



Sierra Rutile

ASX ANNOUNCEMENT

27 OCTOBER 2023

Quarterly Activities Report – September 2023

Sierra Rutile Holdings Limited (ASX: SRX) (**Sierra Rutile** or the **Company**) provides its operational, development, ESG and corporate update for the quarter ended 30 September 2023. All figures are in US Dollars unless otherwise stated.

Key Features:

- **Rutile production** of 27kt was above prior quarter with production capacity restored but reflected lower rutile market demand. Increased production expected in Q4.
- **Rutile sales** of 11kt were impacted by continued weakening global pigment markets and the decision to warehouse 8kt of SGR in anticipation of improved prices for rutile. Sales volumes are expected to normalise (approximate production) in Q4.
- **Realised rutile price** of \$1,268 /t FOB. Similar sales pricing is anticipated in Q4.
- **Net unit cash production costs** of \$1,147/t reflected lower production volumes offsetting a continued focus on reducing fixed costs and improving operating efficiencies.
- **Mogbwemo Tailings Project** to reduce operating costs and extend mine life at Area 1 – on-hold pending satisfactory resolution of Third Amendment Agreement renegotiation.
- **Sembehun Project:** Completion of Definitive Feasibility Study (DFS) expected in January 2024. Indications to date suggest that capital costs should be broadly in line with 2022 PFS estimate. Environmental, Safety and Health Impact Assessment (ESHIA) Report submitted to the Environmental Protection Agency (EPA) of Sierra Leone.
- **Safety and environment:** LTIFR of 0.44 and a TRIFR of 0.77. Improvement on prior quarter and an on-going priority. There were no significant environmental incidents and completed the rehabilitation of 285ha for 2023.
- **New Finance Facility:** Credit approval received after end of quarter for US\$25m revolving credit facility to provide greater financial flexibility as required.
- **Net cash at 30 Sep** was \$20.0m (unaudited). Operating margins have been compressed by soft spot rutile price environment and, combined with reduced sales volumes, this resulted in negative operating cashflow.
- **Working capital at 30 Sep** of \$81.6m (unaudited) including finished goods inventories of \$36.0m.
- **2023 Guidance revised** in response to reduced pigment related demand:
 - Production: 115kt-120kt of rutile.
 - Net Unit Cost: \$1,075-1,125/t (lower production).
 - Capex: \$25-27 million (Mogbwemo deferred).



Sierra Rutile

ASX ANNOUNCEMENT

Sierra Rutile Managing Director and CEO, Theuns de Bruyn, commented on the Quarter:

“Operating performance for the September Quarter was a major improvement on the corresponding period last year. Whilst final product production was similar, the cost efficiency of operations was greatly improved due to the availability of ore stockpiles reducing the need to continue mining during the worst of the wet season.

Unfortunately, as outlined in prior announcements, the macro environment in the Titanium Dioxide pigment market, the major application for our product, was much more challenging than a year ago. The average rutile sales price was down since, unlike in Q2, there were no sales to the higher value sponge market during the quarter to compensate. As a result, we elected to moderate production levels and warehouse some finished product. We see prices levelling out and anticipate improved sales volumes in Q4.

Although production for the quarter was below original expectations, we continue to operate profitably and invest in Area 1 projects with the first stage of a key optimisation project in the Lanti mining area commissioned in August. The optimisation includes lowering risk, reducing costs, simplifying and improving processing capability.



The Mogbwemo Tails Project remains an excellent opportunity to reduce operating costs at Area 1 and, if needed, could provide extra runway for the development of Sembehun. We hope to proceed once the current uncertainties regarding the Third Amendment Agreement on tax concessions for Area 1 are resolved.

Sembehun’s DFS continues to advance and completion is expected in January 2024, with the EISHA approved for publication by EPA during the quarter and now available for public comment.

Looking at the macro outlook, softening of the pigment market remains an issue due to ongoing economic uncertainty in an inflationary environment. In the longer term however, a global rutile supply deficit is anticipated as growing demand outstrips depleting global resources and, as a significant producer, we remain well placed to take advantage of expected tight supply given the extent and quality of our natural rutile product.”



Sierra Rutile

ASX ANNOUNCEMENT

Operations - Area 1

Summary Physical and Financial	Units	Sept Qtr 2022	Mar Qtr 2023	June Qtr 2023	Sept Qtr 2023	Revised Guidance 2023
Safety						
TRIFR	/mwhrs	1.44	1.35	1.15	0.77	n/a
LTIFR	/mwhrs	0.29	0.61	0.58	0.44	n/a
Mining						
Ore Mined	mt	2.2	3.8	3.4	1.0	n/a
HMC Grade	%	3.7	2.5	2.5	2.3	n/a
Rutile Grade	%	1.3	1.4	1.4	1.4	n/a
Production						
Rutile	kt	28	32	25	27	115-120
Ilmenite	kt	14	12	9	11	n/a
ZIC/GIC	kt	7	8	5	6	n/a
Sales						
Rutile	kt	33	30	28	11	n/a
Ilmenite	kt	11	11	16	10	n/a
ZIC/GIC	kt	-	7	16	-	n/a
Revenue & Cash Costs						
Revenue - Rutile	US\$m	51	42	41	14	n/a
Unit price - Rutile	US\$/t	1,535	1,427	1,488	1,268	n/a
Revenue - Ilmenite/ZIC/GIC	US\$m	2	5	15	4	n/a
Operating Cash Costs	US\$m	43	43	41	35	158-162
Net Operating Cash Costs - Rutile	US\$m	41	37	26	31	n/a
Unit Operating Cash Costs - Rutile	US\$/t	1,531	1,339	1,649	1,295	1,340-1,380
Net Unit Operating Cash Costs - Rutile	US\$/t	1,464	1,166	1,039	1,147	1,075-1,125
Capital	US\$m	9	7	8	7	25-27

Note: ZIC/GIC refers to zircon-in-concentrate and garnet-in-concentrate

During the quarter, the Company reported 0 Lost Time Injuries (LTIs). The Company remains committed to improving safety performance and significant advancements recently include improved contractor management procedures and onboarding of contractors.

Following power disruptions from Sierra Rutile's power station in Q2, power supply was largely restored at Area 1 in the quarter.



Sierra Rutile

ASX ANNOUNCEMENT

Given the current soft market conditions, and rather than risk further price reductions, Sierra Rutile opted to ship 8kt of Standard Grade Rutile (SGR) to its overseas warehouse where it is close to consumers and readily available when demand picks up ahead of the Northern Hemisphere paint season. As a result, inventories of final rutile product rose 180% during the quarter. The Company will look to sell these inventories once the rutile price improves.

Ore mined during Q3 was only 45% of the volume mined in Q3 2022 as a result of the planned draw down of ore stockpiles established ahead of the wet season. Reasonable weather conditions in July allowed mining rates to be maintained at the start of the wet season, resulting in lower Q3 depletion of ore stockpiles than originally anticipated. This should enable operations to benefit from lower mining costs into the start of Q4.

As anticipated, the building of ore stockpiles during H1, and the build in HMC inventories during the period of power unavailability during Q2 had a material impact on operating costs which were 19% lower than in Q3 2022.

Production levels, which originally declined in Q2 due to power constraints, are now being maintained at lower levels to contain absolute costs whilst soft market demand conditions persist.

Optimisation at Area 1 is continuing with a key project at DM1 commissioned in August and DM4 to be commissioned by the end of October 2023. Post period end work commenced on the Gangama north tidal bund and is estimated to complete in Q1 2024. The construction of two new barges is progressing well and delivery to site is expected by the end of Q1 2024.

Development – Mogbwemo Tails

As previously announced, Sierra Rutile has been preparing to drain the Mogbwemo pond and mine the tailings to supplement the Mineral Separation Plant's (MSP) feed. Mogbwemo offers the potential to reduce operating costs and increase mine life at Area 1.

Work to date includes:

- Spiral test work – 3rd party and on-site plant scale – complete.
- Phase 1 drilling for geological modelling – complete; phase 2 started.
- Tender for the design and supply of the plant.
- Preliminary process engineering and flowsheet development, including lowering the Mogbwemo pond level.

Timing of any investment is contingent on improved market conditions and a satisfactory resolution regarding the Third Amendment Agreement renegotiations.



Sierra Rutile

ASX ANNOUNCEMENT



Unlocking value with Sembehun development

Sembehun is home to one of the world's largest and highest grade natural rutile deposits and product samples have already been tested by all of the Company's major customers. Sembehun offers the potential to extend Sierra Rutile's mine life by at least 13 years and materially reduce operating costs.

The DFS continues to advance well, and during the quarter, \$2.2 million was invested progressing the DFS, which is due to complete at the start of 2024.

Key activities during the quarter included:

- Project Execution Plan Development in progress and execution risk workshop held.
- All procurement packages were received back from the market.
- All supply packages have been adjudicated and passed to estimating.

Construction packages are still to be evaluated however early indications are that DFS capex estimate should be broadly in line with the 2022 PFS estimate.

The ESHIA report was published in the quarter, with public participation now being conducted at Sembehun, Area 1 and in Freetown. The report to EPA is expected to be submitted in mid-November.

Environmental, Social and Governance

Sierra Rutile is committed to operating in a sustainable manner and emphasises high standards for environmental, social and governance (ESG) practices. As the largest private sector employer in Sierra Leone, training and employing over 2,200 local staff, the Company has a long-standing commitment to the communities in which it operates as well as contributing to the nation's growth.

During the quarter, work continued on Sierra Rutile's inaugural standalone Sustainability Report which is expected to be released in the first half of 2024.



Sierra Rutile

ASX ANNOUNCEMENT

The Company achieved a milestone rehabilitation of 285ha during 2023 against the regulatory requirement of 150ha, having produced and planted over 305,000 seedlings. The Company is discussing with the Government of Sierra Leone (GoSL) the process to relinquish land (and thereby avoid further surface rent charges).



The Sierra Rutile Clinic established a new Antenatal Care Unit and received formal approval from the District Health Medical Team following an assessment. The goal is for the unit to lead maternal health systems by partnering with local community health care centers and empowering them with skills training and support.

The Company also partnered with the Australian High Commission in Ghana to co-fund an ongoing Waste Management Project in Area 1.

Corporate

The cash balance at quarter end was \$20.0 million (excluding \$40.6 million of additional funds set aside for rehabilitation by the independently managed Sierra Rutile Rehabilitation Trust). Cash reduced during the quarter largely as a result of the significant finished product inventory build in response to weaker market conditions. At the end of the quarter, finished goods had an unaudited value of \$36.0m; these inventories are expected to be converted to cash as market conditions improve.

Total working capital at the end of the quarter remained a healthy \$81.6 million made up as follows:

	30 September 2023	30 June 2023
Cash	20.0	32.7
Trade and other receivables	33.6	61.2
Inventories (excl consumables)	49.8	30.6
Trade and other payables	(21.8)	(35.2)
Net working capital	81.6	89.3



Sierra Rutile

ASX ANNOUNCEMENT

Credit approval was received after the end of the quarter for a \$25.0m Revolving Credit Facility from Nedbank Limited, acting through its Corporate and Investment Banking division, a leading African mining finance lender. This facility will provide greater financial flexibility as required, especially should the Mogbwemo Tails Project be advanced following Third Amendment renegotiations. The facility will have a two year term and be replaced by any facility established as part of the development of Sembehun.

In addition to the \$2.2 million spent on the Sembehun DFS/ESHIA, an additional \$4.6 million of capital was invested during the quarter. Key capital works undertaken included:

- Gbeni in-pit wall 95% completed and scheduled for completion before the end of 2023 providing additional tailings capacity;
- DM1 optimisation project complete and operational enabling improved runtime and reduced maintenance costs; and
- Completion of replacement plant site warehouse construction following the 2022 fire.

As previously advised, GoSL is seeking to renegotiate aspects of the Third Amendment Agreement (entered into August 2021 and ratified by the Parliament on 16 Dec 2021), which governs the fiscal arrangements that apply to the remainder of operations at Area 1. The concessions provided by the Third Amendment were provided in order to assist the Company maintain operations pending production from Sembehun. Discussions have been held with various Government officials however, as yet, there is no agreement between the Company and GoSL on possible changes to the Third Amendment Agreement. Any changes to fiscal arrangements require Sierra Rutile's agreement.

Substantial engagement took place during the quarter with a variety of financiers (banks, agencies, credit/royalty funds etc.) regarding potential senior secured and other facilities to underpin the financing of Sembehun. Subsequent to the end of the quarter engagement with offtakers and other potential strategic partners has also commenced. These various interactions have confirmed the potential availability of substantial funding amounts and indicated a number of potentially viable financing routes subject to final DFS results and due diligence.

During the period, Mr Patrick O'Connor was appointed to Sierra Rutile's Board as an independent Non-Executive Director of the Company. Mr O'Connor brings over 40 years of resources industry experience. He is currently the Non-Executive Chairman of FAR Limited and a Non-Executive Director of Metals X Limited.

Finance Director, Martin Alciaturi, presented at the Noosa Mining Conference and Africa Down Under during the quarter.



Sierra Rutile

ASX ANNOUNCEMENT



Outlook

Although anecdotally said to be improving, the pigment market outlook remains uncertain in light of low global housing activity, materially increased interest rates and persistent inflation. Even the largest pigment manufacturers are unable to fully absorb their fixed costs and are operating at losses, leading to cautious buying behaviour. Industry consultants TZMI report that H1 feedstock imports are down ~20% for USA and ~50% for Europe compared to a year ago. TZMI predict that feedstock prices for the pigment sector are expected to remain under pressure in the near term. [source: TZMI Mineral Sands Reports]

By contrast, both Boeing and Airbus reported strong deliveries and a strong sustained outlook for titanium metal demand on the back of passenger traffic returning to pre-pandemic levels and high aircraft maintenance activity.

Although the construction outlook, particularly in Europe, remains weak, welding is generally expected to remain resilient.

Ongoing cost reduction efforts are directed at reducing fixed costs associated with long-term contracts, consolidating mining and haulage contractors, outsourcing non-core activities, and optimising the mining schedule to reduce costs.

In view of the weak demand conditions in the major pigment market, the Company has revised full-year production guidance to 115kt-120kt, with net unit costs for the year now expected to be \$1,075-1,125/t.

Longer term, a global supply deficit of natural rutile continues to emerge. Sierra Rutile's positive fundamentals remain unchanged. Natural rutile is the highest-grade form of titanium feedstock and the preferred raw ingredient for the less carbon intensive chloride pigment production process.



Sierra Rutile

ASX ANNOUNCEMENT

Sierra Rutile will seek to leverage its established relationships with all primary chloride-based titanium pigment manufacturers, and the world's largest producers of high-specification aircraft-quality titanium sponge as the Sembehun DFS is finalised and funding plans take shape.

Ends

This ASX Release was authorised for release to the ASX by the Board.

Contact Information:

Investors:

Martin Alciaturi
Finance Director, Sierra Rutile
Ph: 08 6251 5555
Email: martin.alciaturi@srx.group

Media:

Shane Murphy
FTI Consulting
Ph: 0420 945 291
Email: shane.murphy@fticonsulting.com

About Sierra Rutile

Sierra Rutile is the world's largest natural rutile producer, with an established operating history of more than 50 years from its operations in Sierra Leone.

The Company is well positioned to extend its operations through the proposed development of the nearby Sembehun deposits. Sembehun represents one of the largest and highest grade natural rutile resources in the world, and its development would extend Sierra Rutile's mine life by at least 13 years.

Sierra Rutile is listed on the Australian Securities Exchange. Further details about Sierra Rutile are available at www.sierra-rutile.com



Sierra Rutile

ASX ANNOUNCEMENT

Forward looking statements

Certain statements in or in connection with this announcement contain or comprise forward looking statements. Such statements may include, but are not limited to, statements with regard to future production and grades, capital cost, capacity, sales projections and financial performance and may be (but are not necessarily) identified by the use of phrases such as “will”, “expect”, “anticipate”, “believe” and “envisage”. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future and may be outside Sierra Rutile’s control. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government actions, fluctuations in product prices and exchange rates and business and operational risk management. Subject to any continuing obligations under applicable law or relevant securities exchange listing rules, Sierra Rutile undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today’s date or to reflect the occurrence of unanticipated events.

Mineral Resources, Ore Reserves Estimates and Production Guidance

This announcement contains production guidance based on estimates of Sierra Rutile’s ore reserves and mineral resources. The estimates in this announcement that relate to the ore reserves and mineral resources of Sierra Rutile have been extracted from the ASX release by Sierra Rutile entitled “Sierra Rutile Annual Statement of Resources and Reserves” dated 24 March 2023, available at <https://sierrarutile.com/> and www.asx.com.au (**Announcement**). For the purposes of ASX Listing Rule 5.19, Sierra Rutile confirms that it is not aware of any new information or data that materially affects the information regarding Sierra Rutile’s ore reserves and mineral resources included in the Announcement and that all material assumptions and technical parameters underpinning the estimates in the Announcement continue to apply and have not materially changed. Sierra Rutile confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the Announcement.

Non-IFRS financial information

This announcement includes certain information and data, such as *Operating Costs*, *Net Operating Cash Costs* and *Unit Operating Cash Costs*, that are not recognised under Australian Accounting Standards and are classified as ‘non-IFRS financial information’ under ASIC Regulatory Guide 230 (Disclosing non-IFRS financial information). Sierra Rutile uses these non-IFRS financial information metrics to assess business performance and provide additional insights into the underlying performance of its operations. The non-IFRS financial information metrics in this announcement do not have standardised meaning under the Australian Accounting Standards and, as a result, may not be comparable to the corresponding metrics reported by other entities. Non-IFRS financial information should be considered in addition to, and not as a substitute for, financial information prepared in accordance with Australian Accounting Standards. Readers are cautioned not to place undue reliance on non-IFRS financial information cited in this announcement.