



Mount Gibson Iron Limited

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ASX ANNOUNCEMENT

13 February 2018

December 2017 Half-Year Financial Result

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

- Net profit after tax of **\$80.0 million** (1H 2016-17: \$22.9 million), comprising \$15.7 million from operations and \$64.3 million from the proceeds of the Koolan Island business interruption insurance settlement.
- Gross profit from continuing operations of **\$23.1 million** before tax (1H 2016-17: \$24.2 million).
- Sales revenue of **\$90.2 million** (1H 2016-17: \$93.8 million).
- Total product sales of **1.7 million wet metric tonnes** (Mwmt) (1H 2016-17: 1.8 Mwmt).
- Cash, term deposits and liquid investments of **\$477 million** at 31 December 2017, an **increase of \$31 million** over the half year.
- \$64.3 million cash proceeds from Koolan Island business interruption insurance claim received July 2017.
- All-in group cash costs* of **\$46/wmt** FOB (1H 2016-17: \$48/wmt), below original guidance of \$47-52/wmt, with full year guidance now being lowered.
- Iron Hill mine operating at full capacity, on track for mining completion in late 2018.
- High-grade Koolan Island Restart Project progressing toward targeted first ore sales in early 2019.
- Sales guidance for 2017/18 maintained at **3.5–3.8 Mwmt** and a reduced all-in group cash cost* of **\$45-50/wmt FOB**.

**All-in group cash costs are reported FOB and include all operating, capital, royalties and corporate costs, excluding development capital related to the Koolan Island restart project.*

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "The Mount Gibson team continues to deliver strong operational and financial results during a period of ongoing price volatility and significant operational transition. Our solid gross profit from continuing operations of \$23.1 million on sales of \$90 million, when combined with the \$64.3 million settlement of our Koolan Island business interruption insurance claim received in July, lifted our overall net profit after tax for the half year to \$80.0 million.

"This performance, ensures the Company remains in a strong position as we maximise production and sales from Iron Hill ahead of its expected completion late this year, and continue to progress our high margin Koolan Island Restart Project in order to achieve first ore sales early in 2019.

"Underpinned by our ongoing commitment to financial and operational discipline, Mount Gibson has strong prospects ahead of it with Iron Hill at full steam, development advancing rapidly to restart Koolan Island, and the financial capacity to act on additional value-creation opportunities that may emerge."

Results for the half-year ended 31 December 2017 compared with the prior corresponding half-year period:		Half-Year ended 31 December 2017	Half-Year ended 31 December 2016
Ore tonnes mined*	<i>wmt (mill)</i>	2.2	1.1
Ore tonnes sold*	<i>wmt (mill)</i>	1.7	1.8
Average realised price, all products (FOB)*	<i>\$/wmt sold</i>	54	57
Continuing Operations (Extension Hill & Koolan Island):			
Sales revenue	<i>\$ mill</i>	90.2	93.8
Interest income	<i>\$ mill</i>	6.2	6.0
Cost of sales	<i>\$ mill</i>	(73.3)	(75.6)
Gross profit	<i>\$ mill</i>	23.1	24.2
Admin and other expenses	<i>\$ mill</i>	(7.5)	(8.4)
Other income	<i>\$ mill</i>	64.9	4.5
Finance costs	<i>\$ mill</i>	(0.3)	(0.6)
Profit before tax from continuing operations	<i>\$ mill</i>	80.2	19.7
Income tax benefit/(expense)	<i>\$ mill</i>	-	1.5
Profit after tax from continuing operations	<i>\$ mill</i>	80.2	21.2
Discontinued Operations (Tallering Peak):			
Profit/(loss) after tax from discontinued operations	<i>\$ mill</i>	(0.2)	1.7
Net profit/(loss) after tax	<i>\$ mill</i>	80.0	22.9
<i>Note: Some totals may not add due to rounding.</i>			
<i>* Shown inclusive of the discontinued Tallering Peak operation. Refer the attached financial statements for further details.</i>			

Table 1 – Financial Results

Earnings Summary

Mount Gibson recorded a net profit after tax of \$80.0 million for the half year ended 31 December 2017, comprising \$15.7 million from operations and \$64.3 million from the proceeds from settlement of the Koolan Island business interruption insurance claim. Gross profit from continuing operations totaled \$23.1 million, compared with \$24.2 million previously. The result was recorded on sales revenue of \$90.2 million and total iron ore sales of 1.7 Mwmt, including sales of low grade material from Extension Hill stockpiles.

The result compares with a net profit after tax for the prior corresponding half-year of \$22.9 million on total sales revenue of \$93.8 million (\$102.0 million including the discontinued Tallering Peak operation).

Realised Pricing

During the December 2017 half-year, the 62% Fe Platts Index price averaged US\$68 per dry metric tonne ("dmt"), compared with US\$65/dmt in the prior half-year. However, although the benchmark iron ore price (for 62% Fe fines material) remained at solid levels, market prices for lower and medium grade iron ore were adversely impacted by significantly increased discounts, a situation which many commentators are now describing as a permanent structural change to global iron ore pricing.

Reflective of these conditions, Mount Gibson achieved an average realised price for standard iron ore fines product for the half-year of US\$29/dmt Free On Board ("FOB") after grade and provisional pricing adjustments and penalties for impurities, compared with an average of US\$44/dmt in the 2016/17 financial year and US\$43/dmt in the prior corresponding December 2016 half-year period. Lump product from Iron Hill achieved an average realised price of US\$60/dmt FOB for the December 2017 half-year, reflecting the premium attached to higher grade lump products. The average grade of Iron Hill high grade lump ore sold during the half-year was 61.5% Fe, and of Iron Hill high grade fines was 59.5% Fe.

The weighted average realised price received (including realised foreign exchange hedging gains) for all products sold was \$54/wmt FOB in the half-year period compared with \$55/wmt FOB in the 2016/17 financial year and \$57/wmt FOB in the December 2016 half-year.

Cashflow Summary

Mount Gibson delivered a steady financial performance for the December 2017 half-year during a period of continued price volatility and ongoing operational transition.

The Group's cash, term deposits and tradeable investment balances increased by \$30.7 million over the half-year to \$477.4 million at 31 December 2017. This increase reflected steady underlying operating cashflow of \$14.5 million, receipt of \$64.3 million from settlement of the business interruption component of the Koolan Island insurance claim, net interest income of \$6.6 million, Koolan Island Restart Project expenditure (including the purchase of plant and equipment) of \$32.4 million, other minor items, and the payment of a \$21.9 million fully franked dividend to shareholders in October 2017.

All-in group cash costs averaged \$46/wmt in the six month period, compared with \$48/wmt in the prior corresponding half, reflecting the ramp up to full production at the Iron Hill deposit in the Mid-West.

Mid-West Operations

The Extension Hill/Iron Hill operations achieved a sound operational performance in the half-year, resulting in total ore shipments of 1.7 Mwmt. Sales comprised 0.8 Mwmt of lump ore and 0.7 Mwmt of fines ore from the Iron Hill operation and 0.2 Mwmt of low grade lump material from existing stockpiles at Extension Hill.

All production came from the Iron Hill deposit in the period as operations ramped up to full capacity, including the commencement of a third daily train in November. Mining remains on track for completion in late 2018. Low grade sales from stockpiles at the completed Extension Hill mine were also concluded in November, although further low grade sales may be undertaken on an opportunistic basis if and when economic conditions justify.

Koolan Island

The other primary operational focus in the period was progressing the high-grade Koolan Island Restart Project¹. Following commencement of material siteworks in June, construction activity steadily increased during the half-year.

After the starter embankment was successfully completed in the September quarter, activity in the December quarter focused on the initial stage of the seepage barrier construction. By the end of the half-year period, the last of the vertical drains had been completed, along with the installation of in-ground monitoring instrumentation. Initial stages of seepage barrier construction typically require extensive on-site trialling and optimisation to adapt to actual ground conditions. Panel dig rates, while slow initially, have been increasing satisfactorily as the construction approach has been adapted.

The Project was approximately 33% complete at the end of January 2018, and presently remains on track to achieve targeted first ore sales in the first quarter of calendar 2019. Contingency provisions in the Project budget are currently considered to be sufficient to meet the bulk of expected additional costs. However, with the wet season underway, the Company continues to monitor both schedule and budget closely.

The Company also continues to evaluate a potential pit extension to convert an additional 7Mt of Mineral Resources at the eastern end of the Main Pit into Ore Reserve status. This evaluation is expected to be concluded during the current June half of 2017-18.

Koolan Island Seawall Insurance Claim

In July 2017 the Company reached final agreement with 14 insurers, representing 92.5% of the Company's underwriting cover for the Koolan business interruption insurance cover, for a cash settlement of the business interruption component of the Koolan Island insurance claim for \$64.3 million. Proceeds of the settlement were received in July. Negotiations are continuing with one further insurer representing the remaining 7.5% of the Company's business interruption insurance program.

This settlement takes total cash proceeds from Mount Gibson's insurance claim for the seawall failure to just over \$150 million, including the \$86 million cash settlement received for property damage in mid-2016.

¹ Refer ASX release dated 27 April 2017 for full details of the Koolan Island Restart Project.

Looking Forward

The Board's corporate objective is to continue to pursue an appropriate balance between the retention and utilisation of cash reserves for value-accretive investments. The Board has determined the following key business objectives for the 2017/18 financial year:

- **Extension Hill/Iron Hill** – continue to mine the Iron Hill deposit while optimising production rates and controlling costs, to maximise margins and prepare the site for its ultimate closure in 2019.
- **Koolan Island** – continue the rebuild of the Main Pit seawall in preparation for dewatering the pit and commencement of commercial production, with initial ore sales anticipated in early 2019.
- **Cost reductions** - continue to drive for sustainable cost improvements across the existing business.
- **Treasury returns** – maintain the increased yield on the Group's cash and investment reserves.
- **Growth projects** - continuation of the search for acquisition opportunities in the resources sector.

Group Sales Guidance and Cash Costs Guidance

Mount Gibson expects its annual sales for the 2017/18 financial year to be between 3.5 and 3.8 Mwmt of iron ore at a reduced average all-in group cash cost of \$45-50/wmt (previously \$47-52/wmt). All-in group cash costs are reported FOB and include cash operating expenditure, royalties, sustaining capital expenditure and corporate costs, and exclude Koolan Island project capital expenditure.

The Appendix 4D and half-year financial statements are attached.

For further information:

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Mount Gibson will host an analysts/institutions teleconference at **10.30am AEDT on 13 February 2018**. Investors will be able to listen in to the teleconference by dialing **1800 857 029** 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 1800 857 079 (Australian callers) or +61 3 8788 6028 (overseas callers).