



Mount Gibson Iron

## ASX ANNOUNCEMENT

25 August 2021

# Mount Gibson Iron Limited

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## Profit Result for 2020/21 Financial Year & Declaration of Final Dividend

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

- Total iron ore sales of **3.0 million wet metric tonnes** (Mwmt), comprising 1.8 Mwmt of Koolan Island fines and 1.2 Mwmt of Mid-West low grade material (2019/20: 4.9 Mwmt).
- Profit after tax of **\$64.0 million** (2019/20: \$84.2 million).
- Cash and investments of **\$364.7 million** at 30 June 2021 (30 June 2020: \$423.2 million).
- Cashflow from operations of **\$165.2 million** (2019/20: \$160.1 million) before interest income of \$6.9 million, mine development expenditure at the Koolan Island and Shine iron ore operations of \$185.0 million, the purchase of plant and equipment for \$30.0 million and payment of the \$16.3 million cash component of the 2019/20 final dividend.
- **Steady progress toward completion of the major waste stripping phase at Koolan Island**, with production and ore quality tracking to increase significantly from the end of 2021 onwards.
- **Successful development of the Shine Iron Ore Project**, with the first shipment to depart today.
- **Mid-West low grade sales program successfully completed**, after generating cumulative cashflow of \$30 million over the 19 month duration of the program.
- **Final dividend** for 2020/21 of **2.0 cents per share fully franked**, payable either in cash or shares to eligible shareholders through the Company's Dividend Reinvestment Plan.
- Ore sales guidance for 2021/22 of **3.0-3.2 Mwmt** at site cash operating costs\* of **\$75-80/wmt FOB** before waste stripping investment and capital improvement projects.

*\*Site cash operating costs are reported Free on Board (FOB) and include all site operating and sustaining capital costs but exclude royalties, capitalised waste stripping, capital projects and corporate costs. Shine site cash operating costs will be higher in the initial ramp-up phase and reduce to the targeted level thereafter.*

### Comment

Mount Gibson Chief Executive Officer, Peter Kerr, commented: "Mount Gibson delivered a steady financial result in a year of very substantial investment in the future of our business to enable increasing sales and cashflows in coming years. Our profit result was achieved in a year in which our Extension Hill operation in the Mid-West moved to final closure, we constructed the new Shine project nearby and we progressed the waste stripping and capital investments phase at Koolan Island.

"The current investment phase will continue in the first half of the 2021/22 financial year, after which our sales and cashflows are forecast to rise significantly. Our first shipment from the Shine project in the Mid-West is expected to depart Geraldton Port today, and at Koolan Island we expect to regain mining access to premium high grade ore at the end of 2021, around the same time as our processing plant upgrade is completed.

"The Board is therefore pleased to declare a fully franked final dividend for the 2020/21 financial year of two cents per share, which takes total shareholder distributions since Mount Gibson's first dividend ten years ago to over \$332 million fully franked."

<b>Group Summary Results</b> (all currency expressed in Australian dollars)		<b>Year ended 30 June 2021</b>	<b>Year ended 30 June 2020</b>
<b>Physicals:</b>			
Ore mined	<i>M wmt</i>	2.1	2.8
Ore sold	<i>M wmt</i>	3.0	4.9
<b>Realised Price:</b>			
Average realised price, all products, after shipping freight (FOB)	<i>\$/wmt</i>	103	84
<b>Income Statement:</b>			
Sales revenue	<i>\$m</i>	329.7	445.2
Interest income	<i>\$m</i>	6.3	7.1
Cost of sales, including shipping freight	<i>\$m</i>	(214.8)	(329.0)
<b>Gross profit</b>	<i>\$m</i>	<b>121.2</b>	<b>123.3</b>
Other income	<i>\$m</i>	14.6	17.7
Administration and other expenses	<i>\$m</i>	(14.5)	(13.4)
Net realised/unrealised foreign exchange and hedging losses	<i>\$m</i>	(28.3)	(5.4)
Finance costs	<i>\$m</i>	(0.8)	(1.5)
<b>Profit before tax</b>	<i>\$m</i>	<b>92.1</b>	<b>120.7</b>
Tax expense	<i>\$m</i>	(28.1)	(36.5)
<b>Profit after tax</b>	<i>\$m</i>	<b>64.0</b>	<b>84.2</b>
<b>Earnings per share</b>	<i>c/share</i>	<b>5.5</b>	<b>7.3</b>
<b>Dividend per share, fully franked</b>	<i>c/share</i>	<b>2.0</b>	<b>3.0</b>
Totals may not add due to rounding.			

## Earnings Summary

Mount Gibson Iron Limited (**Mount Gibson** or the **Company**) recorded a profit after tax of \$64.0 million for the year ended 30 June 2021 on total iron ore sales of 3.0 million wet metric tonnes (**Mwmt**). The result compares with a profit after tax of \$84.2 million in 2019/20, during which sales totalled 4.9 Mwmt.

Sales revenue, including shipping freight services for various Mid-West sales contracts undertaken on a "Cost and Freight" (**CFR**) basis, totalled \$329.7 million. Net of shipping freight, total sales revenue was \$311.7 million "Free on Board" (**FOB**). This compares with total sales revenue of \$445.2 million CFR and \$415.0 million FOB respectively in the prior year.

Gross profit totalled \$121.2 million, similar to the \$123.3 million for the prior year, while profit before tax totalled \$92.1 million, compared with \$121.1 million the prior year. As at 30 June 2021, the Company had total carry forward tax losses of \$172.7 million (net 30% value of \$51.8 million), which are expected to be recouped during the next 1-2 years.

The Group's cost of sales averaged \$65/wmt sold FOB in the year compared with \$60/wmt FOB in 2019/20, reflecting reduced ore sales during the major waste stripping phase at Koolan Island, where activity was also impacted by adverse weather and geotechnical challenges, the completion of sales from Extension Hill in December 2020, and disruption and increased costs associated with COVID-19 restrictions.

## COVID-19 Business Response

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 Australia, and strict social distancing requirements. These measures particularly impacted availability of labour from interstate, necessitating a freeze on interstate recruitment. While normal fly-in-fly-out (FIFO) rosters and travel within WA resumed from mid-2020, Mount Gibson continues to maintain a range of general site and travel protocols to reduce the risk of virus transmission and stands ready to respond promptly in the event of any reinstatement of government restrictions. This readiness was demonstrated in the March and June 2021 quarters during which the Western Australian Government initiated

three brief lockdowns in the Perth and Peel metropolitan region of the State following reported cases of community transmission. This included the reinstatement of certain regional travel restrictions, mandatory mask-wearing requirements and site social distancing protocols. These restrictions, in particular the interstate border and quarantine restrictions, reduced the availability of skilled FIFO personnel and resulted in disruption and increased costs to Mount Gibson's operating activities.

Mount Gibson personnel have responded positively to changing circumstances throughout the pandemic and no instances of COVID-19 were reported at any Mount Gibson workplaces during the reporting period.

### **Realised Pricing**

The Company's performance was assisted by continued strong iron ore prices over the year. At the beginning of the financial year, the Platts Index for delivery of 62% Fe iron ore fines to northern China was approximately US\$101 per dry metric tonne (**dmt**), reflecting the continued impacts of supply disruption in Brazil and rapid demand growth in China as it recovered from the COVID-19 pandemic. The price progressively rose over the remainder of the year, peaking at US\$233/dmt in May 2021, ending the year at US\$218/dmt to average US\$154/dmt for the twelve month period. Higher prices were negatively offset by a significantly stronger Australia dollar, which averaged A\$1.00/US\$0.747 over the year (from US\$0.66 the prior year) reflecting Australia's economic recovery from the early stages of the global pandemic.

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 \$103/wmt FOB, net of shipping freight, compared with \$84/wmt FOB in 2019/20. This reflected sales in the first half of the financial year of high grade ore from Koolan Island and lower grade material from the Mid-West, followed by reduced volumes and grades from Koolan Island in the second half of the financial year as the waste stripping program progressed and access to high grade ore from Main Pit remained restricted. Sales from Koolan Island realised an average price of US\$104/dmt FOB for the year. All sales from the Mid-West comprised stockpiled low-grade material from Extension Hill, which was sold on a fixed price basis and realised an average price of US\$30/dmt FOB for fines and US\$43/dmt FOB for lump.

### **Cashflow Summary**

The Group's cash and investment reserves, including term deposits and liquid investments, totalled \$364.7 million at 30 June 2021, a decrease of \$59.1 million from the prior year. The key components of the decrease include positive operating cashflows of \$135.3 million (after head office costs, sustaining capital expenditure and working capital movements), interest received of \$6.9 million, Koolan Island and Shine mine development expenditure of \$185.0 million and payment of the \$16.3 million cash component of a fully franked dividend to shareholders for the 2019/20 financial year.

### **Koolan Island Operations**

At Koolan Island, the primary focus of activity during the year was progressing on the bulk waste stripping program and cutback of Main Pit while commencing remedial upper footwall support works and an upgrade to the crushing circuit, all of which are intended to facilitate increased ore production, sales and cashflow from the second half of financial year 2021/22 onwards.

Total material movement increased by 33% to 20.1 Mwmmt of waste and ore mined during the year. Ore production totalled 1.4 Mwmmt in the year, while sales totalled 1.8 Mwmmt. The average grade of ore shipped for the year was 61% Fe.

The mine generated earnings before interest and tax of \$104.1 million in 2020/21, reflecting the sales made as well as progress of the Main Pit waste stripping and cutback program, disruption from extreme wet season weather and restricted mining access to high grade ore following a rockfall in the west end of Main Pit in late 2020.

As reported in November 2020, the rockfall did not result in any injuries to personnel or damage to equipment, and the seawall side of the Main Pit was not impacted by this event. In-ground instrumentation continues to demonstrate that the seawall, which incorporates the installed impermeable seepage barrier, is performing to design expectations.

To ensure safe access for future mining in the western end of the Main Pit, Mount Gibson has engaged a specialist contractor to undertake geotechnical footwall ground support bolting in the impacted areas. Mobilisation of personnel and equipment to site commenced in April 2021, with initial works started in May. Work is progressing but efforts are currently being impacted by interstate COVID travel restrictions. The program is forecast to cost approximately \$20 million, with both Mount Gibson and the contractor seeking ways to increase productivity and decrease cost.

This geotechnical footwall program will progressively allow mining access to high grade ore zones in the lower western end and central parts of the Main Pit, from late 2021 onwards. In the interim, lower and medium grade ore will continue to be sourced from zones within Main Pit and from the Acacia satellite pit. These areas provided the bulk of ore production in the June half year, and as previously reported, are lower in grade and more variable in quality. Consequently, the average grade of material shipped in the June 2021 half year was 58% Fe, compared with an average sales grade of 63% Fe in the December half year.

In addition to the Company's significant investment in waste stripping, which totalled \$138.2 million in the year, and the ongoing footwall support program, Mount Gibson is also part-way through an upgrade of the mine's processing plant. The first stage of the upgrade was completed in May, with the second final stage on track for completion in the December 2021 quarter. The total capital investment for the project is estimated at \$20-25 million, of which \$11.4 million was invested to the end of the financial year. The upgrade will ensure the crushing circuit is capable of processing the significantly increased high grade ore throughput scheduled to occur from late 2021 onwards.

Reflective of the above factors, the average cash cost of sales was \$70/wmt FOB for the year. Cash costs are stated before the capitalised waste stripping investment and \$22.4 million invested in various capital improvement projects, including the processing plant upgrade, upper footwall ground support program and completion of the site's new jet-suitable airstrip. Direct FIFO flights from Perth utilising Fokker 100 jet aircraft commenced in October 2020.

The planned elevated stripping phase of the mine, during which overburden movement and operating costs are at their highest and ore production is at its lowest, remains scheduled to be substantially completed over the second half of calendar 2021. Thereafter, sales are anticipated to rise and cash costs to decline in step with the significantly reduced waste to ore stripping ratio.

### **Mid-West Operations – Extension Hill/Shine**

The Mid-West Operations delivered a solid financial and operating performance during the year and generated earnings before interest and tax of \$19.5 million.

#### *Extension Hill*

The low grade sales program from Extension Hill was successfully completed in late December 2020, with sales totalling 1.2 Mwmt, at the upper end of guidance, after which the site transitioned to final closure.

The Extension Hill operation generated earnings before interest and tax of \$20.9 million in the year, while cashflow totalled \$10 million, excluding proceeds from the rail credit refund.

Mount Gibson commenced the low-grade (51-54% Fe) sales program from Extension Hill in June 2019 with an initial sales target of approximately 1 Mwmt. Following that time, stronger iron ore prices supported extensions to the program which resulted in total sales of approximately 4.1 Mwmt for operating cashflows of over \$30 million.

The accounting provision for rehabilitation of the Extension Hill mine site was \$5.7 million at 30 June 2021, reduced from \$9.8 million at the end of the preceding financial year.

Infrastructure remaining on site includes the crushing plant and accommodation camp. Expressions of interest have been received from various parties regarding the site and the remaining assets, which could offset future rehabilitation costs.

## *Shine*

The Shine mine is located approximately 85km north of the now-closed Extension Hill mine. Shine has an initial Ore Reserve of 2.8Mt grading 59.4% Fe in the proposed "Stage 1" pit<sup>1</sup>. Annual production is forecast at approximately 1.5 Mwmt over an initial two year period. Should market conditions remain supportive, there is potential to extend the life of the Shine operation for 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.

Clearing of the Shine open pit footprint was completed in February followed by the commencement of blasting and mining of overburden in late March 2021. First ore was mined and stockpiled in early April. Total material movement amounted to 1.9 Mwmt since the commencement of mining, including approximately 55,000 wmt of sales grade ore.

The first shipment of Shine iron ore is expected to depart from Geraldton Port today.

Mount Gibson is self-performing mining activities at the Shine Project consistent with its current and prior operations in the Mid-West and Kimberley regions. Crushing and stockpiling is being undertaken by a specialist crushing services provider.

Ore is initially being road hauled from Shine approximately 300km to Mount Gibson's ore storage and loadout facilities at Geraldton Port. Current trucking activities will progressively increase over coming months as drivers and trucks become available in a tight market for trucking contractors.

Mount Gibson is seeking to recommission its existing Ruvadini rail siding at the town of Mullewa to facilitate a reduced road haul distance from Shine and a rail journey for the remaining 100km to Geraldton Port. The Ruvadini siding was established some years ago for the nearby Tallering Peak mine which closed in 2014 after ten years of operation, with access for Shine material requiring some road and rail crossing modifications.

Capital development and pre-production expenditure at Shine during the 2020/21 financial year totalled \$28.9 million, in line with guidance. Mount Gibson anticipates cost pressures during the initial trucking-only phase, notably while haulage volumes rise towards the targeted 1.5Mt/pa rate.

With production now underway, and as a condition of the original purchase of Shine in 2013, Mount Gibson is obliged to make a number of vendor payments totalling \$4.5 million within the next 6-12 months. The first of these, payable upon the initial shipment, is a deferred purchase payment of \$3 million. In addition, Mount Gibson is obligated to pay a price participation royalty of A\$0.20/dmt of ore sold for every A\$1/dmt the 62% Fe index price trades above the equivalent of A\$115/dmt CFR. The \$3 million deferred purchase payment is offset against this royalty.

### **Extension Hill Rail Refund/Credit**

Following achievement of a contractual rail volume threshold at Extension Hill during the 2017/18 financial year, the Group has an entitlement to receive a partial refund of historical rail access charges from the Mid-West rail leaseholder based upon the future usage by certain third parties of specific segments of the Perenjori to Geraldton railway line. This entitlement commenced upon termination of the Group's then existing rail agreements in early 2019, and 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. Receipt of this potential future refund is not certain and is fully dependent on the volumes railed by third parties on the specified rail segments. The entitlement is currently accruing at a rate of approximately \$2.0 million per quarter, with payments due every six months. The total amount received during the year was \$7.6 million, taking cumulative total proceeds received since first payment to \$15.9 million.

### **Derivatives**

As at 30 June 2021, the Group held foreign exchange collar option contracts covering the conversion of US\$32.5 million into Australian dollars over the period July 2021 to January 2022 with an average cap price of A\$1.00/US\$0.7850 and an average floor price of A\$1.00/US\$0.7452. These collar contracts had a marked-to-market unrealised net loss at balance date of \$0.5 million.

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

The Group also entered into iron ore collar option contracts totalling 270,000 tonnes of iron ore, with maturity dates over the period July to December 2021. The contracts have floor price protection of US\$100-110/tonne (for 62% Fe CFR) and cap prices, above which Mount Gibson does not participate, of US\$107-133/tonne.

## Outlook

The Board has determined the following key business objectives for the 2021/22 financial year:

- **Koolan Island** – complete the processing plant upgrade and the Main Pit elevated stripping and footwall support programs to regain access to high grade ore as scheduled, in order to maximise sales and cashflow over the remainder of the mine life as shipments rise and the waste/ore stripping ratio and costs decline.
- **Shine** – complete commissioning and ramp-up production and sales in accordance with the development and production schedule.
- **Extension Hill** – complete final rehabilitation of the mine site.
- **Cost reductions** - continue to drive for sustainable cost improvements across all business units.
- **Treasury returns** – maintain an appropriate yield on the Group’s cash and investment reserves while preserving capital for future deployment.
- **Growth projects** - continue the search for acquisition opportunities in the resources sector.

## Group Sales Guidance and Cash Costs Guidance

As indicated, the focus for the 2021/22 financial year at Koolan Island is to complete the planned open pit waste stripping phase, the upper footwall support program and the crusher upgrade in order to resume high grade ore production and enable significantly increased ore shipment levels from the end of 2021 onwards. At the Shine operation, the objective is to successfully ramp up production and sales and advance the waste stripping program.

On a Group basis over the full year, Mount Gibson is targeting total iron ore sales of 3.0-3.2 Mwmt.

Koolan Island is expected to contribute iron ore sales of 2.0-2.2 Mwmt in the year, with site cash operating costs expected to average \$75-80/wmt FOB before royalties, advanced waste stripping investment of approximately \$100 million and other Koolan capital projects of approximately \$25 million. Sales volumes, ore quality and cashflow will be heavily weighted to the second half of the financial year, when ore is scheduled to come primarily from the high-grade orebody in Main Pit.

The Shine operation in the Mid-West is expected to contribute iron ore sales of approximately 1.0 Mwmt at an average site cash operating cost of \$75-80/wmt FOB once shipments have ramped up, before advanced waste stripping (approximately \$20 million) and government and vendor royalties.

## Dividend

The Board has declared a fully franked final dividend for the 2020/21 financial year of 2.0 cents per share, which will take total shareholder distributions since Mount Gibson’s first dividend in late 2011 to over \$332 million. The dividend has not been provided for in the Company’s 30 June 2021 financial statements.

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 after 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 Information on the Company’s website.

The proposed dates for the 2020/21 final dividend are as follows:

Date	Event
1 September 2021	Ex-dividend date
2 September 2021	Record date
13 September 2021	Last date for eligible shareholders to elect DRP participation
6 October 2021	Payment date
7 October 2021	Proposed DRP share issue date

### Annual General Meeting (AGM)

Due to COVID-19 travel restrictions, Mount Gibson will again hold an online virtual AGM this year, on 10 November 2021. 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 2021.

#### *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 2021 Annual General Meeting is 22 September 2021.

### Annual Financial Statements

Full details of Mount Gibson's 2020/21 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.

*Authorised by:*

**Peter Kerr**

Chief Executive Officer

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Mount Gibson will host an analysts/institutions teleconference at **9.00am WST and 11:00am AEST today, Wednesday 25 August 2021**. 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.

### Competent Person Statements

#### *Mineral Resources:*

The information in this report relating to Mineral Resources is based on information compiled by Ms 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 previously 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.