



Mount Gibson Iron

Mount Gibson Iron Limited

ABN 87 008 670 817



Level 1, 2 Kings Park Road
West Perth 6005, Western Australia
PO Box 55, West Perth WA 6872
Telephone: 61-8-9426-7500
Facsimile: 61-8-9485 2305
E-mail: admin@mtgibsoniron.com.au

ASX ANNOUNCEMENT

22 February 2023

December 2022 Half-Year Financial Result

- **High grade iron ore sales of 1.1 million wet metric tonnes (Mwmt) at an average grade of 65% Fe** (1HFY22: 0.7Mwmt). Ore sales revenue totalled \$152.0 million Free on Board (FOB) in the period (1HFY22: \$27.3 million).
- **Continued growth of large high grade ore stockpiles at Koolan Island** for processing as the crushing plant returns to full capacity. The mine's waste to ore stripping ratio reduced from 7.2:1 (2HFY22) in line with plan to 3.5:1 for the December half-year and is on track to average approximately 1:1 in the current June half-year.
- **Crushing plant repairs are advancing** following the August 2022 fire in the product sizing screen area, with interim processing capacity achieving a baseline rate of three Panamax shipments per month. Commissioning of the repaired plant is anticipated around the end of the current March quarter despite transport logistics delays arising from the recent extreme mainland flooding events in the Kimberley region.
- **Net profit after tax of \$7.4 million**, reflecting effective completion during the period of the major waste-stripping and upper footwall ground support programs at Koolan Island to enable increased production and high grade ore sales (1HFY22: loss of \$65.6 million).
- **Operating cashflow of \$15.5 million** before capital expenditure of \$48.5 million, including advanced waste stripping, ground support activities and crushing plant repairs at Koolan Island. After financing activities and net working capital movements, **cash and investment reserves totalled \$41.1 million** at 31 December 2022.
- **As previously guided, Group ore sales are anticipated to be around the lower end of the guidance range of 3.2-3.7 Mwmt in FY23**, allowing for impacts of the recent regional flood-related transport logistics disruptions, with cash operating costs anticipated to be around the upper end of guidance of \$70-75/wmt FOB before royalties.

All figures are expressed in Australian dollars unless stated otherwise.

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, said: "Mount Gibson returned to profitability in the December 2022 half-year as benefits began to be realised from the substantial investments made over the last year in waste stripping and critical ground support in the Koolan Island Main Pit. These investments enable significantly increased high grade ore production and sales from the operation going forward.

"We anticipate completing the crushing plant repairs around the end of the current March quarter and lifting the operation's high-grade ore shipments from that point. With mined high grade ore stocks worth well over \$100 million at current prices already on hand and available for processing, we look forward to capturing the very significant value of Koolan Island over its remaining life and harnessing it to pursue new growth opportunities for the business."

Summary Results (all currency expressed in Australian dollars)		Half-Year ended 31-Dec-2022	Half-Year ended 31-Dec-2021
Physicals:			
Iron ore mined	<i>M wmt</i>	1.9	0.8
Iron ore sold	<i>M wmt</i>	1.1	0.7
Financials:			
Sales revenue	<i>\$m</i>	152.0	27.3
Interest income	<i>\$m</i>	0.7	1.5
Cost of sales	<i>\$m</i>	(136.8)	(100.9)
Gross profit/(loss)	<i>\$m</i>	16.0	(72.1)
Other income, including rail credit	<i>\$m</i>	8.5	8.7
Impairment of property, plant and equipment (Shine)	<i>\$m</i>	(0.9)	(1.7)
Impairment of mine properties (Shine)	<i>\$m</i>	-	(35.0)
Administration and other expenses	<i>\$m</i>	(10.2)	(9.9)
Net foreign exchange and marked-to-market movements*	<i>\$m</i>	(0.1)	17.0
Finance expenses	<i>\$m</i>	(2.5)	(0.5)
Profit/(loss) before tax	<i>\$m</i>	10.8	(93.5)
Tax benefit/(expense)	<i>\$m</i>	(3.5)	27.9
Net profit/(loss) after tax	<i>\$m</i>	7.4	(65.6)
Totals may not add due to rounding. *Marked-to-market movements comprise realised and unrealised foreign exchange, commodity hedging and financial asset movements.			

Earnings Summary and Financial Position

Mount Gibson Iron Limited (**Mount Gibson** or the **Company**) delivered a significantly improved performance to report a net profit after tax of \$7.4 million for the half-year ended 31 December 2022 on total iron ore sales of 1.1 Mwmt. This compared with a net loss after tax of \$65.6 million in the December 2021 half-year in which the Company recorded significant impairments totalling \$41.4 million. On a pre-tax basis, the Company recorded a profit of \$10.8 million compared with a loss of \$93.5 million in the prior corresponding half-year.

The result for the six-month period reflected the effective completion of major waste-stripping and upper footwall ground support programs at Koolan Island aimed at enabling significantly higher ore production and sales over the remaining life of the operation. Increased high-grade ore production during the period was however offset by lower iron ore prices and the impact on sales of a fire in August 2022 in the product sizing screen area of the Koolan Island crushing plant. Interim crushing arrangements have been successfully implemented to allow processing and shipments to continue at a reduced rate while the plant repairs are progressed. These repairs are on track for completion around the end of the March 2023 quarter enabling shipments of 65% Fe ore to accelerate in the June quarter.

Ore sales revenue totalled \$152.0 million FOB compared with \$27.3 million (including \$9.8 million of shipping freight charges) in the prior corresponding half-year. Sales in the December 2022 half-year comprised high-grade fines from Koolan Island grading 65% Fe, compared with 0.7 Mwmt in the previous corresponding half of 2021 when sales comprised only low and medium grade material from Koolan Island and the now-suspended Shine operation in the Mid-West.

Koolan Island Operations

Significant operational progress continued to be achieved at Koolan Island in the December 2022 half-year as the benefits of completion of the major waste stripping and upper footwall ground support programs took effect.

Ore production and mine performance increased in line with plan as mining access to the high grade ore zones within the Main Pit expanded with the waste-to-ore stripping ratio declining significantly. Total material movement was 8.6 Mwmt (waste and ore) in the half-year period, including 1.9 Mwmt of high grade ore, compared with 0.5 Mwmt of lower and medium grade ore mined in the previous corresponding half-year period and 1.0 Mwmt of ore mined in the immediately preceding June 2022 half-year. This reflected the greatly reducing stripping ratio, which is a key driver of operating costs at Koolan Island. The strip ratio continued to decline as planned to average 3.5:1 in the December 2022 half-year, compared with 7.2:1 in the June 2022 half-year. The strip ratio is expected to decline further to 1:1 in the June 2023 half-year to average 2:1 for the 2022/23 financial year and circa 1.2:1 over the remaining life of mine from mid-2023.

Maintaining high levels of ore production from the Main Pit has enabled substantial mined ore stockpiles to be assembled to facilitate rapid catch-up of shipments in 2023 as processing capacity returns. As at 31 December 2022, mined ore stockpiles totalling approximately 0.8 Mwmt had been established with a market value of over \$100 million at prevailing market prices once crushed.

As noted, sales and financial performance were adversely impacted by the crushing plant fire. September quarter sales were limited to six shipments, however successful interim modifications to the unaffected primary sections of the processing plant delivered better than anticipated fines ore recovery enabling the Company to achieve a targeted baseline of three shipments per month in the December quarter, resulting in 15 high grade shipments for the half-year.

Ore processed in the half-year totalled 1.5 Mwmt (including rehandle). The processing plant repairs to the damaged greenhouse area progressed during the period and are scheduled to be completed around the end of the March 2023 quarter. Some repair delays have been experienced given the transport and logistics impacts of the recent Kimberley flooding events in the wake of ex-tropical cyclone Ellie. These floods have had minimal direct impact on site operations but have caused significant supply chain disruptions across the region, in particular to road transport between Broome and Derby and the barging of equipment and supplies to Koolan Island.

Once the crushing plant is fully operational, the shipping rate is scheduled to increase to at least 4-5 shipments per month. Shipments from Koolan Island are undertaken in Panamax vessels which typically carry cargoes totalling 70,000-80,000 tonnes of iron ore.

The Company has engaged a mobile crushing contractor to work alongside the main processing plant to accelerate the recoupment of deferred shipment volumes. Mobilisation of the contractor's crushing equipment has also been adversely impacted by the logistics delays arising from the recent Kimberley flooding but this equipment is expected to be operational in March 2023.

The mine recorded a profit before interest and tax of \$19.8 million in the half-year, representing a significant improvement from the pre-tax loss of \$46.2 million in the prior corresponding half-year. The operating cash outflow from Koolan Island for the half-year totalled \$25.2 million and was a material reduction on the previous half-year outflow of \$157.4 million. It also reflected the continued strategy of building substantial high grade mined ore inventories. Spending on inventory build totalled \$67.2 million in the half-year.

Mount Gibson maintains relevant property damage and business interruption insurance cover for the Koolan Island operations and has submitted its initial interim property damage claim for the August fire incident to insurers. The first progress payment of approximately \$2.6 million was received after period end and has not been included in the December 2022 half-year results.

Mid-West Operations

The Mid-West operations comprise the suspended Shine iron ore mine, rehabilitation activities at the Extension Hill site and the Company's bulk storage and export facilities at the port of Geraldton.

The Mid-West operations generated a profit before interest and tax of \$1.4 million for the half-year (compared with a loss of \$59.0 million after impairment in the comparative half-year period), reflecting income of \$4.3 million from the ongoing Mid-West rail credit refund and costs associated with the care and maintenance of the Shine mine site and rehabilitation activities at Extension Hill.

The Company continues to receive a partial refund of historic rail access charges from the Mid-West rail leaseholder based upon the usage by third parties of specific segments of the railway network. Mount Gibson also continues to receive and consider external enquiries relating to its Mid-West infrastructure assets, in particular key rail sidings and port storage sheds, and receives income from third parties for usage arrangements. Discussions remain in progress regarding further arrangements for utilisation of spare capacity within those infrastructure assets.

Cashflow Summary

The Group's cash and investment reserves - comprising cash and cash equivalents, term deposits, subordinated notes and financial assets held for trading - totalled \$41.1 million as at 31 December 2022, a reduction of \$84.4 million over the half-year period. The key components of the movement are tabulated below and reflect the following business activities in the period:

- *Koolan Island* – While significant progress was achieved with increasing high grade ore production, a fire in the crushing plant in August 2022 subsequently restricted ore sales in the period and resulted in additional costs for processing plant repairs and interim processing arrangements (\$9.5 million) as well as expenditure to build substantial mined ore stockpiles (\$67.2 million) for future processing as crushing capacity is regained.
- *Corporate and Other* – Key expenditure related to corporate, administration, rehabilitation (for closed sites) and exploration activities, net of interest income and the historical Mid-West rail credit.

Cashflow Summary	Koolan Island \$'000	Mid-West (Shine) \$'000	Corporate & Other \$'000	Total \$'000
Operating cashflow before project and capital expenditure	22,429	(1,428)	(5,554)	15,447
Project expenditure:				
Koolan Island crusher repairs and interim processing arrangements	(9,457)	-	-	(9,457)
Capital expenditure:				
Advanced waste stripping (capitalised deferred stripping costs)	(11,020)	-	-	(11,020)
Mine development (including ground support activities)	(18,241)	-	-	(18,241)
Sustaining capital, equipment purchase, exploration and other	(8,929)	-	(806)	(9,735)
	(25,218)	(1,428)	(6,360)	(33,006)
Realised net hedging losses				(467)
Other financing activities and net working capital movements				(50,973)
Total movement in cash and investment reserves in the period				(84,446)

Minor discrepancies may appear due to rounding.

Mount Gibson has a \$100 million revolving credit facility with HSBC of which \$25 million was drawn as at 31 December 2022. In addition to this facility, debt comprises lease liabilities, insurance premium funding and an off-balance sheet performance bonding facility.

Market conditions and pricing

Iron ore market conditions were generally weak during the half-year period, mainly due to ongoing COVID-19 restrictions in China and other global economic factors including the impacts of the war in Ukraine.

The Platts 62% Fe CFR iron ore price averaged US\$101/dmt for the half-year with the high-grade 65% Fe CFR fines index averaging US\$113/dmt, being a grade-adjusted 7% premium to the benchmark 62% Fe price. The lower average iron ore prices were partly offset by the weaker value of the Australian dollar, which averaged US\$0.67 for the half-year. After touching a three year low in November 2022 below US\$80/dmt, iron ore prices have since risen to recent levels above US\$120/dmt for 62% Fe fines and US\$140/dmt for 65% Fe fines, as China has begun easing COVID-19 restrictions. Market commentary is increasingly positive with regard to the medium-term outlook for iron ore demand.

Ore sales revenue reflected an average realised price of US\$94/dmt FOB for the half year. Shipping freight rates for journeys from Koolan Island to northern China also further declined to an average of US\$15/tonne in the half-year, compared with an average of US\$20/tonne in the preceding half-year.

Sales from Koolan Island are made under long term offtake agreements on FOB terms, with pricing referencing high-grade (65% Fe) market indices and Panamax shipping freight rates, specification adjustments and penalties for impurities. Provisional prices are recorded following shipment departure and the final pricing ultimately reflects monthly iron ore price averages up to two months after the month of shipment. Accordingly, the Company is subject to provisional pricing adjustments in subsequent periods.

Group Guidance

Allowing for the impacts of disruption to transport logistics resulting from the Kimberley flooding events in early 2023, Mount Gibson anticipates achieving ore sales around the lower end of its existing guidance of 3.2-3.7 Mwmt for the 2022/23 financial year, with the balance to be promptly recouped in the following financial year, and for unit cash operating costs to be around the upper end of existing guidance of \$70-75/wmt FOB (before royalties).

Dividend

An interim dividend has not been declared.

Financial Statements

Full details of Mount Gibson's financial results for the six months ended 31 December 2022 are available in the Appendix 4D and financial statements released to the ASX today and published on the Company's website.

Authorised by:

Peter Kerr, Chief Executive Officer

For further information:

Peter Kerr

Chief Executive Officer
Mount Gibson Iron Limited
+61-8-9426-7500

www.mtgibsoniron.com.au

John Phaceas

Manager, Investor & External Relations
+61-8-9426-7500
+61-(0)411-449-621

Mount Gibson will host an analysts and institutions teleconference at **11:00am AEDT today, Wednesday 22 February 2023**. Investors will be able to listen in to the teleconference by dialing **1800 896 323** immediately prior to the scheduled start time and entering the access code **76122632#** 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 +61 2 8088 0900.