



Mount Gibson Iron

ASX ANNOUNCEMENT

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Mount Gibson Iron Limited

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Profit Result for 2018/19 Financial Year & Declaration of Final Dividend

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

- **Total iron ore sales of 3.2 million wet metric tonnes** (Mwmt), comprising 2.93 Mwmt of direct-shipping ore (DSO) and 0.24 Mwmt of stockpiled low grade material (2017/18: 3.6 Mwmt).
- **Profit before tax from all operations of \$70.5 million** (2017/18: \$34.8 million before insurance settlement proceeds).
- **Net profit after tax of \$133.4 million** (2017/18: \$99.1m) after recognition of deferred tax assets totalling \$62.9 million.
- Cash, term deposits and liquid investments of **\$384.5 million** at 30 June 2019.
- **Operating cashflow of \$59.4 million** (2017/18: \$34.9 million before insurance settlement) and interest income of \$11.6 million.
- **Successful redevelopment of the Koolan Island high grade iron ore operation**, with commercial production achieved in the June quarter following development expenditure of \$109.1 million during the year, and \$17.1 million of associated plant and equipment purchases.
- Continuation of the Mid-West business through **opportunistic sales of stockpiled low grade material** from Extension Hill. In addition, the right has been earned to a **future income stream** based on third party Mid-West rail volumes, capped at approximately \$35 million.
- Declaration of a **fully franked final dividend for 2018/19 of 4.0 cents per share**, payable either in cash or shares to eligible shareholders through the Company's Dividend Reinvestment Plan.
- Sales guidance for 2019/20 of **3.7-4.0 Mwmt** at an all-in group cash cost* of **\$70-75/wmt FOB** (US\$49-53/wmt at A\$1.00/US\$0.70), providing attractive margins for the Company's high grade Koolan Island iron ore products. Cash costs at Koolan Island are projected to progressively decline over the mine life in line with the mine schedule as the strip ratio reduces each year.

**All-in group cash costs are reported FOB and include all operating, capital, royalties and corporate costs.*

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, commented: "Mount Gibson has delivered a robust financial result during a year of significant operational transition, with net profit after tax rising to \$133.4 million, comprising a solid profit before tax from all sites of \$70.5 million plus the recognition of previously impaired deferred tax assets.

"Our strong result came as we transitioned from mining operations in the Mid-West to our flagship high grade Koolan Island mine in the Kimberley region, aided by improved iron ore prices and reflecting a firm focus on safety, operational and financial discipline. We also capitalised on improved conditions by commencing a program of opportunistic sales of stockpiled low grade material from the Extension Hill mine site which has again extended the life and financial returns of our Mid-West business.

"It is therefore very pleasing to reflect this financial performance in the declaration of a fully franked final dividend for the 2018/19 financial year of four cents per share. With a robust balance sheet and our high grade Koolan Island mine now ramping up, Mount Gibson is well placed to generate strong financial returns."

Group Summary Results (all currency expressed in Australian dollars)		Year ended 30 June 2019	Year ended 30 June 2018
Physicals:			
Ore mined	<i>M wmt</i>	2.4	4.1
Ore sold	<i>M wmt</i>	3.2	3.6
Realised Price:			
Average realised price, all products, after shipping freight (FOB)	<i>\$/wmt</i>	76	54
Continuing Operations (Extension Hill & Koolan Island):			
Sales revenue, before shipping freight	<i>\$m</i>	278.4	254.1
Interest income	<i>\$m</i>	11.1	12.1
Cost of sales, including shipping freight	<i>\$m</i>	(204.3)	(217.5)
Gross profit from continuing operations	<i>\$m</i>	85.2	48.7
Other income	<i>\$m</i>	4.7	2.2
Koolan Island business interruption insurance proceeds	<i>\$m</i>	-	64.3
Administration and other expenses	<i>\$m</i>	(18.1)	(14.8)
Finance costs	<i>\$m</i>	(1.5)	(1.3)
Profit before tax from continuing operations	<i>\$m</i>	70.3	99.1
Income tax benefit – recognition of deferred tax assets	<i>\$m</i>	62.9	-
Profit after tax from continuing operations	<i>\$m</i>	133.3	99.1
Profit after tax from discontinued operations (Tallering Peak)	<i>\$m</i>	0.1	-
Net profit after tax	<i>\$m</i>	133.4	99.1
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 \$133.4 million for the year ended 30 June 2019 on total iron ore sales of 3.2 million wet metric tonnes (Mwmt). The result compares favourably with the net profit after tax of \$99.1 million reported for the prior year and reflects a pre-tax profit of \$70.5 million from all sites, and recognition of deferred tax assets totalling \$62.9 million. As at 30 June 2019, the Company had gross carry forward tax losses from prior years of \$163.3 million (net 30% value \$49.0 million), which are expected to be recouped in the next few years.

The reported profit before tax (including discontinued operations at Tallering Peak) of \$70.5 million was well in excess of the result of \$34.8 million reported in 2017/18 excluding the Koolan Island business interruption insurance settlement. This significant improvement reflected a 41% increase in average realised prices and the commencement of high grade sales from Koolan Island in late April 2019.

The Group's average cost of sales increased from \$44/wmt FOB in 2017/18 to \$50/wmt FOB in 2018/19. This reflected increased royalties of approximately \$2/wmt arising from higher realised prices, the transitional impacts of reduced production and wind-down costs in the Mid-West operation prior to the commencement of the low grade sales program later in the year, and operating costs associated with the commencement of high grade sales at Koolan Island. Unit costs at Koolan Island are expected to decrease with the ramp-up of production volumes.

Realised Pricing

Iron ore prices rose substantially during 2018/19, most notably following supply disruptions in Brazil in the wake of a tragic tailings dam collapse in late January 2019. The Platts Index for delivery of 62% Fe iron ore fines to northern China traded within a band of US\$62-78/dmt in the first half of the financial year but increased thereafter, averaging US\$83/dmt in the March 2019 quarter and US\$100/dmt in the June 2019 quarter. It ended the year at US\$118/dmt and averaged US\$80/dmt for the full 12 months. This coincided with a significant narrowing of the respective discounts and premiums for ores grading below and above 62% Fe respectively.

Mount Gibson achieved an average realised price for all products sold (including realised foreign exchange and commodity hedging movements) of \$76/wmt FOB in the year compared with \$54/wmt FOB in 2017/18. This reflected an average realised price of US\$37/dmt FOB (after grade and provisional pricing adjustments and penalties for impurities) for standard Mid-West iron ore fines product, the bulk of which was sold in the first half of the year. In the June quarter, the average price received for the initial sales of high grade Koolan Island fines was US\$106/dmt FOB, while remnant low grade material from Extension Hill was sold on a fixed price basis realising an average of US\$29/dmt FOB for fines and US\$36/dmt FOB for lump.

The Australian dollar consistently traded lower than in the prior year, averaging A\$1.00/US\$0.715, compared with US\$0.775 in 2017/18. The dollar ended the year at US\$0.701, after trading between a high of US\$0.747 in July 2018 and a low of US\$0.688 in May 2019.

The Company has life of mine offtake agreements in place covering all production from Koolan Island. These offtake 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 reserves, including term deposits and liquid investments, totalled \$384.5 million at 30 June 2019, a decrease of \$73.0 million from the prior year. This decrease reflected operating cashflows (net of corporate costs) of \$59.4 million, interest received of \$11.6 million, Koolan Island mine development expenditure of \$109.9 million, purchases of property, plant and equipment of \$18.5 million, and payment in October 2018 of the \$18.3 million cash component of the final 2017/18 fully franked dividend to shareholders.

As at the balance date, the Company's current assets totalled \$447.7 million and current liabilities totalled \$73.1 million. The Company has no bank borrowings with its liabilities related predominantly to trade payables, employee entitlements, derivatives and provisions for rehabilitation and other items.

Total all-in group cash costs averaged \$53/wmt FOB for the year, excluding capitalised Koolan Island restart and pre-production expenditure, at the lower end of guidance. This compared with \$45/wmt in the prior year when the Mid-West operations were the Company's sole production source.

Site cash costs for the Mid-West operations, including low grade sales, averaged \$39/wmt FOB for the year, in line with guidance. Site cash costs for Koolan Island averaged \$77/wmt (excluding royalties) from the commencement of commercial operations at the end of May 2019. Unit costs at Koolan Island are projected to progressively decline over the mine life in line with the mine schedule as the strip ratio reduces each year.

Koolan Island Operations

At Koolan Island, the primary focus of activity in the 2018/19 financial year was completion of all restart works and pre-production activities to recommence high grade ore production and sales from the Main Pit. Completion of the impermeable seepage barrier in the seawall embankment was achieved in July 2018, enabling pit dewatering to commence in August 2018, along with refurbishment of the Main Pit footwall and re-profiling of the Main Pit hanging wall.

Dewatering proceeded generally to plan, with the seawall coming under full tidal loads in November 2018. Blasting and waste mining in the upper levels of Main Pit also commenced at this time. All instrumentation and monitoring data continue to demonstrate the seawall is performing according to expectations.

The first shipment of high grade ore, averaging 65% Fe, was completed in late April 2019. Mining and ore production progressively ramped up in the remaining two months of the financial year, and the site attained commercial production for reporting purposes at the end of May 2019. Five ore shipments totalling 0.4 Mwmt of high grade ore from Main Pit were completed during the June quarter. At year end, the site was on track to average 3-4 Panamax shipments per month, consistent with the initial period mine plan.

Total expenditure (cash and non-cash) on the Koolan restart project in the year comprised capitalised construction and pre-production costs of \$38.8 million, capitalised waste mining costs of \$65.6 million, the purchase of plant and equipment totalling \$17.6 million and cost of sales of \$34.6 million FOB.

Mid-West Operations

Mining operations were completed in the Iron Hill deposit in December 2018 as planned, with the final shipment of higher grade Direct Shipping Ore (DSO) exported from Geraldton Port in late February 2019. Following renewed market interest in lower grade material, the Company commenced shipments of previously uneconomic stockpiled low-grade material from the Extension Hill mine site in June 2019. Four shipments were completed in the month of June, and the program envisages total low grade shipments in the order of 1.0 Mwmt over a six month period. The potential for any additional sales is dependent on future iron ore prices. The resulting cashflow from these sales is modest but this activity assists in final site rehabilitation works.

The Mid-West Operations delivered a solid financial result for 2018/19. Ore shipments totalled 2.8 Mwmt, comprising 1.4 Mwmt of DSO lump, 1.2 wmt of DSO fines and 0.2 Mwmt of low grade material. The mine generated earnings before interest and tax of \$60.8 million.

Given the site closure and rehabilitation activities completed to date, the Mid-West closure provision has reduced from \$11.8 million at 30 June 2018 to \$9.9 million at 30 June 2019.

Extension Hill Rail Refund/Credit

Following achievement of a contractual rail volume threshold at Extension Hill in 2018, the Group became entitled to receive a partial cash refund of historical rail access charges from the Mid-West railway leaseholder based upon the future usage by certain third parties of specific segments of the Perenjori to Geraldton railway line. This refund is calculated at various volume-related rates, and is capped at a total of approximately \$35 million (subject to indexation) and a time limit expiring in 2031. Receipt of the first payment is anticipated to occur at the end of September 2019, and at six month intervals thereafter, with payments dependent on the volumes railed by third parties on the specified rail segments. As at 30 June 2019, a refund totalling \$2.5 million relating to the period from late February to 30 June 2019 was accrued in Other Income.

Outlook

Mount Gibson's overall objective is to grow long-term profitability through the discovery, development, operation and acquisition of mineral resources. As an established producer and exporter of hematite iron ore, Mount Gibson's strategy is to expand its profile as a successful and profitable supplier of raw materials.

The Board's corporate objective is to grow the Company's cash reserves and continue to pursue an appropriate balance between the retention and utilisation of its cash reserves for value-accretive investments. The Board has determined the following key business objectives for the 2019/20 financial year:

- *Extension Hill* - complete the current program of Extension Hill low grade sales, and extend the program should favourable market prices continue. Thereafter, transition the site to final closure.
- *Koolan Island* - complete the ramp-up of ore production and sales in line with the mine plan to maximise cashflow and capitalise on favourable market conditions.
- *Cost reductions* - continue to drive for sustainable cost improvements across the existing business.
- *Treasury returns* - maintain an appropriate yield on the Group's cash and investment reserves.
- *Growth projects* - continue the search for acquisition opportunities in the resources sector.

Group Sales Guidance and Cash Costs Guidance

Mount Gibson expects total sales of 3.7-4.0 Mwmt of iron ore at an average group cash cost of \$70-75/wmt for the 2019/20 financial year. Group cash costs are reported FOB and include all operating, capital, royalties and corporate costs.

Koolan Island is expected to contribute 2.7-3.0 Mwmt of high grade DSO, with site cash costs expected to average \$72-77/wmt FOB including capitalised waste stripping. Unit costs at Koolan Island are projected to progressively decline over the mine life in line with the mine schedule as the strip ratio reduces each year.

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

Dividend

Following consideration of the solid operational performance of the business in 2018/19, the Board is pleased to declare a fully franked final dividend for the 2018/19 financial year of 4.0 cents per share, totalling \$45.2 million. The dividend has not been provided for in the Company's 30 June 2019 financial statements. This dividend extends the total value of fully franked distributions to shareholders since late 2011 to \$274 million. Mount Gibson is proud of its established record of distributing dividends to shareholders when the business is generating operating profit and can afford to do so.

The dividend will be payable either in cash or in shares to eligible shareholders as part of the Company's Dividend Reinvestment Plan (DRP). Shares issued under the DRP will be allocated at a 5% discount to the volume-weighted average price of Mount Gibson's shares for the five trading days prior to the Record date. The DRP will be open to shareholders with registered addresses in Australia, New Zealand, Hong Kong, Singapore and the United Kingdom. All eligible shareholders are encouraged to refer to the DRP Rules on the Company's website.

The proposed dates for the 2018/19 final dividend are as follows:

Date	Action
3 September 2019	Ex-dividend date
4 September 2019	Record date
16 September 2019	Last date for eligible shareholders to elect DRP participation
26 September 2019	Payment date
27 September 2019	Proposed DRP share issue date (no later than 11 October 2019)

Full details of Mount Gibson's 2018/19 financial results are available in the Appendix 4E and annual 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 21 August 2019**. 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).