significant increase from last year, at a site cash operating cost* of \$70-75 per wmt FOB before royalties. The target is subject to the impacts of the recent Koolan Island plant fire and will be updated in due course as the site's recovery and repair plans progress.

**Site cash operating costs are reported FOB and include operating and sustaining capital expenditure, before royalties.*

Mount Gibson Chief Executive Officer, Peter Kerr, said: "Our results for 2021/22 reflect the substantial investments undertaken to prepare the Koolan Island operation for significant increases in high grade iron ore production and shipments going forward.

"The Company's business remains robust and underpinned by growing high-grade ore production and declining waste-to-ore stripping ratios and operating costs at Koolan Island, despite the recent fire in the product screen area of the processing plant which will temporarily constrain the improvement trajectory in the current half year period as we undertake repairs.

"However, we continue to expect a strong performance over the current financial year as the Koolan Island operation clears the present hurdles and continues to be Australia's highest grade producer of direct-shipping hematite iron ore."

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| Group Summary Results (all currency expressed in Australian dollars) | | Year ended 30 June 2022 | Year ended 30 June 2021 |
|--|----------------|--|--|
| Physicals: | | | |
| Ore mined | <i>M wmt</i> | 1.81 | 2.06 |
| Ore sold | <i>M wmt</i> | 1.65 | 3.02 |
| Realised Price: | | | |
| Average realised price, all products, after shipping freight (FOB) | <i>\$/wmt</i> | 80 | 103 |
| Income Statement: | | | |
| Sales revenue (CFR basis) | <i>\$m</i> | 140.7 | 329.7 |
| Interest income | <i>\$m</i> | 2.0 | 6.3 |
| Cost of sales, including shipping freight | <i>\$m</i> | (215.5) | (214.8) |
| Gross profit/(loss) | <i>\$m</i> | (72.8) | 121.2 |
| Other income | <i>\$m</i> | 19.1 | 14.6 |
| Administration and other expenses | <i>\$m</i> | (18.1) | (14.5) |
| Net foreign exchange, hedging and financial asset gains/(losses) | <i>\$m</i> | 9.9 | (28.3) |
| Finance costs | | (1.7) | (0.8) |
| Impairment expenses | <i>\$m</i> | (184.6) | - |
| Profit/(Loss) before tax | <i>\$m</i> | (248.2) | 92.1 |
| Tax (expense)/benefit | <i>\$m</i> | 74.1 | (28.1) |
| Profit/(Loss) after tax | <i>\$m</i> | (174.1) | 64.0 |
| Earnings/(Loss) per share | <i>c/share</i> | (14.5) | 5.5 |
| Dividend per share, fully franked | <i>c/share</i> | - | 2.0 |
| Totals may not add due to rounding. | | | |

Earnings Summary

Mount Gibson Iron Limited (**Mount Gibson** or the **Company**) recorded a net loss after tax of \$174.1 million for the year ended 30 June 2022, after previously guided pre-tax impairments totalling \$184.6 million on the carrying value of Koolan Island (\$147.4 million) and suspended Shine operation in the Mid-West (\$37.2 million).

The result reflects the Company's reduced sales volumes while it undertook significant internal business investments at Koolan Island, volatile iron ore prices, global inflationary pressure and supply chain disruption, and labour shortages related to increased community COVID-19 infection rates in Western Australia. However, operational and financial performance significantly improved during the June half-year period as production, sales and ore quality progressively increased at Koolan Island.

Ore sales totalled 1.65 Mwmt for the year, comprising 1.35 Mwmt of fines material from Koolan Island and 0.30 Mwmt of lower grade iron ore products from Shine.

Koolan Island

Significant capital investment was made during the year to progress the bulk overburden stripping program and remedial upper footwall ground support works in the Main Pit, and to commission the processing plant upgrade, all of which facilitate increased ore production and sales for the following four to five years of the mine life. All three capital projects were complete or nearing completion by year-end.

Operations

Total material movement of waste and ore in 2021/22 was 17.4 Mwmt compared to 20.1 Mwmt in the prior year. Waste movement will be materially lower in the 2022/23 financial year while ore volumes will be materially higher.

Full year ore sales totalled 1.35 Mwmt, of which 1.0 Mwmt was achieved in the June half during which mining access was regained to the high-grade orebody in Main Pit as the waste stripping and footwall ground support works progressed. Shipments of 65% Fe material resumed in June, and sales grades are expected to remain at this level going forward. Sales grades averaged 64% Fe in the second half, compared with under 59% Fe in the December 2021 half year when production was limited to lower grade material from the lateral extents of the Main Pit.

With the elevated phase of waste stripping now largely complete, the average waste-to-ore stripping profile will progressively decline. After averaging 17:1 in the December 2021 half-year, the stripping ratio averaged 7.2:1 for the June half-year period. In the upcoming 2022/23 financial year the stripping ratio is anticipated to average just over 2:1 for the full financial year, comprising an expected average of approximately 3.5:1 in the first half and approximately 1:1 in the second half.

Financial performance

Koolan Island generated a loss before tax of \$190.9 million after recording impairment expenses totalling \$147.4 million. The impairment reflected the Company's normal practice of reviewing the book carrying values of its assets at period end in the context of prevailing commodity prices and market outlook.

Unit cash mining and administration costs for the financial year, including all transport and logistics charges, were \$11.50 per tonne of ore and waste mined, with rising costs over the year reflecting inflationary pressures, particularly labour and diesel fuel, and the impacts of COVID-19 related absenteeism. The unit cash costs equated to \$119/wmt sold FOB for the financial year before capital expenditure of \$20.9 million on the upper footwall ground support program (since completed) and \$123.3 million on overburden stripping investment (nearing completion).

Productivity and commercial initiatives to reduce these costs are ongoing. As previously reported, the Company is replacing the primary mining fleet to better suit the future pit design and assist with productivity, cost and emissions objectives. The first four new trucks arrived at site in July and August 2022, with progressive delivery of a further four trucks and two excavators scheduled to occur by February 2023.

Koolan Island Processing Plant Fire and Recovery Plan

As previously reported, a fire occurred in the product sizing screen area within the Koolan Island crushing plant during a scheduled maintenance shutdown on 12 August 2022. All personnel working in the area were evacuated and there were no injuries. The fire damaged part of the sizing screen assembly, the associated feeder and conveyor equipment, as well as some of the surrounding steel structures in the upper levels of the screening plant area. Mining and other site activities were not directly affected and have continued uninterrupted. Assessments have commenced to determine the extent of the damage and the optimal approach to resuming ore processing and repairing the damaged plant.

Ore processing is shortly to recommence at approximately 30% of throughput capacity utilising the unaffected parts of the processing plant. This will be augmented by the addition of mobile crushing equipment to site, which will enable a further increase in crushing activities up to approximately 70% of normal capacity towards the end of September. This temporary processing configuration will enable the Company to target a return to shipping rates of around 3 shipments per month from that time.

In parallel, Mount Gibson will be undertaking repairs to the damaged screening plant and, depending on equipment lead times, anticipates this will allow the main processing plant to resume processing at full capacity towards late 2022 or early 2023.

Five shipments totalling 379,000 wmt have been shipped in the current quarter to date, and based on the recovery plan, a further two shipments are expected by the end of September. Subject to final assessment of the recovery plan, the Company anticipates shipping volumes to increase in the December quarter and then significantly from early 2023 as the processing plant resumes full capacity of 4-5 shipments per month, minimising the impact on shipping volumes targeted for the full 2022/23 financial year. Retention of the mobile crushing equipment may further support a production catch-up in the June 2023 half-year.

Mount Gibson maintains relevant insurance cover at Koolan Island, and discussions have commenced with insurance providers at this initial stage.

Mid-West

The Mid-West operations comprise the suspended Shine iron ore mine, transport infrastructure and the Company's bulk storage facilities at the regional port of Geraldton. The Mid-West operations incurred a loss before interest and tax of \$55.7 million for the year, after an impairment of \$37.2 million.

Shine

Development of the Shine project, 85km north of the Extension Hill site, commenced in late 2020. Mining operations commenced in April 2021, with ore crushed on-site and trucked 300km to the Company's export facilities at Geraldton Port. After initial shipments were completed, the operation suffered extreme economic pressure due to the rapid deterioration in iron ore market conditions, particularly for ores grading under 60% Fe, increased penalties for impurities and a sharp increase in shipping freight costs.

Consequently, in October 2021 the Company announced a staged suspension of operations to preserve the value of the Shine deposit and provide time to assess the iron ore market outlook. Sales were completed in December and totalled 0.30 Mwmmt for the year.

Mid-West Rail Refund/Credit

Mount Gibson receives a partial refund of historical rail access charges from the Mid-West rail leaseholder based upon the usage by third parties of specific segments of the railway network. This refund is calculated at various volume-related rates and capped at a total of approximately \$35 million (subject to indexation) and a time limit expiring in 2031. The entitlement accrues at a rate of approximately \$2 million per quarter, with payments made every six months. Mount Gibson received \$8.4 million during the year, taking total cumulative proceeds to approximately \$24.3 million.

Mid-West Infrastructure

Mount Gibson continues to receive and consider external enquiries relating to its Mid-West infrastructure assets, in particular key rail sidings and storage sheds, and is already earning income from third parties for initial arrangements. Discussions are in progress regarding further arrangements for utilisation of spare capacity within those infrastructure assets.

Market conditions and pricing

During 2021/22 the benchmark Platts 62% Fe price fell from \$US\$218/dmt CFR in July 2021 to a low of US\$87/dmt in November 2021, before partially recovering and ending the financial year at US\$120/dmt to average US\$138/dmt for the 12 month period. The price of 65% Fe grade iron ore averaged US\$162/dmt CFR for the year, 7% lower than the prior year, reflecting an average grade-adjusted premium to the Platts 62% Fe Index of approximately 13%. Lower grade ores were substantially weaker, with the Platts index for ores grading 58% Fe averaging over 26% lower than the prior year at US\$101/dmt, reflecting an average discount of approximately 24%. The value of the Australian dollar was also volatile over the financial year, trading between A\$1.00/US\$0.75 and US\$0.68, to average US\$0.72 for the year. This compared with an average of US\$0.75 in the prior year.

Mount Gibson achieved an average realised price for all products sold in the year (including realised foreign exchange hedging and commodity forward contract net gains) of \$80/wmt Free on Board (FOB), net of shipping freight, compared with \$103/wmt FOB in 2020/21. This reflected the sale of lower grade ore from Koolan Island and Shine in the December 2021 half-year, before the return to high grade ore sales from Koolan Island in the June 2022 half-year. Sales from Koolan Island, after post-balance date provisional pricing adjustments, realised an average price of US\$61/dmt FOB for the year, including an average realised price of US\$87/dmt FOB for Koolan Island fines in the June half-year in which the sales grade averaged 64% Fe. Sales from Shine in the Mid-West realised an average price of US\$59/dmt FOB for fines and US\$82/dmt FOB for lump.

Sales from Koolan Island are made under long term offtake agreements on FOB terms, with pricing referencing high grade market indices and Panamax shipping freight rates, specification adjustments and penalties for impurities. Provisional prices are recorded following shipment departure and the final pricing ultimately reflects monthly averages up to two months after the month of shipment. Accordingly, the Company is subject to pricing movements in subsequent periods, with such provisional pricing movements

estimated at each reporting period end. The weakening iron ore price since May 2022 resulted in a substantial downward provisional pricing adjustment to revenues of \$29.4 million (net of royalty savings), reflected in reported revenues.

Cashflow and Cash/Investments Position

The Group's cash and investment reserves - comprising cash and cash equivalents, term deposits, subordinated notes and financial assets held for trading - totalled \$125.6 million as at 30 June 2022, a reduction of \$239.1 million over the year.

The key components of the movement are tabulated below and reflect the following business activities in the 12 month period:

| Cashflow Summary | Koolan Island \$'000 | Shine \$'000 | Corporate & Other \$'000 | Total \$'000 |
|---|-------------------------|-----------------|-----------------------------|-----------------|
| Operating cashflow before capital expenditure | 11.7 | (17.6) | (11.0) | (16.9) |
| Capital expenditure: | | | | |
| Advanced waste stripping (capitalised deferred stripping costs) | (123.3) | (8.5) | - | (131.8) |
| Mine development (including ground support activities) | (44.1) | (2.5) | - | (46.7) |
| Key projects (Koolan Island crusher upgrade) | (22.7) | - | - | (22.7) |
| Sustaining capital, equipment purchase, exploration and other | (9.7) | (0.9) | (0.9) | (11.5) |
| | (188.2) | (29.5) | (11.9) | (229.6) |
| Realised net hedging gain | | | | 15.6 |
| Other financing activities and net working capital movements | | | | (4.3) |
| Dividend payment (cash component of the 2020/21 final dividend) | | | | (12.2) |
| Tax instalments paid | | | | (8.8) |
| Total movement in cash and investment reserves in the period | | | | (239.1) |

Mount Gibson does not have bank borrowings and has an undrawn \$100 million revolving credit facility available.

Dividend

Given the substantial operating investments undertaken over the past year and the current priority of resuming the growth trajectory in high grade sales at Koolan Island, a dividend has not been declared for 2021/22. In addition, the Company has fully distributed its available franking credits.

The Company is pursuing a plan to drive substantial production and cashflow growth from Koolan Island, and the Board's intention is to pay dividends as and when the Company's financial performance justifies, consistent with the approach adopted in prior years.

Group Guidance

The focus for the 2022/23 financial year is to promptly complete repairs to the Koolan Island processing plant arising from the recent fire damage to continue to build high-grade ore production and sales growth.

In the Mid-West, the Company will maintain Shine in a low-cost care and maintenance state and assess potential for ongoing revenue from the Company's Mid-West assets, including its export infrastructure at Geraldton Port.

Mount Gibson is targeting sales of 3.2-3.7 Mwmt of high grade iron ore from Koolan Island for 2022/23, a significant increase on last year, at an average site cash operating cost of \$70-75/wmt sold FOB before royalties. The target is subject to the impacts of the recent Koolan Island plant fire and will be updated in due course as the operation's recovery and repair plans progress.

Annual General Meeting (AGM)

Mount Gibson will be holding a “hybrid” Annual General Meeting on 9 November 2022. Shareholders may participate by attending in person or via webcast. Information explaining how shareholders may access, vote and ask questions within the online meeting room will be provided in the Company’s Notice of AGM to be released in October 2022.

Director nominations

For the purposes of ASX Listing Rule 3.13.1, the closing date for receipt of nominations from persons wishing to be considered for election as a Director of the Company at the 2022 Annual General Meeting is 21 September 2022.

Financial Statements

Full details of Mount Gibson’s financial results for the year ended 30 June 2022 are available in the Appendix 4E and financial statements released to the ASX today and published on the Company’s website.

Authorised by:

Peter Kerr, Chief Executive Officer

For further information:

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Mount Gibson will host an analysts and institutions teleconference at **11:00am AEST today, Thursday 25 August 2022**. Investors will be able to listen in to the teleconference by dialing **1300 278 865** 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).