

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2019 18 October 2019

Key Points:

- Total iron ore sales of **1.4 million wet metric tonnes** (Mwmt) in the quarter, comprising **0.7 Mwmt** of high-grade direct shipping ore (DSO) from Koolan Island and **0.7 Mwmt** of low-grade material from Extension Hill stockpiles in the Mid-West.
- Quarterly sales revenue of **A\$122 million** Free on Board (FOB).
- Solid operating cashflow for the quarter of **A\$25 million**.
- Commencement of historical Mid-West rail access charge refunds, with **A\$4 million** received in late September 2019.
- Cash and liquid investments of **A\$407 million** at 30 September 2019 after payment of most of the cash component of the final dividend declared for the 2018/19 financial year (A\$20 million paid in September and a further A\$7 million paid just after quarter end).
- Koolan Island high grade ore extraction rates continuing to build, targeting 3-4 shipments per month.
- Group cash costs* of **A\$74/wmt FOB** for the quarter, in line with guidance. Koolan site cash costs were A\$89/wmt, reflecting the shipment levels as production volumes ramp up, and Mid-West cash costs were on plan at A\$41/wmt FOB.
- Full year net profit after tax of A\$133.4 million reported for year ended 30 June 2019, and fully franked dividend of 4.0 cents per share declared and paid.
- Guidance for 2019/20 unchanged at iron ore sales of 3.7–4.0 Mwmt at an all-in group cash cost of A\$70-75/wmt FOB.

* Cash costs are reported FOB and include operating costs, royalties, sustaining capital expenditure and allocated corporate costs.

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, said: "It was satisfying to generate a solid operating cashflow of \$25 million in the September quarter as we worked to increase production at Koolan Island and progress the sales of low grade material in the Mid-West, establishing a good base for another successful year ahead.

"At Koolan Island, high grade DSO ore sales almost doubled to just under 0.7 Mwmt in the quarter, on track to achieve our sales guidance for the 2019/20 financial year, while unit costs are expected to decline from current levels as mining volumes progressively increase in the high grade Main Pit.

"Our quarter end cash and liquid investment reserves increased to \$407 million even after we had paid most of the \$27 million cash component of last year's dividend to shareholders. We look forward to delivering further improved performance over the remainder of the year as Koolan Island's production continues to build."

PERFORMANCE AT A GLANCE

	Unit	Sep-2018 Quarter	Dec-2018 Quarter	Mar-2019 Quarter	Jun-2019 Quarter	Sep-2019 Quarter	2019/20 YTD
Standard DSO product sales	kwmt	1,149	1,012	402	370	664	664
Low Grade sales	kwmt	-	-	-	237	711	711
Total Ore Sales	kwmt	1,149	1,012	402	607	1,375	1,375
Platts 62% Fe CFR price, average	US\$/dmt	67	72	83	100	102	102
Platts 65% Fe CFR price, average	US\$/dmt	94	92	95	115	110	110
Realised Koolan fines FOB price*	US\$/dmt	-	-	-	106	95	95
Realised Mid-West fines FOB price [#]	US\$/dmt	28	41	44	29	29	29
Realised Mid-West lump FOB price [#]	US\$/dmt	56	70	58	36	35	35

Minor discrepancies may occur due to rounding.

* Realised Koolan FOB prices reflect a mix of month of shipping (M) and M+2 averages, referencing the Platts 65% Fe Index.

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

[#] Realised Mid-West FOB prices are shown after shipping freight and specification adjustments/penalties. Mid-West sales in the June 2019 quarter comprised only shipments of low grade cargoes.

kwmt = thousand wet metric tonnes.

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

OPERATIONS

Direct Shipping Ore (DSO) sales totalled 0.7 Mwmt in the September quarter, all being high grade fines from the Company's Koolan Island mine in the Kimberley region. In addition, 0.7 Mwmt of low grade material held in stockpiles at Extension Hill was shipped from the Geraldton Port in the quarter.

Operating statistics are tabulated in Appendix A.

Koolan Island

The Koolan Island mine continued its operational ramp-up during the September quarter. As previously reported, the first shipment of high grade DSO was achieved in late April 2019, and the site attained commercial production for reporting purposes at the start of June.

Koolan Island generated positive cashflows of A\$24 million in the quarter, reflecting the increase in shipment numbers and the benefit of continued strong pricing for Koolan Island's high grade fines ore.

A total of 3.6 Mwmt of material was moved in the quarter, including approximately 651,000 wmt of high grade ore which was delivered to the crushing plant. Nine Panamax shipments of high grade DSO fines totalling 664,000 wmt were sold in the quarter.

The average grade of these shipments was 65.5% Fe, consistent with the Ore Reserve estimate. All sales from Koolan Island are made on FOB terms, with the sale occurring upon shipment loading at Koolan Island. At current spot prices for high grade iron ore, and based on the average life-of-mine product grade of 65-66% Fe, each Panamax cargo has a gross value of approximately A\$8-9 million FOB.

Ore extraction in the Main Pit improved during the quarter but remained congested within the central zone orebody and was also adversely impacted by natural groundwater flows. Additional dewatering sumps, bores and in-pit pumping systems are being installed to improve Main Pit groundwater management, mining conditions and productivity.

Refurbishment of the island-side Main Pit footwall (depressurisation drilling, cable bolting, shotcreting and installation of safety mesh) continues to proceed well. Seawall instrumentation and monitoring data also continues to demonstrate that the seawall, which incorporates the installed impermeable seepage barrier and has been under full tidal loads for almost one year, is performing to design expectations.

The crushing and shiploading facilities operated efficiently through the quarter. However, shortly after quarter end, the main overland shiploading conveyor belt suffered an extensive longitudinal tear caused by tramp steel being lodged in the conveyor system, necessitating replacement of the belt. The incident has

resulted in shiploading delays in October, with sales volumes anticipated to be recovered within the December quarter.

Improvements in site infrastructure are largely complete, with work during the quarter focused on camp refurbishment, the commencement of upgrades to site communications systems and the purchase of geotechnical monitoring and safety equipment.

Mid-West Operations – Extension Hill

Final DSO sales from the Iron Hill deposit at Extension Hill were completed in February 2019 but, as previously reported, renewed market interest in lower grade material enabled Mount Gibson to commence shipments in June 2019 of historically uneconomic stockpiled low grade material from the Extension Hill mine site. The current program envisages low grade shipments totalling approximately 1.0 Mwmt over the first half of the 2019/20 financial year, with the potential for any additional sales being dependent on iron ore prices. Cashflow from the program is modest but these sales will assist in reducing the cost of final site rehabilitation works.

Sales in the September quarter comprised 12 Panamax shipments totalling approximately 711,000 wmt, generating positive cashflow of A\$4 million.

Mount Gibson's Mid-West operations continue to demonstrate excellent safety performance. In late September, the Company's Geraldton Port operations achieved the outstanding safety milestone of ten years without recording a Lost Time Injury. This achievement has provided an outstanding example for everyone working within the Mount Gibson business. The Company congratulates all employees and contractors who have been part of the Geraldton team over the last decade for their contribution to achieving this outcome.

In late September Mount Gibson also received the first six-monthly payment, totalling \$4.0 million, under its entitlement to a partial cash refund of historical rail access charges from the Mid-West railway leaseholder. Payments occur at six monthly intervals dependent on the volumes railed by third parties on specified rail segments of the Mid-West railway network. The refund is capped at a total of approximately \$35 million (subject to indexation) and a time limit expiring in 2031.

CORPORATE

Realised Pricing and Revenue

Ore sales revenue for all products sold totalled A\$122 million FOB in the September quarter, net of downward provisional pricing adjustments of A\$5 million. As Koolan prices reflect a mix of month of shipping and future month averages, revenue figures remain subject to provisional pricing adjustments until finalised.

The September quarter average Platts CFR price (which includes the cost of shipping paid for by the iron ore supplier) for 62% Fe fines delivered to northern China was US\$102 per dry metric tonne (dmt), slightly above the average of US\$100/dmt in the preceding quarter. However, the average Platts CFR price index for high grade 65% Fe fines was US\$110/dmt in the quarter, lower than the average of US\$115/dmt in the June quarter.

During the quarter, high grade DSO fines from Koolan Island achieved an average realised price of US\$95/dmt FOB after penalties and provisional pricing adjustments, compared with US\$106/dmt in the prior quarter. Pricing of high grade Koolan iron ore reflects contract references to the Platts 65% Fe index as well as Panamax shipping freight rates (approximately US\$10-12 per tonne shipped in the quarter), specification adjustments and penalties, and provisional pricing adjustments.

Sales of low grade remnant material (51-54% Fe) from Extension Hill were conducted on a fixed price basis and achieved an average realised price of US\$29/dmt FOB for fines and US\$35/dmt FOB for lump ore.

Cashflow and Cash Position

The Company's cash and liquid investments increased by A\$22 million during the quarter to A\$407 million at 30 September 2019, compared with A\$385 million at 30 June 2019.

The quarterly movement comprised positive cashflows from Koolan Island of A\$24 million, positive cashflow from the Mid-West operations of A\$6 million (including A\$2 million of the rail refund attributable to the quarter), interest income of A\$2 million, corporate costs of A\$3 million, realised iron ore hedging losses of \$4 million arising from higher prices earlier in the quarter, cash dividends totalling A\$20 million, as well as positive working capital movements of A\$17 million reflecting the timing of cash receipts and payments.

Cost Performance and Sales Guidance

Group cash costs averaged A\$74/wmt FOB for the September quarter, in line with guidance.

At Koolan Island, reflective of the mining constraints and the ramp-up of production, site cash costs averaged A\$89/wmt FOB for the quarter, excluding the purchase of A\$6 million of ancillary mining equipment (front end loader, dozer and graders). Site cash costs will reduce in the coming quarters as mining productivity and sales volumes increase. Longer term, site cash costs are projected to progressively reduce in step with the declining waste/ore strip ratio over the life of the mine.

In the Mid-West, cash costs were A\$41/wmt FOB, near the bottom end of guidance of A\$40-45/wmt FOB.

As reported with the financial results in August, Mount Gibson expects total iron ore sales for the 2019/20 financial year of 3.7–4.0 Mwmt at an average group cash cost of A\$70-75/wmt FOB. Group cash costs are reported FOB and include all operating, sustaining capital, royalties and corporate costs. Within this, Koolan Island is expected to contribute 2.7–3.0 Mwmt of high grade DSO, with site cash costs expected to average A\$72-77/wmt FOB including capitalised waste stripping. The Mid-West is expected to contribute sales of 1.0 Mwmt of low grade material from Extension Hill at a cash cost of A\$40-45/wmt FOB.

Financial Results and Final Dividend for 2018/19

On 21 August 2019, Mount Gibson reported a net profit after tax of A\$133.4 million for the year ended 30 June 2019, comprising a pre-tax profit from all sites of A\$70.5 million and the recognition of deferred tax assets totalling A\$62.9 million.

The Company declared a fully franked final dividend of 4.0 cents per share (total of A\$45.2 million) for the 2018/19 financial year, which was paid in late September and early October. This takes the total value of fully franked dividends since the first dividend in late 2011 to approximately A\$274 million. The cash component of the 2018/19 dividend totalled A\$26.6 million (of which \$20.0 million was paid in September and the balance shortly after quarter end), reflecting a 41% take-up of the Dividend Reinvestment Plan.

Annual General Meeting

The Company's Annual General Meeting will be held at 12:00 noon AWST on Wednesday 13 November 2019 at the Parmelia Hilton Hotel in Perth.

For further information:

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Mount Gibson will host an analysts/institutions teleconference at **11:30am AEDT (8:30am WST)** on **Friday 18 October 2019**. Investors will be able to listen in to the teleconference by dialling **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 +613 8788 6028 (overseas callers).



Figure 1: Main Pit looking west, October 2019.



Figure 2: Run-of-Mine (ROM) pad in foreground and crushing plant and high grade fines ore stockpile area in centre of picture, ready for loading at Koolan Island, October 2019.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics

	Sep-2018 Quarter	Dec-2018 Quarter	Mar-2019 Quarter	Jun-2019 Quarter	Sep-2019 Quarter	2019/20 YTD
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	-	2,450	4,148	3,588	2,985	2,985
Ore mined	-	-	8	544	651	651
Ore crushed	-	-	5	425	661	661
Shipping/Sales*						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	-	-	-	370	664	664
Total	-	-	-	370	664	664
MID-WEST						
Mining & Crushing						
Waste mined	195	57	-	-	-	-
Standard ore mined	959	757	-	-	-	-
Low-grade ore mined [#]	122	54	-	-	-	-
Total ore mined	1,081	810	-	-	-	-
Ore crushed	1,052	980	57	385	882	882
Shipping/Sales*						
Standard DSO Lump	607	475	254	-	-	-
Standard DSO Fines	542	537	148	-	-	-
Low grade Lump	-	-	-	120	473	473
Low grade Fines	-	-	-	118	238	238
Total	1,149	1,012	402	237	711	711
CONSOLIDATED DATA						
Shipping/Sales*						
Standard DSO Lump	607	475	254	-	-	-
Standard DSO Fines	542	537	148	370	664	664
Low Grade Lump	-	-	-	120	473	473
Low Grade Fines	-	-	-	118	238	238
Total	1,149	1,012	402	607	1,375	1,375

kwmt = thousand wet metric tonnes.

* Mount Gibson ships in Panamax vessels which contain an average of 60,000 wmt from Geraldton Port in the Mid-West, and 72,000 wmt from Koolan Island.

[#] Low-grade ore is material grading 50-55% Fe at Extension Hill considered to be potentially saleable. This material is stockpiled for future sale and treated as mineralised waste for accounting purposes.

Minor discrepancies may appear due to rounding.

Competent Person Statement

Koolan Island Main Deposit Ore Reserves

The information in this report relating to Ore Reserves at Koolan Island 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.