Mount Gibson Iron

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ASX ANNOUNCEMENT

19 February 2019

December 2018 Half-Year Financial Result

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

- Net profit after tax of **$45.1 million** (1H 2017-18: $80.0 million, which included $64.3 million from the proceeds of the Koolan Island business interruption insurance settlement).
- Total product sales of **2.2 million wet metric tonnes** (Mwmt) (1H 2017-18: 1.7 Mwmt), for sales revenue of **$177.4 million CFR,** including shipping freight (1H 2017-18: $117.0 million).
- Cash, term deposits and liquid investments of **$431.0 million** at 31 December 2018, a reduction of $26.5 million in the half-year, arising from net operating cashflows and interest of $57.3 million, Koolan Island expenditure of $65.5 million and $18.3 million in cash dividends paid in October 2018.
- Mid-West site cash costs* of **$37/wmt FOB** (1H 2017-18: $42/wmt) and Group all-in cash costs* of **$40/wmt FOB** (1H 2017-18: $46/wmt), both below guidance.
- Iron Hill mining, processing and railing completed, with the final Mid West shipments expected to occur in February 2019.
- Koolan Island Restart Project pre-production activity nearing completion, and mining of high grade ore about to commence. Koolan ore sales to commence in April 2019 following minor recent mining interruptions.
- Sales guidance for 2018/19 unchanged at **2.7–3.3 Mwmt,** including **0.7–1.0 Mwmt** from Koolan Island, at an average all-in Group cash cost* of **$52-57/wmt FOB**.

**Site all-in cash costs are reported as at the loading port (Free on Board, FOB) including royalties and capital expenditure, and Group all-in cash costs are reported FOB and include all operating, capital, royalties and corporate costs, excluding development costs related to the Koolan Island restart project.*

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, said: "The Mount Gibson team has delivered a solid operating and financial result during the half-year period. Our Mid-West business, from which the final shipments are shortly to be completed, was well-operated in the period to enable the Company to achieve a solid increase in gross profit from operations.

"Group net profit after tax totaled $45.1 million for the half-year, compared with $80.0 million in the prior corresponding half when operational earnings of $15.7 million were supplemented by $64.3 million in settlement proceeds from the Koolan Island business interruption insurance claim.

"This recent performance ensures the Company remains in a very strong position as our business focus shifts back to the high-grade Koolan Island mine in the Kimberley region. First ore sales are now scheduled to occur in April following some minor mining delays in recent weeks, and we maintain our full year production guidance.

"Importantly, the pricing and outlook for Koolan's high grade iron ore remains significantly better than our base case assumptions, giving Mount Gibson a solid base from which to create significant long term value for shareholders."

Results for the half-year ended 31 December 2018 compared with the prior corresponding half-year period:		Half-Year ended 31 December 2018	Half-Year ended 31 December 2017
Ore tonnes mined	*wmt (mill)*	1.9	2.2
Ore tonnes sold	*wmt (mill)*	2.2	1.7
Average realised price, all products (FOB)	*$/wmt sold*	64	54
Continuing Operations (Extension Hill & Koolan Island):			
Sales revenue, including shipping freight	*$ mill*	177.4	117.0
Interest income	*$ mill*	5.9	6.2
Cost of sales, including shipping freight	*$ mill*	(132.1)	(100.1)
Gross profit	*$ mill*	**51.1**	**23.1**
Administration and other expenses	*$ mill*	(6.5)	(7.5)
Other income	*$ mill*	1.4	64.9
Finance costs	*$ mill*	(0.8)	(0.3)
Profit before tax from continuing operations	*$ mill*	**45.2**	**80.2**
Income tax benefit/(expense)	*$ mill*	-	-
Profit after tax from continuing operations	*$ mill*	**45.2**	**80.2**
Discontinued Operations (Tallering Peak):			
Profit/(loss) after tax from discontinued operations	*$ mill*	(0.2)	(0.2)
Net profit/(loss) after tax	*$ mill*	**45.1**	**80.0**
Note: Some totals may not add due to rounding.			

Earnings Summary

Mount Gibson delivered a strong financial performance for the December 2018 half-year. The Company recorded a gross profit before tax from continuing operations of $51.1 million, an increase of 121% over the $23.1 million gross profit reported in the prior corresponding half.

The result was achieved on total sales revenue of $177.4 million inclusive of shipping freight ($138.6 million Free On Board) and total iron ore sales of 2.2 Mwmt. This compared with total sales revenue of $117.0 million ($90.2 million FOB) from ore sales of 1.7Mwmt in the December 2017 half-year. All sales in the period comprised direct-shipping grade material from the Iron Hill deposit in the Mid-West.

Group net profit after tax totalled $45.1 million compared with $80.0 million in the prior corresponding half-year in which earnings included the $64.3 million proceeds from settlement of the Koolan Island business interruption insurance claim.

Realised Pricing

During the December 2018 half-year, the 62% Fe Platts Index price (including Cost and Freight, CFR, for delivery to northern China) averaged US$69 per dry metric tonne (dmt), similar to the US$68/dmt average in the prior half-year notwithstanding substantial variation during the period. Although the benchmark iron ore price (for 62% Fe fines material) remained at solid levels, market prices for lower and medium grade iron ore continued to be impacted by wide and variable discounts against the Platts 62% Fe benchmark index. Many commentators have described this trend as a potentially permanent structural change to global iron ore pricing, notwithstanding seasonal moderation in discounts at the end of the half-year period. Variations in these discounts and the premiums for high grade material can be expected to continue in step with prevailing market conditions.

Mount Gibson achieved an average realised price for standard iron ore fines product for the half-year of US$34/dmt FOB after grade and provisional pricing adjustments and penalties for impurities, compared with an average of US$29/dmt in the December 2017 half-year and US$30/dmt in the 2017-18 financial year. Lump product from Iron Hill achieved an average realised price of US$61/dmt FOB for the December 2018 half-year, reflecting the continued premium attached to higher grade lump products.

The average grade of Iron Hill high grade lump ore sold during the half-year was 60.2% Fe, and of Iron Hill high grade fines was 60.0% Fe.

The weighted average realised price received (including realised foreign exchange hedging gains/losses) for all products sold was $64/wmt FOB in the half-year period compared with $54/wmt FOB in both the prior corresponding half year and the 2017/18 financial year.

Cashflow Summary

The Group's cash and liquid investment balances totalled $431.0 million at 31 December 2018, a decrease of $26.5 million over the half-year period. The cash movement comprised positive underlying operating cashflow (including corporate administration expenses and working capital movements) of $51.3 million, interest receipts of $6.0 million, Koolan Island Restart Project expenditure (including the purchase of plant and equipment) of $65.5 million and payment in October 2018 of the $18.3 million cash component of the fully franked final dividend to shareholders for the 2017/18 financial year.

All-in group cash costs averaged $40/wmt FOB in the six month period, compared with $46/wmt in the prior corresponding half and $45/wmt in the 2017-18 financial year, reflecting the Company's continued focus on cost control and operating efficiencies in the final months of production in the Mid-West operations.

Mid-West Operations

The Extension Hill/Iron Hill operations achieved a strong operational performance in the half-year, resulting in total ore shipments of 2.2 Mwmt. Sales comprised 1.1 Mwmt of lump ore and 1.1 Mwmt of fines ore from the Iron Hill operation. No low grade material from remaining stockpiles at Extension Hill was sold in the half.

All production and sales in the period came from the Iron Hill deposit, where mining was concluded as planned in December 2018. Direct shipping ore (DSO) from Iron Hill continued to be crushed and railed to Geraldton Port until early February 2019, as the site transitioned to closure. The final cargo of Iron Hill DSO is expected to occur in the second half of February 2019.

The total closure and rehabilitation cost for the combined Extension Hill and Iron Hill mine sites is provisioned at approximately $15 million (including site personnel redundancy costs), of which approximately $7 million is expected to be spent during 2018/19.

Koolan Island

Site activity at Koolan Island progressed significantly during the period with pre-production activities nearing completion by the end of the December 2018 half-year.

Construction of the seawall incorporating the impermeable seepage barrier was completed in mid-July 2018, enabling pit dewatering to commence in August. Activity through the half-year was focused on pit dewatering, re-profiling of the Main Pit hanging wall, refurbishment of the Main Pit footwall, recruitment of site personnel, maintenance of equipment, and refurbishment and recommissioning of site facilities and infrastructure.

By the end of January 2019, over 80% of the water in the Main Pit had been extracted. Significantly, the seawall has been under full tidal loads since late November 2018 and all instrumentation and monitoring data continues to demonstrate that the seawall is performing to design expectations.

Drilling and blasting in the upper levels of Main Pit commenced in early November, and by the end of the half-year period, 2.4 million tonnes of waste material had been moved. Mining is currently focused in the upper levels of the eastern end of the Main Pit and on waste rock exposed in the centre of Main Pit. The first benches of high grade iron ore are expected to be accessed shortly.

Ore sales are now scheduled to commence in April 2019, a few weeks later than previously targeted. The potential for this short delay was flagged in the December Quarter Activities Report and follows some weather-related interruptions and minor delays moving sediment and waste rock deposited in Main Pit when the seawall breach occurred in late 2014. Mount Gibson has issued notices to its offtake customers lifting the Force Majeure notifications from 2014.

Mount Gibson maintains its sales guidance for Koolan Island for the current financial year of 0.7-1.0 Mwmt of high grade ore. Peak cash draw, previously forecast at $175 million (inclusive of the $153 million spent since commencement in May 2017 and the end of December 2018) will increase marginally but is essentially a matter of timing and will be promptly recovered from initial shipment revenues.

When sales commence, Koolan Island will be the highest grade direct shipping mine in Australia, with an average Ore Reserve grade of 65.5% Fe. Assuming a conservative average Platts 62% Fe CFR price of US$55/dmt, high grade (Platts 65% Fe) premium of 10% and an exchange rate of A$1.00/US$0.75, the Project has an estimated pre-tax Net Present Value (NPV) of $252 million and estimated pre-tax Internal Rate of Return (IRR) of 37%, with a payback period of 36 months from the commencement of sales (refer ASX release dated 20 April 2018).

Notably, prices for high grade iron ore remain well above the Company's base case assumptions and underline the compelling value of Koolan Island to Mount Gibson's shareholders. The Platts CFR indices for 62% Fe and 65% Fe fines ore are currently trading at around US$87/dmt and US$100/dmt respectively, and the A$/US$ exchange rate is sitting around A$1.00/US$0.72. At these prices the NPV of the Koolan Island Project is in excess of $800 million.

While current pricing levels are considered unlikely to be sustained for the long term, being largely driven by the current temporary reduction of production in Brazil, Mount Gibson considers the underlying outlook for iron ore remains strong, most notably for high grade products such as those from Koolan Island. High grade iron ore from Koolan Island also benefits from low levels of alumina and phosphorous, this being a key attraction for steel producers.

Extension Hill Rail Refund/Credit – Contingent Asset

Following achievement of a contractual rail volume threshold at Extension Hill during the previous financial year, the Group has a contingent asset in the form of an entitlement 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 commenced upon termination of the Group's existing rail agreements in February 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.

Group Sales Guidance and Cash Costs Guidance

Group ore sales and cash cost guidance for the 2018/19 financial year remains unchanged, comprising expected sales of **2.7-3.3 Mwmt** of iron ore at an average all in group cash cost (excluding Koolan Island seawall construction and restart expenditure) of **$52-57/wmt FOB**.

For further information:

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Mount Gibson will host an analysts/institutions teleconference at **11.00am AEDT** (8.00am WST) on **19 February 2019**. Investors will be able to listen in to the teleconference by dialing **1300 289 804** 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 1300 289 804 (Australian callers) or +61 3 8788 6028 (overseas callers).

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.