



Mount Gibson Iron

ASX ANNOUNCEMENT

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Mount Gibson Iron Limited

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December 2019 Half-Year Financial Result

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

- **Total iron ore sales of 2.8 million wet metric tonnes (Mwmt)** (1H 2018/19: 2.2 Mwmt), comprising 1.4 Mwmt of high grade direct-shipping ore (DSO) and 1.4 Mwmt of low grade material.
- **Total iron ore sales revenue of \$230.1 million** Free on Board (FOB) (1H 2018/19: \$138.6 million), including net gains from foreign exchange and commodity hedging contracts.
- **Profit before tax from continuing operations of \$64.2 million** (1H 2018/19: \$45.2 million).
- **Net profit after tax of \$44.6 million** (1H 2018/19: \$45.1 million).
- **Cashflow from operations of \$66.5 million** (1H 2018/19: \$54.8 million) before interest receipts of \$4.6 million and capitalised mine development and equipment purchases of \$23.8 million.
- **Cash, term deposits and liquid investments of \$397.9 million** at 31 December 2019.
- **Production ramping-up at the high grade Koolan Island mine**, with sales volumes having increased progressively over the half-year period and initiatives underway to improve mining productivity and unit operating costs.
- **Further extension of the Mid-West business** through additional opportunistic sales of low grade material from Extension Hill.
- Increased sales guidance for 2019/20 of **4.8-5.3 Mwmt** at a group cash cost of **\$70-75/wmt FOB**, comprising 2.7-3.0 Mwmt of high-grade DSO from Koolan Island at \$77-82/wmt FOB and 2.1-2.3 Mwmt of low-grade material from Extension Hill at \$40-45/wmt FOB.

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

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, commented: "Mount Gibson has delivered a solid financial result for the half-year, reporting a net profit after tax of \$44.6 million while progressing the production ramp-up at the high-grade Koolan Island mine in the Kimberley and extending sales from the Mid-West business.

"It is satisfying that we continue to generate strong operating cashflows in the ramp-up phase at Koolan Island, during which our waste stripping requirements are at elevated levels. This underlines the good timing of the Koolan Island restart, given the well-supported iron ore prices we continue to enjoy. We now have a solid base from which to complete the high-stripping phase at Koolan Island over the next 18 to 24 months, complementing our ongoing focus on safety, operational productivity and cashflow generation."

"The success of the extended program of opportunistic sales of low grade material from the Extension Hill mine has been important, enabling the site to continue making a positive contribution well beyond its originally planned closure date.

"With a robust balance sheet, Mount Gibson is 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-2019	Half-Year ended 31-Dec-2018
Physicals:			
Ore mined	<i>M wmt</i>	1.4	1.9
Ore sold	<i>M wmt</i>	2.8	2.2
Realised Price:			
Average realised price, all products, after shipping freight (FOB)	<i>\$/wmt</i>	83	64
Continuing Operations (Extension Hill & Koolan Island):			
Sales revenue, including shipping freight (CFR basis)	<i>\$m</i>	254.1	177.4
Interest income	<i>\$m</i>	3.9	5.9
Cost of sales, including shipping freight (CFR basis)	<i>\$m</i>	(189.5)	(132.1)
Gross profit from continuing operations	<i>\$m</i>	68.5	51.1
Other income, including rail credit	<i>\$m</i>	4.8	1.4
Administration, including unrealised FX/financial asset movements	<i>\$m</i>	(8.3)	(6.5)
Finance costs	<i>\$m</i>	(0.8)	(0.8)
Profit before tax from continuing operations	<i>\$m</i>	64.2	45.2
Tax expense	<i>\$m</i>	(19.4)	-
Profit after tax from continuing operations	<i>\$m</i>	44.8	45.2
Loss after tax from discontinued operations	<i>\$m</i>	(0.1)	(0.2)
Net profit after tax	<i>\$m</i>	44.6	45.1
Totals may not add due to rounding.			

Earnings Summary

Mount Gibson Iron Limited (**Mount Gibson** or the **Company**) recorded a net profit after tax of \$44.6 million for the half-year ended 31 December 2019 on total iron ore sales of 2.8 Mwmt, comprising 1.4 Mwmt of high grade DSO from Koolan Island and 1.4Mwmt of remnant low-grade material from stockpiles at the Extension Hill mine in the Mid-West.

The result reflected the first completed half year of sales from the high-grade Koolan Island mine, where operations are ramping up after achieving commercial production in June 2019, opportunistic sales of remnant low grade material from the Extension Hill mine, and the partial refund of historical rail access charges in the Mid-West.

Ore sales revenue totalled \$254.1 million inclusive of shipping freight (or \$230.1 million FOB) in the December 2019 half-year compared with \$177.4 million (or \$138.6 million FOB) on total ore sales of 2.2 Mwmt in the December 2018 half-year.

The result compares with a net profit after tax of \$45.1 million reported for the prior corresponding half year, when a tax expense was not recorded. On a pre-tax basis, the result for the December 2019 half-year (\$64.2 million) was 42% higher than the prior corresponding period (\$45.2 million).

The Company recorded a tax expense in the December 2019 half-year (no tax expense was recorded in the prior corresponding half-year) reflecting the recognition of deferred tax assets at 30 June 2019 and the Company's anticipated return to a tax-paying position within the next couple of years, subject to commodity prices and operational performance.

Realised Pricing

Iron ore prices remained elevated during the period relative to the prior corresponding half-year but declined from the peak levels reached in mid-2019. After peaking at US\$126 CFR per dry metric tonne (**dmt**) in early July 2019, the Platts Index price for delivery of 62% Fe iron ore fines to northern China finished the period at just under US\$92/dmt CFR. The average for the half-year was US\$95/dmt compared with US\$69/dmt in the December 2018 half-year.

Over the same period, the A\$/US\$ exchange rate traded between A\$1.00/US\$0.67 and US\$0.71, to average US\$0.685. The average in the prior corresponding half-year was US\$0.725.

Mount Gibson achieved an average realised price for Koolan Island high grade iron ore fines product of US\$83/dmt FOB for the half-year 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\$28/dmt FOB for fines and US\$35/dmt FOB for lump.

The weighted average realised price received for all products sold in the half-year (including provisional pricing adjustments and net realised foreign exchange hedging gains) was \$83/wmt FOB compared with \$73/wmt FOB in the 2018/19 financial year.

The Company has life-of-mine offtake agreements in place covering all production from Koolan Island. These agreements obligate the buyers to purchase iron ore cargoes at market prices prevailing within 1-2 months of the shipment date. The offtake agreements contain pricing formulae referencing Platts and other published pricing indices for iron ores delivered to China.

Cashflow Summary

The Group's cash and liquid investment reserves increased to \$397.9 million at 31 December 2019, compared with \$384.5 million at 30 June 2019.

The positive cash movement of \$13.3 million over the half-year period comprised cashflow from operations of \$66.4 million, interest receipts of \$4.6 million, the purchase of property, plant and equipment of \$13.3 million, capitalised mine development costs of \$10.5 million, lease and finance costs of \$5.1 million, and foreign exchange and other movements, as well as payment of the \$26.4 million cash component of the fully franked final dividend to shareholders for the 2018/19 financial year.

Group unit cash costs averaged \$72/wmt FOB for the half-year, in line with the Company's guidance for the 2019/20 financial year.

Koolan Island Operations

The Koolan Island mine continued its operational ramp-up during the December 2019 half year. After commencing sales in late April 2019 and attaining commercial production in June 2019, the site generated earnings before interest and tax of \$56.9 million in the half year.

The seawall instrumentation and monitoring data continues to demonstrate that the rebuilt seawall is performing within design expectations. In addition, refurbishment of the island-side Main Pit footwall (depressurisation drilling, cable bolting, shotcreting and installation of safety mesh) is proceeding well.

Ore extraction in the Main Pit progressively improved over the half year, although mining remained congested within the central zone orebody and was adversely impacted by natural groundwater flows. Additional dewatering sumps and in-pit pumping systems have helped to improve Main Pit groundwater management, mining conditions and productivity. Ore production and sales consequently totalled 1.4 Mwmt in the six month period with the iron grade of ore shipments averaging 65.9% Fe.

Ore sales in the December quarter increased by 10% to 0.73 Mwmt despite the failure of the main overland ore conveyor belt to the shiploader in October 2019, which resulted in only one shipment being completed for that month. Following the belt repair, a further nine shipments were completed by the end of December, consistent with the targeted rate of four shipments per month.

Site unit cash costs averaged \$86/wmt FOB for the half year, before capitalised property, plant and equipment purchases of \$9.6 million, reflecting the ramp-up schedule, mining constraints in the Main Pit and the October shipping interruption.

Subsequent to period-end, operations were temporarily interrupted by extreme weather conditions associated with two tropical cyclones in January 2020, which restricted mining and shipping activity until month end. However, ore sales volume guidance for Koolan Island remains unchanged for the 2019/20 financial year, subject to no further major adverse weather interruptions. In January the Company slightly increased its cash cost guidance for Koolan Island in the current 2019/20 financial year to \$77-82/wmt FOB.

As indicated since the restart of Koolan Island was approved, waste stripping requirements are at their highest and ore production is at its lowest during the first two years of operation. This high-stripping phase is scheduled to be completed over the next 18 to 24 months, after which cash costs are projected to decline significantly as mining productivity and sales volumes increase and the waste/ore strip ratio declines over the remaining life of the mine. In line with the published mine plan within the Koolan Restart Project feasibility study, it is expected that ore sales volumes will be lower in the coming 2020/21 financial year than in the current financial year. Further updates regarding the mine plan will be provided as part of the Company's guidance for the coming year.

Infrastructure Investment – Airstrip

As previously reported, subsequent to period end, Mount Gibson commenced work to construct a longer all-weather airstrip in the centre of the Island. Currently all personnel and lightweight supplies are flown onto Koolan Island via small charter aircraft. These flight movements can be impacted by poor weather, especially in the northern Australian wet season, and operational performance suffers as a result.

The new 2.1 kilometre-long sealed airstrip is expected to deliver significant safety and efficiency benefits by enabling direct flights by larger commercial jet aircraft from Perth. This will reduce average transit times for Perth-based employees, helping reduce fatigue and improve general employment conditions, and deliver operating cost benefits over the life of the operation.

Mount Gibson anticipates the airstrip will cost approximately \$20 million with completion targeted for the end of the September 2020 quarter. Regular charter flights to and from Broome and Derby will continue to be maintained to accommodate the approximate 20% of the site workforce residing in the local region.

Mid-West Operations

Final sales from the Iron Hill deposit at Extension Hill were completed in February 2019 but, as previously reported, renewed market interest in lower grade material enabled Mount Gibson in June 2019 to commence shipments of historically uneconomic stockpiled low grade material from the Extension Hill mine site. Cashflow from the low grade program is modest and these sales also assist in final site rehabilitation works.

Sales of low grade remnant material (51-54% Fe) from Extension Hill were conducted on a fixed price basis and achieved an average realised price of US\$28/dmt FOB for fines and US\$35/dmt FOB for lump ore during the six month period.

Total sales for the half-year were 1.4 Mwmmt, exceeding the initial low grade campaign target of 1.0 Mwmmt.

Site cash costs averaged \$42/wmt FOB for the half year, consistent with guidance for financial year 2019/20. The operation generated earnings before interest and tax of \$12.6 million in the half-year period.

Strong market conditions have enabled Mount Gibson to confirm an extension of the low grade sales program until approximately the end of April 2020. Potential exists for a further extension of the program should prices and demand for this type of low grade material remain supportive.

Extension Hill Rail Refund

In late September 2019, Mount Gibson received the first six monthly payment, totalling \$4.0 million, under its entitlement to a partial cash refund of historical rail access charges from the Mid-West rail leaseholder. 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.

Group Sales and Cash Costs Guidance

Mount Gibson expects total iron ore sales for the 2019/20 financial year of 4.8–5.3 Mwmt, following extension of the low grade sales program from the Mid-West, at an average group cash cost of \$70-75/wmt FOB.

Within this, Koolan Island sales guidance remains unchanged at 2.7–3.0 Mwmt of high grade DSO, with site cash costs of \$77-82/wmt FOB reflecting performance to date, the impact of wet season rains and waste stripping activity which is highest in the first two years of the mine life.

The Mid-West is expected to contribute sales of 2.1-2.3 Mwmt of low grade material at a cash cost of \$40-45/wmt FOB.

Group cash costs are reported FOB and include all operating, sustaining capital, royalties and corporate costs. Site cash costs are reported FOB and include royalties, sustaining capital expenditure and corporate cost allocations.

Full details of Mount Gibson's financial results for the six months ended 31 December 2019 are available in the Appendix 4D and financial statements released to the ASX today and are also available on the Company's website.

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Mount Gibson will host an analysts/institutions teleconference at **11.00am AEST today, Wednesday 19 February 2020**. 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).