

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2020 12 October 2020

Key Points (all currency in Australian dollars unless stated otherwise):

- Iron ore sales of **1.4 million wet metric tonnes** (Mwmt) in the quarter, comprising 0.7 Mwmt of Koolan Island high-grade fines and 0.7 Mwmt of low-grade material from the Mid-West operations.
- Group cashflow for the quarter of **\$32 million**.
- Cash and liquid investments of **\$445 million** at 30 September 2020 after payment of the \$16 million cash component of last financial year's dividend, and no borrowings.
- Group unit cash costs of **\$56/wmt Free on Board** (FOB) for the quarter, before Koolan advanced waste stripping investment of \$24 million. Koolan site cash costs were \$66/wmt FOB before the advanced waste stripping, and Mid-West cash costs were \$40/wmt FOB.
- Reported 2019/20 financial year net profit after tax of **\$84 million**, and a fully franked final dividend of 3.0 cents per share distributed on 24 September 2020.
- Ore sales guidance for 2020/21 of **2.8-3.3 Mwmt** at a group cash cost of **\$60-65/wmt** FOB before waste stripping investment at Koolan Island of approximately \$100 million and other Koolan capital improvement projects of approximately \$20 million.
- Koolan Island new airstrip certified and commissioned, with first flights scheduled for October 2020.
- Group Mineral Resources of **69.4Mt @ 61.7% Fe** and Ore Reserves of **18.7Mt @ 65.2% Fe** reported as at 30 June 2020.
- Subsequently, Mount Gibson has declared an **Ore Reserve estimate** for Stage 1 of the **Shine Iron Ore Project** in the Mid-West, targeting first ore sales in mid-2021 for a two year period, with the potential for a further two year extension thereafter.

Note: Cash costs are reported FOB and include operating costs, royalties, sustaining capital expenditure and allocated corporate costs but are before waste stripping investment and capital improvement projects at Koolan Island.

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, said: "Mount Gibson has made a positive start to the new financial year with improved quarterly ore production and sales, completion of the new Koolan Island airstrip, ongoing low-grade ore sales in the Mid-West and, recently, declaration of Ore Reserves for the initial stage of the Shine Project.

"This provides a strong base as we move into the peak phase of waste stripping at Koolan Island to be completed in the next 12-18 months. We expect Koolan Island ore sales of 1.8-2.1 Mwmt this financial year, weighted to the latter part of the June half. Once the stripping phase is completed, we expect significantly increased ore sales and cashflow at Koolan Island from early 2022 onwards.

"We are also tracking to achieve first ore sales from the Shine Project in mid-2021, subject to finalising the last commercial and permitting requirements, which will extend our Mid-West business by at least two years and potentially longer should market conditions remain supportive."

PERFORMANCE AT A GLANCE

	Unit	Sep-2019 Quarter	Dec-2019 Quarter	Mar-2020 Quarter	Jun-2020 Quarter	Sep-2020 Quarter	2020/21 Year to Date
Standard DSO product sales	kwmt	664	733	439	516	672	672
Low-grade sales	kwmt	711	649	587	643	701	701
Total Ore Sales	kwmt	1,375	1,382	1,026	1,158	1,373	1,373
Platts 62% Fe CFR price, average	US\$/dmt	102	89	89	93	118	118
Platts 65% Fe CFR price, average	US\$/dmt	110	98	104	108	129	129
Realised Koolan fines FOB price*	US\$/dmt	95	73	86	97	104	104
Realised Mid-West fines FOB price#	US\$/dmt	29	26	27	28	30	30
Realised Mid-West lump FOB price#	US\$/dmt	35	35	37	40	41	41
Minor discrepancies may occur due to rounding. * Realised Koolan FOB (Free on Board) prices reflect a mix of month of shipping (M), M+1 and M+2 averages, referencing the Platts 62% and 65% Fe indices. Realised prices are shown after shipping freight, provisional pricing adjustments and specification adjustments/penalties. # Realised Mid-West FOB prices are shown after shipping freight and specification adjustments/penalties. kwmt = thousand wet metric tonnes. US\$/dmt = USD per dry metric tonne. For the purpose of wet to dry tonnage conversion, moisture content typically averages circa 3% for Koolan Island fines and circa 4% for Mid-West products.							

COVID-19 BUSINESS RESPONSE UPDATE

From early March 2020, the COVID-19 global pandemic necessitated significant and evolving responses by industry and government to slow the transmission rate of the virus, including restrictions on the movement of people into and within Western Australia, and strict social distancing requirements. Accordingly, a range of measures were implemented across Mount Gibson's operations consistent with advice from state and federal health authorities. These were particularly stringent for the Koolan Island operation which was subject to travel restrictions imposed by the Western Australian Government and Federal Government biosecurity requirements from late March to early June 2020.

Measures included pre-travel screening and declarations, social distancing during travel and on site, enhanced cleaning and personal hygiene protocols, extended rosters to minimise travel, support for the relocation of interstate personnel to WA, and replacement of commercial flights for Koolan Island personnel with dedicated jet charter services. Non-essential work was deferred, and a freeze placed on interstate recruitment.

The subsequent staged relaxation of travel and social restrictions allowed a return to "normal" FIFO rosters (notably 2 weeks on/1 week off) at the start of the quarter. However, various general protocols have been maintained to reduce the risk of virus resurgence and transmission. Mount Gibson remains ready to respond promptly in the event of any required reinstatement of government or other restrictions.

OPERATIONS

Sales of high-grade ore from Koolan Island totalled 0.7 Mwmt in the September quarter. In addition, 0.7 Mwmt of low-grade material from Extension Hill was shipped from the Geraldton Port in the quarter.

Operating statistics are tabulated in Appendix A.

Koolan Island

A total of 5.2 Mwmt of ore and waste was mined at Koolan Island during the September quarter, a 35% increase on the prior quarter. Mining performance improved significantly following the onset of the dry season, the successful removal of saturated sediments in the western end of the Main Pit floor, and generally improved mining productivity as the operation ramps up for the planned elevated waste mining movement in the upper levels of the pit over the next 12-18 months.

Ore production in the September quarter totalled 672,000 wmt compared with 805,000 wmt in the prior quarter, reflecting the waste movement cycle. Ore sales increased 30% to 672,000 wmt in nine shipments, two more than in the prior quarter. The average grade of shipments in the quarter was 63.8% Fe, in line with the mine plan. Sales from Koolan Island are made under long term offtake agreements on FOB terms, with the sale occurring upon shipment loading at Koolan Island. At current spot prices for high-grade iron ore and based on an average product grade achieved in the quarter, each Panamax cargo has a gross value of approximately \$10-11 million FOB.

Geotechnical works on the island-side Main Pit footwall (i.e. depressurisation drilling, cable bolting, shotcreting and installation of safety mesh) continue to plan. Seawall (hanging wall) instrumentation continues to demonstrate that the seawall, which incorporates the installed impermeable seepage barrier and has been under full tidal loads since late 2018, is safe and successfully performing to design expectations.

Koolan Island generated operating cashflow of \$50 million in the quarter before capitalised waste stripping investment of \$24 million, resulting in net site cashflow of \$26 million. Operating costs are detailed in the Cost Performance section of this report.

As previously indicated, the planned elevated stripping phase of the mine, during which waste movement and operating costs are at their highest and ore production is most variable, is scheduled to be completed over the next 12-18 months. Thereafter, sales will rise and cash costs will decline in step with the significantly reduced waste to ore stripping ratio.

Total mining volumes in 2020/21 are targeted to increase by approximately 50% (with a waste to ore stripping ratio of ~9.4x) compared with the last financial year, and ore sales will be variable from quarter to quarter while being weighted to the latter part of the second half of the financial year. Shipments will be at their lowest in the December 2020 and March 2021 quarters as the waste movement cycle reaches its peak and the wet season impacts are typically most pronounced. Waste movement will be focused on the upper levels of the pit during this period, and enhanced by the commissioning of an additional production excavator and haul trucks.

Unit mining and administration costs, including all logistics and sustaining capital expenditure, are targeted to reduce to around \$9 per tonne of material (ore or waste) moved. This target was achieved in the September quarter. Reported site cash costs per tonne of ore sold will necessarily reflect the elevated strip ratio and the lower ore production during this waste stripping phase.

Investment in advanced waste stripping is anticipated to total circa \$100 million for the year, with approximately \$20 million also targeted for other Koolan Island capital improvement projects. These projects include an upgrade of the existing crushing plant to ensure it will be capable of processing the significantly increased ore throughout expected to occur from next financial year onwards.

Infrastructure Investment - Airstrip

As previously reported, the Company has constructed a new 2.1 kilometre sealed all-weather airstrip in the centre of the Island, on time and under the \$20 million budget.

Just after the end of the quarter, the airstrip was successfully commissioned via a test flight of a Fokker 100 jet aircraft. The first passenger flight, planned to carry circa 100 personnel from Perth direct to Koolan Island, is scheduled to take place in mid-October, with two return services scheduled weekly thereafter.

This new airstrip is expected to deliver significant safety, efficiency and cost reduction benefits to the Koolan Island operation by enabling direct jet flights from Perth, reducing the average commute time for Perth personnel by approximately half. The COVID-19 pandemic has further demonstrated the value of this development.

Mid-West Operations

Mount Gibson commenced the existing low-grade sales program from the Extension Hill mine site in June 2019. Sales since that time have now totalled over 3.5 Mwm.

Sales in the September quarter were in line with plan totalling 701,000 wmt, comprising 416,000 wmt of low-grade lump material and 285,000 wmt of low-grade fines.

Cashflow for the quarter from the Mid-West operations totalled \$8 million, including \$2 million from the ongoing rail credit refund.

Operations in the Mid-West continue to proceed well and costs remain in line with plan (refer Cost Performance section of this report). Regional travel restrictions to limit the spread of COVID-19 were lifted in May and have not significantly impacted the Mid-West operations. Mount Gibson remains ready to respond promptly in the event of any required reinstatement of government or other restrictions.

Marketing to further extend the low-grade sales program to the end of calendar 2020 is ongoing based on remaining available low grade stockpiles and additional recoverable low-grade material adjacent to the Extension Hill pit.

As per guidance provided in August, the Company is targeting total low-grade sales of 1.0-1.2 Mwmt by the end of calendar 2020. Thereafter the Extension Hill site is expected to transition to closure.

Total ore sales since Extension Hill commenced production in late 2011 have to date totalled in excess of 25 Mwmt, including sales from the Iron Hill deposit and low-grade material. Extension Hill commenced production with initial ore reserves of 14.5Mt.

Shine Project

Mount Gibson reactivated development planning work for the Shine Iron Ore Project in early 2020. The project, located approximately 85km north of the Extension Hill mine site, was deferred amid deteriorating market conditions in late 2014 but remains a near-term production opportunity with minimal start-up capital requirements.

On 9 October 2020, Mount Gibson declared Ore Reserves of 2.8Mt grading 59.4%¹ Fe in the proposed "Stage 1" pit at Shine, from which the Company plans to commence ore sales in mid-2021.

The Company estimates capital development costs of \$17-20 million, with production to average approximately 1.5Mtpa over an initial two-year period at an average cash operating cost of \$65-70/wmt FOB before royalties.

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.

The base case assumes ore is hauled 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 are also under discussion with third parties.

State environmental approval was renewed in May 2020 and remaining permitting and commercial requirements are currently being pursued.

CORPORATE

Realised Pricing and Revenue

Ore sales revenue for all products sold totalled \$129 million FOB in the September quarter. As the majority of Koolan's sale prices reflect future month averages, revenue figures remain subject to provisional pricing adjustments until finalised 2-3 months after the shipment date. Australian-dollar revenue also reflected the A\$/US\$ exchange rate, with the A\$ averaging US\$0.715 in the September quarter, higher than the US\$0.657 average of the preceding quarter.

The September quarter average Platts CFR price (which includes the cost of shipping paid for by the iron ore supplier) for 62% Fe fines delivered to northern China averaged US\$118 per dry metric tonne (dmt), compared with US\$93/dmt in the preceding quarter.

¹ Refer ASX release dated 9 October 2020, and Competent Person attributions at the end of this report.

The average Platts CFR price index for high-grade 65% Fe fines increased to US\$129/dmt for the quarter, up from US\$108/dmt in the prior quarter, reflecting strong demand for all iron ore products.

During the quarter, high-grade DSO fines from Koolan Island achieved an average realised price of US\$104/dmt FOB after penalties, compared with US\$97/dmt in the prior quarter, reflecting the higher market prices and the reduced average grade sold (63.8% Fe), in line with the mine plan and product blending strategy. Pricing of high-grade Koolan iron ore reflects contract references to Platts 62% and 65% Fe indices as well as Panamax shipping freight rates (averaging around US\$10 per tonne shipped in the quarter, up from US\$7-8 per tonne in the prior quarter), specification adjustments and penalties, and provisional pricing adjustments.

Sales of low-grade material (51-54% Fe) from Extension Hill were conducted on a fixed price basis and achieved an average realised price of US\$30/dmt FOB for fines and US\$41/dmt FOB for lump ore in the quarter, slightly above the average prices achieved in the prior quarter.

Cashflow and Cash Position

The Company's cash and liquid investments totalled \$445 million at 30 September 2020, compared with \$423 million at 30 June 2020.

Cashflow for the quarter totalled \$32 million comprising operating cashflow from Koolan Island of \$26 million (being \$50 million from operations less \$24 million of advance waste stripping investment), operating cashflow from the Mid-West operations of \$8 million (including \$2 million from the historic rail refund), interest income of \$2 million and corporate, administration and foreign exchange costs totalling \$4 million.

After payment of \$16 million for the cash component of the 2019/20 dividend, and positive working capital movements of \$6 million (reflecting the timing of receipts and payments), the net increase in cash and liquid investments over the quarter was \$22 million.

Cost Performance

Group cash costs averaged \$56/wmt FOB in the September quarter (before advanced waste stripping investment at Koolan Island totalling \$24 million), compared with \$72/wmt FOB (and \$79/wmt FOB including \$7 million of advanced waste stripping) in the preceding quarter.

At Koolan Island, site cash costs averaged \$66/wmt FOB in the quarter before waste investment of \$24 million. Site cash costs will align with waste stripping volumes over the coming year and then reduce over the life of the mine as sales volumes increase and the waste/ore strip ratio progressively declines.

In the Mid-West, site cash costs averaged \$40/wmt FOB for the quarter, in line with guidance.

Sales and Cost Guidance for 2020/21

As previously reported, the focus in 2020/21 will be on increased mining movements at Koolan Island to substantially complete the planned open pit waste stripping phase ahead of ore shipment levels rising significantly from the following year onwards. In the Mid-West, the focus will be on completing low grade sales from Extension Hill and bringing the Shine project into production as quickly as possible.

Consequently, Mount Gibson expects total Group sales of 2.8-3.3 Mwmt at a cash cost of \$60-65/wmt FOB for the current financial year, before approximately \$100 million in advanced waste stripping and \$20 million in capital upgrades at Koolan Island.

Koolan Island is expected to contribute 1.8-2.1 Mwmt of high grade iron ore fines sales in the year, with site operating cash costs expected to average \$60-65/wmt FOB before the above-mentioned waste stripping investment and capital upgrade projects. Sales will be weighted toward the latter part of the financial year, with lower volumes in the December and March quarters.

In accordance with the Koolan life-of-mine plan, Mount Gibson originally anticipated that the waste stripping investment would not result in a positive cashflow for the 2020/21 financial year. However, at prevailing iron ore prices, net cashflow from Koolan this year could be modestly positive. Following this waste stripping investment, the operation will see substantial increases in production, sales and cashflow generation from next financial year onwards.

The Mid-West operations are expected to contribute 1.0-1.2 Mwmt at an average cash cost of \$40-45/wmt FOB, comprising the sale of remnant low grade material from the Extension Hill site.

Guidance does not presently include any contribution from the Shine Project.

Annual Statement of Mineral Resources and Ore Reserves

On 23 September 2020, the Company released its annual statement of Mineral Resources and Ore Reserves as at 30 June 2020. Group Mineral Resources totalled 69.4 million tonnes (Mt) grading 61.7% Fe and Ore Reserves totalled 18.7Mt at 65.2% Fe. This compared with 74.2Mt at 61.8% Fe and 20.3Mt at 65.5% Fe respectively in the prior year, reflecting additions from mine design improvements net of mining depletion at Koolan Island, and the removal of remnant resources at the now-rehabilitated Tallering Peak mine-site in the Mid-West.

Full Year 2019/20 Financial Results and Final Dividend

On 19 August 2020, the Company reported a net profit after tax of \$84.2 million for the year ended 30 June 2020 and declared a fully franked final dividend of 3.0 cents per share, totalling \$34.8 million, taking total dividends distributed since late 2011 to \$309 million, fully franked.

The cash component of the 2019/20 dividend totalled just over \$16 million, reflecting a 53% take-up of the Dividend Reinvestment Plan, and was distributed in September.

The Company released its Annual Report for the 2019/20 financial year on 9 October 2020.

Annual General Meeting (AGM)

Mount Gibson will hold an online virtual AGM at 3:00pm AEST (12:00 noon Western Australian time) on Wednesday 11 November 2020. Shareholders will not be able to attend in person at the AGM. Information explaining how shareholders may access, vote and ask questions within the online meeting room is provided in the Company's Notice of AGM released to the ASX on 9 October 2020.

Authorised by:

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Mount Gibson will host an analysts/institutions teleconference at **1:00pm AEDT (10:00am WST)** on **Monday 12 October 2020**. Investors will be able to listen to the teleconference by dialling **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 be available via the Mount Gibson website after completion of the teleconference. In case of difficulties, operator assistance can be reached on 1300 289 804 (Australian callers) or +613 8788 6028 (overseas callers).



Figure 1: Koolan Main Pit, looking east, 3 October 2020.



Figure 2: Koolan crushing plant, ore stockpile area, wharf and shiploading facilities, 24 September 2020.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics

	Sep-2019 Quarter	Dec-2019 Quarter	Mar-2020 Quarter	Jun-2020 Quarter	Sep-2020 Quarter	2020/21 Year to Date
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	2,985	3,276	3,113	3,053	4,544	<i>4,544</i>
Ore mined	651	763	545	805	672	<i>672</i>
Ore crushed	661	722	432	556	683	<i>683</i>
Shipping/Sales*						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	664	733	439	516	672	<i>672</i>
Total	664	733	439	516	672	<i>672</i>
MID-WEST						
Mining & Crushing						
Waste mined	-	-	-	-	-	-
Ore mined	-	-	-	-	-	-
Low-grade material crushed	882	694	484	265	680	<i>680</i>
Shipping/Sales*						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	-	-	-	-	-	-
Low-grade Lump	473	478	233	232	416	<i>416</i>
Low-grade Fines	238	172	354	410	285	<i>285</i>
Total	711	649	587	643	701	<i>701</i>
CONSOLIDATED DATA						
Shipping/Sales*						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	664	733	439	516	672	<i>672</i>
Low-grade Lump	473	478	233	232	416	<i>416</i>
Low-grade Fines	238	172	354	410	285	<i>285</i>
Total	1,375	1,382	1,026	1,158	1,373	<i>1,373</i>
kwmt = thousand wet metric tonnes. * Mount Gibson ships from Geraldton Port in Panamax vessels which contain an average of 60,000 wmt, and from Koolan Island in Panamax and Kamsarmax vessels which contain an average of 72,000-77,000 wmt. Minor discrepancies may appear due to rounding.						

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.