

# QUARTERLY REPORT



## MOUNT GIBSON IRON LIMITED REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2022 26 October 2022

- **High-grade (65% Fe) iron ore mining at Koolan Island continues to increase, rising 38% over the previous quarter to 0.9 Mwmt** with significant stockpiles (approximately 0.5 Mwmt) being established for future processing.
- The repair works on the fire-damaged section of the Koolan Island processing plant are **advancing ahead of initial expectations**, with completion anticipated in January 2023. Interim processing is being undertaken through the undamaged primary plant and mobile crushing units enabling **2-3 shipments per month to be targeted for the December quarter**, with significant increases anticipated thereafter as the plant comes fully back on line. **FY23 sales guidance remains at 3.2-3.7 Mwmt, weighted to the second half.**
- Iron ore sales in the September quarter totalled **0.45 million wet metric tonnes (Mwmt) for revenue of \$62 million** Free on Board (FOB). Shipment numbers were increasing as planned prior to the processing plant fire incident in mid-August which has temporarily interrupted the shipping schedule as repairs are undertaken.
- **Koolan Island cash operating costs of \$67/wmt sold FOB** before inventory build, royalties and residual capital projects. Mount Gibson continues to target its cost guidance of \$70-75/wmt sold (before royalties) for the 2022/23 financial year, with updates to be provided in due course. The outlook is for cash costs to be higher in the December 2022 quarter before reducing in line with substantially increased sales from the March 2023 quarter onwards.
- **Net cash outflow of \$26 million** in the September quarter reflecting the temporary shipping interruptions arising from the Koolan Island plant fire in August, and the continued build of substantial high grade ore stockpiles with a current FOB market value in excess of \$60 million once processed. After working capital movements, relating primarily to provisional pricing outflows provided for in last financial year's results, **cash and investment reserves totalled \$60 million** at 30 September 2022.

Note: All currency is stated in Australian dollars unless noted otherwise.

### Comment

Mount Gibson Chief Executive Officer Peter Kerr said: "Mining performance and extraction of high grade 65% Fe iron ores increased significantly at Koolan Island during the quarter, with substantial ore stockpiles being accumulated for processing. Despite the mid-August processing plant fire being extremely disappointing given the solid operational, cost and cashflow improvement attained to that point, repairs are proceeding ahead of initial expectations and we remain confident in delivering a strong operational and financial performance over the full financial year.

"Ore processing recommenced in early September utilising the unaffected front end of the main processing plant, augmented by mobile crushing equipment that we are currently optimising in order to deliver sales of two to three shipments per month while the main plant is repaired. Importantly, high grade iron ore production continues to increase and the operation is building significant ore stockpiles for processing when the main plant comes back on line from early 2023. Our sales guidance remains unchanged at 3.2-3.7 million wet metric tonnes of high-grade ore from Koolan Island in the 2022/23 financial year."

## SHIPMENTS AT A GLANCE

	Unit	Sep-2021 Quarter	Dec-2021 Quarter	Mar-2022 Quarter	Jun-2022 Quarter	Sep-2022 Quarter	2022/23 Year to Date
Lump and fines sales	kwmt	119	196	238	713	<b>451</b>	<b>451</b>
Low-grade fines sales	kwmt	320	60	-	-	-	-
Total iron ore sales	kwmt	439	256	238	713	<b>451</b>	<b>451</b>
Average grade of iron ore sold	% Fe	55.6%	58.3%	62.8%	63.6%	<b>65.0%</b>	<b>65.0%</b>
Platts 62% Fe CFR price, average	US\$/dmt	163	110	142	138	<b>103</b>	<b>103</b>
Platts 65% Fe CFR price, average	US\$/dmt	190	129	170	160	<b>115</b>	<b>115</b>
Realised Koolan fines FOB price*	US\$/dmt	**	**	81	93	<b>96</b>	<b>96</b>

Minor discrepancies may occur due to rounding.

kwmt = thousand wet metric tonnes.

US\$/dmt = USD per dry metric tonne.

CFR = cost and shipping freight included; FOB = free on board (i.e. shipping freight excluded).

\* Realised FOB prices are shown after shipping freight, specification adjustments/penalties and provisional pricing adjustments.

\*\* Realised Koolan prices for the September and December 2021 quarters were minimal reflecting the temporary non-core low grade and higher impurity ores extracted as part of the major waste stripping program, and these are excluded from the annual prices.

For the purpose of wet to dry tonnage conversion, moisture content typically averages approximately 2-3% for Koolan Island fines products.

## OPERATIONS

Iron ore sales totalled 0.45 Mwmt of high-grade fines in the September 2022 quarter, a reduction of 0.26 Mwmt from the prior period, reflecting the temporary impact of the fire in the product sizing screen area within the Koolan Island crushing plant on 12 August 2022. Mining continues as planned and substantial high grade ore stockpiles are being built ready for processing from early 2023 when the repaired plant is anticipated to come back on line.

Operating statistics are tabulated in Appendix A.

### Safety

Continuous improvement in safety performance is a critical focus of the Company and no reportable injuries were incurred in the September quarter. The Lost Time Injury Frequency Rate (LTIFR) was 1.4 incidents per one million manhours worked at the end of the quarter (rolling 12 months basis). Reflecting the efforts of all site personnel, the rolling 12-month Total Recordable Injury Frequency Rate (TRIFR) continued its downward trend, declining to 8.5 incidents per one million manhours worked at the end of the quarter, compared with 11.4 at the end of June 2022. Mount Gibson's definition of TRIFR includes Lost Time Injuries, Restricted Work Injuries and Medically Treated Injuries. Using TRIFR provides a useful tool for safety conversations and active communication with the entire workforce to help ensure Mount Gibson's people are not injured in their workplaces.

### COVID-19 Response

Mount Gibson continued to avoid significant disruption from COVID-19 during the September quarter. Daily absenteeism in the period due to COVID-related isolation was negligible, typically below 2%. Mount Gibson continues to evolve its approach to COVID management in step with changing circumstances and regulations.

### Koolan Island

Significant operational progress has been achieved at Koolan Island since the start of 2022 following completion of the major overburden stripping and upper footwall ground support programs. This has facilitated substantially increased high grade iron ore production. Mining and other operational activities continued to improve as planned in the September quarter, however ore processing and sales have been temporarily interrupted as a result of the mid-August fire in the product sizing screen area of the processing

plant. Since then, the Company's primary focus has been on implementing its recovery plan to continue processing at reduced rates while repairs to the damaged section of the plant are completed.

#### *Mining activities*

Mining activities were unaffected by the processing plant fire incident and have proceeded in accordance with the mine plan. Ore production has steadily increased as access to high grade zones in the Main Pit has expanded and the waste to ore strip ratio has declined as scheduled.

Approximately 0.9 Mwmt of high grade iron ore was mined in the September quarter, 38% more than mined in the June quarter, resulting in considerable ore stockpiles (approximately 0.5 Mwmt) with a current market value in excess of \$60 million once processed, being built ready for processing as the plant comes back on line. The build up of high grade ore stocks will enable a rapid catch-up in the June 2023 half year.

Total material movement was 4.6 Mwmt of waste and ore, compared with 4.4 Mwmt in the prior quarter. Mining productivity is a focus of the site team and has been tracking to plan. The waste to ore stripping ratio is a driver of operating costs at Koolan Island and continued to decline as planned, to average 4.0:1 for the September quarter, including the removal of previously backfilled waste material. This compares with an average of 5.6:1 in the previous quarter, and is consistent with the planned average of 3.5:1 in the current half year period. The stripping ratio is expected to decline further to average 1:1 in the June 2023 half year. The remaining life of mine average stripping ratio from this point forward is very low at approximately 1.3:1 given the major overburden stripping program is in its final stages.

#### *Processing and fire recovery progress*

The fire in the product sizing screen area of the processing plant occurred during a scheduled maintenance shutdown. All personnel working in the area were evacuated and there were no injuries. The fire caused damage to part of the sizing screen assembly, the associated feeder and conveyor equipment, as well as some of the surrounding steel structures in the upper levels of the screening plant area.

Consistent with the Company's announced recovery plan, processing recommenced in early September utilising the undamaged parts of the plant. The Company also installed mobile crushing equipment during September to process material that requires further crushing and screening to meet shipping specifications. Crushing capacity utilising these interim arrangements has steadily increased and is presently running at approximately 70% of normal capacity while repairs to the damaged section of the main plant are undertaken.

Concurrent with interim processing activity, repairs to the fire-damaged part of the plant are progressing ahead of initial expectations. Replacement screening equipment, structural steel and other components within the product screen area have been procured and fabrication works are well underway. Completion of repairs is targeted for January 2023. This is expected to enable a return to full processing capacity with shipping rates increasing to 4-5 shipments per month. Shipments from Koolan Island typically carry 70,000-80,000 tonnes of iron ore.

Mount Gibson maintains relevant property damage and business interruption insurance cover for the Koolan Island operations and has commenced discussions with its insurers as it prepares a formal claim in relation to the processing plant fire incident.

#### *Sales and guidance*

Sales for the September quarter totalled 0.45 Mwmt comprising six shipments of high grade iron ore, including two shipments that were completed after the processing plant fire in mid-August. The average grade of all shipments was 65.0% Fe and future shipments are expected to be maintained at this level.

As a result of the progress made in the quarter with respect to ore production and the process plant fire recovery plan, Mount Gibson's sales guidance for the 2022/23 financial year remains unchanged at 3.2-3.7 Mwmt of high-grade ore from Koolan Island, with sales weighted to the second half.

### *Operating costs and cashflow*

Unit mining, logistics and administration cash costs for the island-based operation were \$12.26 per tonne of ore and waste moved in the quarter, a slight improvement from \$12.49 per tonne in the prior quarter, reflecting the site's ongoing productivity and cost focus.

Koolan Island's unit cash operating costs were \$67/wmt sold FOB in the quarter before inventory build, royalties and residual capital projects, compared with \$77/wmt FOB in the June quarter.

The Company's guidance for cash operating costs of \$70-75/wmt (before royalties) for the 2022/23 financial year remains in place, incorporating allowances for the impacts of the processing plant fire recovery. It is anticipated that unit cash operating costs will be higher in the December 2022 quarter while processing and shipping output remains restricted, before reducing as shipment quantities rise substantially from the March 2023 quarter onwards.

The Koolan Island operation incurred a net cash outflow for the quarter of \$22 million reflecting the decision to continue to mine in accordance with the existing plan and build substantial high grade iron ore inventories while the processing plant repairs are undertaken. Revenue for the quarter totalled \$62 million with the key outflow items being cash operating and sustaining capital costs (\$30 million), the build of high grade iron ore inventories (\$46 million), royalties (\$6 million) and residual capital projects (\$2 million) relating primarily to the upper footwall ground support project completed in July.

Comments regarding realised pricing and revenue are contained in the Corporate section of this report.

### **Mid-West**

#### *Shine*

As previously reported, Mount Gibson made the decision to suspend operations at Shine in response to the rapid deterioration in market conditions in late 2021. The site remains on low-cost care and maintenance.

#### *Infrastructure*

Mount Gibson 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.

In addition, Mount Gibson continues to receive a partial refund of historical rail access charges from the Mid-West rail leaseholder based upon the usage by third parties of specific segments of the railway network. This refund 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. The entitlement accrues at a rate of approximately \$2 million per quarter, with payments made every six months. Mount Gibson has received total cumulative proceeds to date of approximately \$28 million.

### **Exploration and Business Development**

Mount Gibson continues to seek potential development and investment opportunities consistent with the Company's objective to extend and grow its business into new operations. This strategy has targeted opportunities in the bulk commodities and base metals sectors primarily in Australia.

Equity positions with a market value of approximately \$4 million are held in a number of junior development and operating companies where it is considered that future financing or strategic opportunities may arise.

The Company also continues to assess regional exploration opportunities for base metals deposits particularly in the Mid-West region, where it has entered into a farm-in agreement covering prospective exploration tenure north of the Company's Tallering Peak mine site, approximately 160km northeast of Geraldton.

During the quarter, the Company completed an initial program of three diamond core holes to confirm the geology and structural setting at three defined regional targets west of Tallering Peak. A program of follow up activity, including further drilling, is being prepared.

## **CORPORATE**

### **Realised Pricing and Revenue**

The September quarter average Platts 62% Fe CFR price was US\$103/dmt compared with US\$138/dmt in the preceding quarter. The average Platts CFR price for high-grade 65% Fe fines was US\$115/dmt, being a grade-adjusted 6% premium to the benchmark 62% Fe price. Shipping freight rates for journeys from Koolan Island to northern China declined over the quarter from around US\$19/tonne to \$15-16/tonne by quarter end, compared with US\$20-22/tonne in the preceding quarter. The lower benchmark iron ore price was partly offset by the weaker value of the Australian dollar, which averaged US\$0.684 in the September quarter, compared with US\$0.715 in the prior quarter.

Mount Gibson completed six shipments of Koolan Island iron ore fines averaging 65.0% Fe in the quarter, reflecting consistent mining access to the high-grade Main Pit orebody. Shipping grades are expected to remain at this level going forward. Four shipments were completed prior to the processing plant fire in August, the impacts of which have restricted shipments since that time.

For the September 2022 quarter, ore sales revenue totalled \$62 million Free on Board (FOB), reflecting an average realised price of US\$96/dmt FOB.

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 averages up to two months after the month of shipment. Accordingly, the Company is subject to pricing movements in subsequent periods.

### **Cashflow and Cash Position**

The Group's net cash outflow for the September quarter totalled \$26 million comprising the operating cash outflow at Koolan Island (\$22 million) reflecting the continued build of high grade iron ore inventories, net inflow from the Mid-West operations (\$1 million), interest and other income (\$1 million), exploration costs (\$1 million) and corporate costs and realised foreign exchange and financial asset movements (\$5 million). After working capital movements (\$39 million), relating primarily to substantial downward provisional pricing adjustments provided for in the 2021/22 financial results, the Company's cash and investment balance was \$60 million at the end of the quarter.

With the decision to continue to mine and build substantial high grade iron ore inventories at Koolan Island while the processing plant repairs are undertaken, operating cashflows at the Koolan Island operation will remain negative for the December quarter, before turning positive and substantially increasing as the full plant comes back on line and shipment volumes rise. Accordingly, Mount Gibson will partially draw on its existing \$100 million corporate debt facility for a short period. The Company expects strong cashflow generation in the June 2023 half-year period as the substantial high grade ore stockpiles are processed and shipped.

### **Ore Sales Guidance for 2022/23**

Mount Gibson maintains its existing sales and cost guidance for the 2022/23 financial year comprising sales of 3.2-3.7 Mwmt of high-grade iron ore, a significant increase on last year, at an average site cash operating cost of \$70-75/wmt sold FOB before royalties. Updates regarding the guidance estimates will be provided as the Koolan Island recovery plan progresses and shipment numbers increase.

## **Koolan Island Seawall - Historic Legal Claim**

Subsequent to the end of the quarter, a longstanding subrogation claim against a third party was amended in the Supreme Court of Western Australia relating to the late 2014 failure of the Main Pit seawall at Koolan Island. The matter relates to an action commenced in 2015 when the insurers who paid out on the original seawall claim exercised their rights of subrogation to bring proceedings in the name of the Company, and potentially seek recovery of losses in connection with the seawall failure. As the matter is currently before the Supreme Court it is not appropriate for the Company to comment further. Mount Gibson does not consider this action to be material for the Company.

## **Financial Results for 2021/22**

Mount Gibson released its audited results for the 2021/22 financial year on 25 August 2022, reporting a net loss after tax of \$174.1 million including previously guided pre-tax impairments totalling \$184.6 million on the carrying value of Koolan Island (\$147.4 million) and the suspended Shine operation in the Mid-West (\$37.2 million). The result reflected the Company's reduced sales volumes while it undertook significant mining and capital investments at Koolan Island.

## **Annual Statement of Mineral Resources and Ore Reserves**

Mount Gibson reported its Annual Statement of Group Mineral Resources and Ore Reserves as at 30 June 2022 during the quarter. Total Mineral Resources are estimated at 59.8 million tonnes (Mt) of iron ore at an average grade of 62.2% Fe, compared with 67.4Mt at 61.7% Fe at the end of the prior financial year.

Total Ore Reserves are estimated at 16.0Mt at 65.4% Fe, all at Koolan Island, compared with 20.3Mt at 64.5% Fe at 30 June 2021.

The changes to the estimates since the prior year largely reflect mining depletion at Koolan Island and the Shine deposit in the Mid-West, removal of remnant Mineral Resources at the rehabilitated Extension Hill and Iron Hill mine sites, and removal of the Shine Ore Reserves following that operation's transition to care and maintenance status in late 2021.

Refer to the Company's ASX release dated 30 September 2022 on the Mount Gibson website for full details of the Mineral Resources and Ore Reserves statement.

## **Annual General Meeting**

Mount Gibson will be holding a "hybrid" Annual General Meeting in Perth on 9 November 2022. Shareholders may participate by attending in person or via webcast.

Details of the meeting, including information explaining how shareholders may access, vote and ask questions within the online meeting room are detailed in the Company's Notice of AGM, released on 7 October 2022 and available on Mount Gibson's website.

*Authorised by:*

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Mount Gibson will host an analysts/institutions teleconference at **11.30am AEDT (8:30am AWST) today, 26 October 2022**. Investors will be able to listen to the teleconference by dialling **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 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 Island Main pit, looking east over the high grade western and central zones, October 2022.



Figure 2: High grade ore mining in the upper eastern zone of the Main Pit, looking west, October 2022.



Figure 3: Stockpiled high-grade iron ore ahead of the processing plant at Koolan Island, October 2022.

## APPENDIX A

### Mount Gibson Iron Limited Quarterly Operating Statistics

	Sep-2021 Quarter	Dec-2021 Quarter	Mar-2022 Quarter	Jun-2022 Quarter	Sep-2022 Quarter	2022/23 Year to Date
<b>KOOLAN ISLAND</b>	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
<b>Mining &amp; Crushing</b>						
Waste mined (incl. rehandle)	4,508	4,303	3,411	3,728	3,647	3,647
Ore mined	346	158	325	662	915	915
Ore crushed	412	201	258	645	607	607
<b>Shipping/Sales</b>						
Fines	-	80	238	713	451	451
Low-grade Fines	320	-	-	-	-	-
<b>Total</b>	320	80	238	713	<b>451</b>	<b>451</b>
<b>MID-WEST (SHINE)</b>						
<b>Mining &amp; Crushing</b>						
Waste mined	2,623	216	-	-	-	-
Ore mined	240	78	-	-	-	-
Product crushed	223	118	-	-	-	-
<b>Shipping/Sales</b>						
Lump	119	59	-	-	-	-
Fines	-	57	-	-	-	-
Low-grade Fines	-	60	-	-	-	-
<b>Total</b>	119	175	-	-	-	-
<b>CONSOLIDATED DATA</b>						
<b>Shipping/Sales</b>						
Lump	119	59	-	-	-	-
Fines	-	137	238	713	451	451
Low-grade Fines	320	60	-	-	-	-
<b>Total</b>	439	256	238	713	<b>451</b>	<b>451</b>
<ul style="list-style-type: none"> <li>• kwmt = thousand wet metric tonnes.</li> <li>• Minor discrepancies may appear due to rounding.</li> </ul>						

#### 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.