



Mount Gibson Iron Limited

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ASX ANNOUNCEMENT

15 August 2018

Profit Result for 2017/18 Financial Year & Declaration of Final Dividend

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

- Total iron ore sales of **3.6 million wet metric tonnes** (Mwmt) (2016/17: 3.2 Mwmt).
- Sales revenue of **\$254.1 million** on a Cost and Freight (CFR) basis (2016/17: \$182.7m), equivalent to \$196.5 million (2016/17: \$162.0m) on a Free on Board (FOB) basis after shipping freight.
- Gross profit from continuing operations of **\$48.7 million** before tax (2016/17: \$36.5m).
- Net profit after tax of **\$99.1 million** (2016/17: \$26.3m) including Koolan Island business interruption insurance proceeds of \$64.3 million.
- Cash, term deposits and liquid investments of **\$457.5 million** at 30 June 2018, an increase of \$10.8 million over the year, after Koolan Island Restart Project expenditure of \$81.7 million and receipt of business interruption insurance settlement proceeds.
- All-in group cash costs* reduced by 13% to **\$45/wmt** FOB (2016/17: \$52/wmt).
- High grade Koolan Island Restart Project on track for first ore sales in the March 2019 Quarter, with the seepage barrier completed and dewatering underway.
- Koolan Ore Reserves increased by over 50% to 21Mt @ 65.5% Fe, extending mine life to 2023.
- Iron Hill mining on track for scheduled completion in late 2018, ore sales to conclude in early 2019.
- Right earned to a future income stream based on third party rail volumes, commencing on completion of current rail contract and capped at approximately \$35 million.
- Fully franked final dividend of **3 cents per share**, payable either in cash or in shares to eligible shareholders as part of the Company's Dividend Reinvestment Plan.
- Sales guidance for 2018-19 of **2.7-3.3 Mwmt** at all-in group cash cost* of **\$52-57/wmt FOB**.

**All-in group cash costs are reported FOB and include all operating, capital, royalties and corporate costs, excluding development capital related to the Koolan Island restart project.*

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "The Mount Gibson team has again delivered a very robust set of results during a period of challenging market conditions and significant operational transition as our Mid West operations near the end of their commercial life and we prepare to restart high grade iron ore production at Koolan Island.

"It was very satisfying to deliver a strong full year net profit result of \$99.1 million which, excluding the substantial insurance proceeds we received in July 2017, reflected a healthy net profit of \$34.8 million for our core business.

"It's very pleasing to reflect this financial performance in the payment of a fully franked final dividend for the 2017/18 financial year of 3 cents per share.

"With a robust balance sheet and our high grade Koolan Island project advancing rapidly toward the scheduled commencement of ore sales in the March 2019 quarter, Mount Gibson is ideally placed to capitalise on the structural change in iron ore pricing in favour of higher quality products to generate strong cashflow and create additional value for shareholders well into the next decade."

Group Summary Results		Year ended 30 June 2018	Year ended 30 June 2017
Physicals (continuing & discontinued operations):			
Ore mined	<i>M wmt</i>	4.1	1.9
Ore sold	<i>M wmt</i>	3.6	3.2
Realised Price (continuing & discontinued operations):			
Average realised price, all products, after shipping freight (FOB)	<i>\$/wmt</i>	54	55
Continuing Operations (Extension Hill & Koolan Island):			
Sales revenue, before shipping freight	<i>\$m</i>	254.1	182.7
Interest income	<i>\$m</i>	12.1	12.1
Cost of sales, including shipping freight	<i>\$m</i>	(217.5)	(158.3)
Gross profit from continuing operations	<i>\$m</i>	48.7	36.5
Koolan Island business interruption insurance proceeds	<i>\$m</i>	64.3	-
Other income	<i>\$m</i>	2.2	5.9
Administration and other expenses	<i>\$m</i>	(14.8)	(17.1)
Finance costs	<i>\$m</i>	(1.3)	(1.1)
Profit before tax from continuing operations	<i>\$m</i>	99.1	24.1
Income tax benefit	<i>\$m</i>	-	1.5
Profit after tax from continuing operations	<i>\$m</i>	99.1	25.6
Discontinued Operations (Tallering Peak):			
Sales revenue, before shipping freight	<i>\$m</i>	-	16.1
Cost of sales, including shipping freight	<i>\$m</i>	-	(15.4)
Profit after tax from discontinued operations	<i>\$m</i>	-	0.7
Net profit after tax	<i>\$m</i>	99.1	26.3
Totals may not add due to rounding.			

Table 1 – Financial Performance

Earnings Summary

Mount Gibson Iron Limited (**Mount Gibson**) recorded a net profit after tax of \$99.1 million for the year ended 30 June 2018 on total sales revenue of \$254.1 million (\$196.5 million Free on Board ("FOB") after shipping freight) and total ore sales of 3.6 million wet metric tonnes ("**Mwmt**"), including sales of low grade material from Extension Hill. The result includes the receipt in July 2017 of the \$64.3 million settlement proceeds from the business interruption component of the Company's Koolan Island insurance claim.

The result compares with a net profit after tax of \$26.3 million reported for the prior year. Gross profit before tax from continuing operations totalled \$48.7 million, compared with \$36.5 million in 2016/17.

Realised Pricing

During the 2017/18 financial year, the 62% Fe Platts Index price averaged US\$69 per dry metric tonne ("**dmt**"), broadly similar to the US\$70/dmt average of the prior year. However, the price differential between the benchmark Platt's 62% Fe and 58% Fe indices widened significantly over the course of the year as Chinese steelmakers increasingly favoured higher quality feedstocks to boost mill productivity and meet more stringent pollution control measures. This shift saw material priced off the Platts 58% Fe Index suffer discounts in the order of 40%.

This trend significantly impacted sales revenue from the Company's Mid West operations. Standard DSO fines from Iron Hill which typically grade around 59% Fe, achieved an average realised price of US\$30/dmt FOB for 2017/18, after grade and provisional pricing adjustments and penalties for impurities. This represented a significant reduction compared with the average realised price of US\$44/dmt FOB achieved in the prior year.

Conversely, the changed pricing trends resulted in improved premiums for lump ores and the average realised price for Iron Hill lump sold in the year was US\$59/dmt. In a positive sign for the resumption of sales from Koolan Island, the premium for high grade material priced off the Platts 65% index has also increased to more than 30% per contained iron unit.

The weighted average realised price for all Extension Hill products sold in the year, including low grade material, was approximately A\$54/wmt FOB compared with \$55/wmt FOB in the prior year.

Cashflow Summary

Cash reserves, including term deposits and liquid investments, increased by \$10.8 million over the financial year to \$457.5 million as at 30 June 2018.

The key components of the increase included underlying operating cashflows (net of corporate costs) of \$34.9 million, interest receipts of \$12.2 million, Koolan Island Restart Project expenditure (including plant and equipment) of \$81.7 million, and settlement proceeds of \$64.3 million received from the business interruption component of the Koolan Island insurance claim.

All-in group cash costs averaged \$45/wmt in the year, reflecting the ramp-up to full production at the Iron Hill operation, 3km south of the depleted Extension Hill pit. This represented a substantial reduction compared with average all-in cash costs of \$52/wmt in the prior year, reflecting the Company's ongoing focus on cost control and operational efficiency.

Sales from the Mid West comprised approximately 3.2 Mwmt of Direct Shipping Ore (DSO) lump and fines from Iron Hill, and approximately 0.4 Mwmt of low grade lump material from remaining stockpiles at Extension Hill.

Mining at Iron Hill ramped up to full production in late 2017, when a third train commenced operation, with sales of run-of-mine iron ore augmented by opportunistic sales of stockpiled low grade material from Extension Hill. Iron Hill, which commenced sales in June 2017, is on track for mining to be completed in late 2018, with DSO sales expected to conclude in the March 2019 quarter.

Activity at Koolan Island during the year focused on completing Main Pit seawall construction, notably the concrete seepage barrier and preparing for the commencement of dewatering. As previously reported, seepage barrier construction was completed shortly after year-end in mid July 2018, while continuous dewatering and refurbishment of the Main Pit footwall is progressing in line with the schedule to commence high grade sales in the March 2019 quarter.

Significantly, Main Pit Ore Reserves were upgraded to 21.0Mt grading 65.5% Fe in April 2018, extending the mine life to 2023 and adding significant value to the Project.

Project expenditure (cash and non-cash) during 2017/18 totalled \$83.9 million including various items of plant and equipment, in line with guidance, and expenditure from inception in May 2017 to 30 June 2018 totals approximately \$89 million. The estimated peak cash draw prior to first sales, including all capital development costs, remains unchanged at approximately \$175 million.

As announced, the Project is a financially compelling high grade production opportunity, with first sales on track to commence in the March 2019 quarter.

Koolan Island Seawall Insurance Claim

Following the \$86 million cash settlement of the property damage component of the Company's insurance claim reached with the insurers in 2016, in July 2017 Mount Gibson reached final agreement with 14 insurers, representing 92.5% of the Company's insurance cover for business interruption suffered as a result of the seawall failure, for a \$64.3 million cash settlement of the business interruption component of the claim.

Proceeds of the settlement were received in July 2017. Negotiations are continuing separately with one further insurer representing the remaining 7.5% of the Company's business interruption coverage.

The business interruption settlement takes total cash proceeds received from Mount Gibson's insurance claim relating to the seawall failure to just over \$150 million to date.

Looking Forward

Mount Gibson's overall objective is to maintain and grow long-term profitability through the discovery, development, operation and acquisition of mineral resources. As an established producer and seller of

hematite iron ore, Mount Gibson's strategy is to grow 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 cash reserves for value-accretive investments. The Board has determined the following key business objectives for the 2018/19 financial year:

- **Mid-West operations** – continue to mine the final stages of the Iron Hill deposit while optimising production rates and controlling costs, to maximise margins and prepare the site for its ultimate closure in early 2019.
- **Koolan Island** – successfully rebuild the Main Pit seawall, dewater the pit and commence commercial production, with initial ore sales anticipated in the March 2019 quarter.
- **Cost reductions** - continue to drive for sustainable cost improvements across the existing business.
- **Treasury returns** - maintain the increased yield on the Group's cash and investment reserves while seeking opportunities for further improvement.
- **Growth projects** - continuation of the search for acquisition opportunities in the resources sector.

Mid-West Outlook

Mining in the Iron Hill open pit at the Extension Hill mine site will continue to late 2018, following which the site will process, transport and export the remaining ore stockpiles, with final shipments expected in the March 2019 quarter. Opportunistic sales of existing stockpiles of low grade material will be undertaken if economically justified. The site and Mid-West logistics workforce will be reduced over this time and the site ultimately placed into closure mode. Early site rehabilitation activities will also be undertaken where use of the existing workforce and site equipment is justified.

Total closure and rehabilitation costs for the combined Extension Hill/Iron Hill sites are provisioned at approximately \$15 million (including site personnel redundancy costs), of which approximately \$8 million is expected to be spent during 2018/19.

Following achievement of a contractual rail volume threshold at Extension Hill during the year, the Group has become entitled to receive a partial refund of historical rail access charges from Arc Infrastructure based upon the future usage by certain third parties of specific segments of the Perenjori to Geraldton railway line. This entitlement commences upon termination of the Group's existing rail agreements – which is now expected to occur in 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.

Koolan Island Outlook

Following completion of the cement seepage barrier in July 2018, activity at Koolan Island is now focused on completing dewatering and footwall refurbishment in Main Pit and preparing the site for the commencement of mining and sales. As of the date of this report, the project is over 80% complete overall and on track to commence ore sales in the March 2019 Quarter.

As previously reported¹, the investment metrics of the Koolan Island Restart Project have been significantly enhanced by the major uplift in Ore Reserves to 21.0Mt grading 65.5% Fe, and the continued widening price differential in favour of higher grade ores.

Assuming a conservative average Platts 62% Fe CFR price of US\$55/dmt and an exchange rate of A\$1.00/US\$0.75, the estimated pre-tax Net Present Value (NPV) consequently more than doubled to \$252 million. The estimated pre-tax Internal Rate of Return (IRR) increased to 37%, with a payback period of 36 months from the commencement of sales.

The upgraded plan includes the purchase of one additional excavator and the hire of four additional haul trucks initially to undertake access work to remove an unstable bench at the eastern end of Main Pit and provide access to the additional Ore Reserves, as well as allow improvements in future mining rates and continuity. Peak cash draw continues to be estimated at up to approximately \$175 million.

¹ Refer ASX releases dated 20 April 2018 and 20 July 2018.

The higher NPV and IRR estimate incorporates a conservative increase in the assumed high grade premium from 4% to 10% (per unit of contained iron, or dry metric tonne unit, dmtu) for ores grading 65% Fe, reflecting Mount Gibson's view of the sustainability of the pricing differential for ores grading above and below 62% Fe. This can be considered to be conservative relative to the prevailing high grade market premium of approximately 32%.

Life of mine operating cash costs are forecast at \$41 per wet metric tonne FOB, inclusive of sustaining capital, operating costs, royalties and corporate cost allocations. Total all-in cash costs are projected to average \$48/wmt FOB over the life of the mine, inclusive of development capital and final closure costs (of approximately \$30.6 million), a reduction from the original estimate of \$53/wmt.

The Project is estimated to be cash breakeven, including all development capital and closure costs, at a Platts 62% Fe CFR iron ore price of US\$40/dmt based on the base case assumptions and an average shipping freight cost of US\$9/wmt.

Illustrating the Project's significant upside to higher prices, based on the current CFR spot price for 62% Fe iron ore of approximately US\$69/dmt, current high grade premium of 32% and prevailing exchange rate, the pre-tax NPV and IRR increase to more than \$800 million and 85% respectively.

Group Sales Guidance and Cash Costs Guidance

Mount Gibson expects its annual sales for the 2018/19 financial year to be between 2.7 and 3.3 Mwmt of iron ore at an average all-in group cash cost of \$52-57/wmt FOB. All-in cash costs are reported FOB and include cash operating expenditure, royalties, sustaining capital expenditure and corporate costs, and exclude Koolan Island restart capital expenditure.

Iron Hill is expected to contribute between 2.0 and 2.3 Mwmt of DSO at an average site all-in cash cost of \$38-42/wmt FOB².

Koolan Island is expected to contribute approximately 0.7 – 1.0 Mwmt of high grade ore based on the current schedule. All-in site cash costs are expected to average \$70-75/wmt FOB for this initial early stage of production. As indicated previously³, costs are projected to progressively decline over the mine life, in line with the mine schedule as the strip ratio reduces each year. The life of mine cost profile is tabulated in the Investor Presentation released at the same time as this announcement.

Dividend

Following consideration of the solid operational performance of the business in 2017/18, the Board has declared a fully franked final cash dividend of 3 cents per share, payable either in cash or in shares to eligible shareholders as part of the Company's Dividend Reinvestment Plan (DRP), with a record date of 23 August 2018, a final date for participation notices in the DRP of 1 October 2018, and payable on 15 October 2018.

The Appendix 4E and annual financial statements are attached.

For further information:

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Mount Gibson will host an analysts/institutions teleconference at **11.00am AEST on 15 August 2018**. Investors will be able to listen in to the teleconference by dialing **1800 857 029** 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 1800 857 079 (Australian callers) or +61 3 8788 6028 (overseas callers).

² Site all-in cash costs are reported FOB and include royalties and sustaining capital expenditure.

³ Refer Ore Reserves upgrade announcement dated 20 April 2018.

Competent Person's Statement

The information in this report relating to Ore Reserves at Koolan Island is based on information compiled by 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.