

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED REPORT FOR THE QUARTER ENDED 31 DECEMBER 2019 24 January 2020

Key Points (all currency in Australian dollars unless stated otherwise):

- 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 in the Mid-West. Iron ore sales totalled **2.8 Mwmt** for the half year, comprising 1.4 Mwmt from each site.
- Quarterly sales revenue* of **\$106 million** Free on Board (FOB) and **\$224 million** FOB for the half.
- Group operating cashflow of **\$14 million** for the quarter and **\$39 million** for the half year. Operating cashflow at Koolan Island was impacted by the deferral of two shipments to 2020 following the previously-reported disruption in October caused by a tear to the primary overland conveyor belt. Repairs were completed in early November and normal shiplading operations resumed at that time.
- Cash and liquid investments of **\$398 million** at 31 December 2019.
- Group unit cash costs* of **\$69/wmt FOB** for the quarter, and **\$72/wmt** for the half year, in line with guidance. Koolan site cash costs were \$84/wmt for the quarter, above internal targets and reflecting the October shipping interruption, and Mid-West cash costs were on plan at \$42/wmt FOB.
- Mid-West low grade sales program extended to April 2020, with the potential for further extensions.
- Group sales guidance for 2019/20 **increased ~30% to 4.8-5.3 Mwmt** at an unchanged all-in group cash cost of \$70-75/wmt FOB. This comprises Koolan Island sales of 2.7-3.0 Mwmt (unchanged) at a site cash cost of \$77-82/wmt FOB reflecting performance to date, the waste stripping schedule and recent wet weather impacts, and Mid-West sales of 2.1-2.3 Mwmt at a site cash cost of \$40-45/wmt (unchanged).

* Revenue and cost information is unaudited, and subject to period-end adjustments. 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: "Mount Gibson has reported another steady quarter of operating cashflows, in which shipments of high grade Koolan Island ores increased.

"Importantly, we achieved our target of four shipments per month from Koolan Island in both November and December, which underpinned our Group operating cashflow of \$14 million for the quarter. Our Mid-West low-grade sales program also achieved its target and has now been extended well into 2020, resulting in our Group ore sales guidance increasing for the 2019/20 financial year.

"Although cyclone-related heavy rainfall has interrupted mining operations at Koolan Island in January, a degree of wet season interruption is factored into long-range planning and ore sales guidance for Koolan Island remains unchanged for the current financial year. Mount Gibson is well placed to deliver on its production targets and benefit from continued positive iron ore market conditions."

PERFORMANCE AT A GLANCE

	Unit	Dec-2018 Quarter	Mar-2019 Quarter	Jun-2019 Quarter	Sep-2019 Quarter	Dec-2019 Quarter	2019/20 YTD
Standard DSO product sales	kwmt	1,012	402	370	664	733	1,397
Low Grade sales	kwmt	-	-	237	711	649	1,360
Total Ore Sales	kwmt	1,012	402	607	1,375	1,382	2,757
Platts 62% Fe CFR price, average	US\$/dmt	72	83	100	102	89	95
Platts 65% Fe CFR price, average	US\$/dmt	92	95	115	110	98	104
Realised Koolan fines FOB price*	US\$/dmt	-	-	106	95	73	83
Realised Mid-West fines FOB price [#]	US\$/dmt	41	44	29	29	26	28
Realised Mid-West lump FOB price [#]	US\$/dmt	70	58	36	35	35	35

Minor discrepancies may occur due to rounding.

* Realised Koolan FOB prices reflect a mix of month of shipping (M), M+1 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 from the June 2019 quarter have comprised only shipments of low grade cargoes.

kwmt = thousand wet metric tonnes.

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

For the purpose of wet to dry tonnage conversion, moisture content typically averages circa 3% for Koolan Island fines and circa 4% for Mid-West products.

OPERATIONS

Sales of Direct Shipping Ore (DSO) totalled 0.73 Mwmt in the December quarter, all being high grade fines from the Company's Koolan Island mine in the Kimberley region. In addition, 0.65 Mwmt of low grade material from Extension Hill was shipped from the Geraldton Port in the quarter.

Operating statistics are tabulated in Appendix A.

Koolan Island

The Koolan Island operation continued its ramp-up during the December quarter.

A total of 4.0 Mwmt of material was moved during the quarter, an increase of 11% over the prior quarter, including approximately 763,000 wmt of high grade ore delivered to the crushing plant. Ten Panamax shipments of high grade DSO fines totalling 733,000 wmt were sold in the quarter, an increase of 10% over the previous quarter. This was despite only one shipment occurring in October due to the previously reported conveyor belt tear and replacement, resulting in the deferral of two shipments to 2020.

Notwithstanding this interruption, Koolan Island generated positive cashflows of \$21 million in the quarter before downward provisional pricing adjustments of \$10 million, reflecting the lower iron ore prices relative to the prior quarter, for net operating cashflows of \$11 million.

The average grade of shipments in the quarter was 66.2% Fe. 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 approximately 65.5% Fe, each Panamax cargo has a gross value of approximately \$9 million FOB.

Ore extraction in the Main Pit continued to improve during the quarter, increasing by 17% over the prior quarter. While mining remained congested within the central zone of the Main Pit, additional dewatering sumps, bores and in-pit pumping systems were installed to improve Main Pit groundwater management, mining conditions and productivity. Further initiatives are underway.

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 over one year, is performing to design expectations.

Despite shipping being suspended until late October, mining and crushing continued during this period and the shiploading facilities operated efficiently following the main belt replacement.

Subsequent to quarter end, in early January, operations were interrupted by extreme weather conditions associated with Tropical Cyclone Blake. More than 330mm of rainfall fell in a three day period which resulted in rainwater accumulating in the base levels of the Main Pit. Such conditions are not uncommon during the Kimberley wet season and necessitated temporary suspension of mining. Waste mining promptly resumed in the upper levels of Main Pit and ore extraction resumed on an intermittent basis in mid-January. March quarter shipments are anticipated to be similar to those in the December 2019 quarter.

Consequently, ore sales guidance for Koolan Island remains unchanged at 2.7-3.0 Mwmt for the 2019/20 financial year, subject to there being no further adverse weather interruptions. Comments regarding unit costs and annual guidance are included in the cost performance and sales guidance section of this report.

Infrastructure Investment - Airstrip

Personnel and lightweight supplies are presently flown onto Koolan Island via small charter aircraft. These flight movements can be impacted by poor weather, in particular in the northern Australian wet season, and operational performance suffers as a result. Consequently, Mount Gibson has investigated the potential to construct a new larger all-weather airstrip in the centre of the Island and is proceeding with construction activities now that regulatory approvals have been obtained.

The new 2.1 kilometre-long sealed airstrip is expected to deliver significant safety and efficiency benefits to the operation by enabling direct flights by commercial jet aircraft from Perth. This will reduce average transit times for Perth-based employees, helping reduce fatigue and improve general employment conditions. It will also deliver operating cost benefits over the life of the operation. Regular charter flights to/from Broome and Derby will continue to be maintained to accommodate the approximate 20% of the site workforce residing in the local region.

Mount Gibson anticipates the airstrip will cost circa \$20 million to construct and commission. Preparatory earthworks have commenced, and construction is targeted for completion at the end of the September 2020 quarter.

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 in June 2019 to commence shipments of historically uneconomic stockpiled low grade material from the Extension Hill mine site. Cashflow from the program is modest but these sales assist in final site rehabilitation works.

Sales in the December quarter comprised 11 Panamax shipments totalling approximately 649,000 wmt. Cashflow for the quarter totalled \$4 million after pricing adjustments. Sales for the half year totalled 1.36 Mwmt, exceeding the initial low grade campaign target.

Strong market conditions have enabled Mount Gibson to confirm an extension of the low grade sales program until the end of April 2020. Potential exists for a further extension of the program should prices and demand for this type of material remain supportive.

CORPORATE

Realised Pricing and Revenue

Ore sales revenue for all products sold totalled \$106 million FOB in the December quarter, after downward provisional pricing adjustments of \$11 million across both sites. Sales revenue for the half year period totalled \$224 million FOB. As the majority of Koolan's sale prices reflect future month averages, revenue figures remain subject to provisional pricing adjustments until finalised some 2-3 months after the shipment date.

The December 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 declined to US\$89 per dry metric tonne (dmt), compared with the average of US\$102/dmt in the preceding quarter. The average Platts CFR price index for high grade 65% Fe fines declined by a similar extent to US\$98/dmt in the quarter from the September quarter average of US\$110/dmt, and averaged US\$104/dmt for the half year.

During the quarter, high grade DSO fines from Koolan Island achieved an average realised price of US\$73/dmt FOB after provisional pricing adjustments (equivalent to US\$10/dmt) and penalties, compared with US\$95/dmt in the prior quarter. The average price realised for the half year was US\$83/dmt FOB. Pricing of high grade Koolan iron ore reflects contract references to the Platts 65% Fe index as well as Panamax shipping freight rates (averaging ~US\$11 per tonne shipped in the quarter), specification adjustments and penalties, and provisional pricing adjustments.

Sales of low grade material (51-54% Fe) from Extension Hill were conducted on a fixed price basis and achieved an average realised price of US\$26/dmt FOB for fines and US\$35/dmt FOB for lump ore in the quarter and US\$28/dmt FOB and US\$35/dmt FOB respectively in the half year.

Cashflow and Cash Position

The Company's cash and liquid investments totalled \$398 million at 31 December 2019, compared with \$407 million at 30 September 2019.

The quarterly movement comprised positive cashflows from Koolan Island of \$11 million, positive cashflow from the Mid-West operations of \$4 million (including \$2 million of the rail refund attributable to the quarter), interest income of \$2 million, corporate costs of \$3 million, payment of the last \$6 million cash component of the 2018/19 final dividend, as well as working capital outflows of \$17 million reflecting the timing of cash receipts and payments.

Cost Performance and Sales Guidance

Group cash costs averaged \$69/wmt FOB for the December quarter and \$72/wmt FOB for the half year, in line with guidance.

At Koolan Island, reflective of the mining constraints and the shipping interruption in October, site cash costs averaged \$84/wmt FOB for the quarter (excluding capital equipment purchases of \$3 million), compared with A\$89/wmt FOB in the preceding quarter. Site cash costs are anticipated to reduce over the life of the mine as mining productivity and sales volumes increase and the waste/ore strip ratio progressively declines.

In the Mid-West, site cash costs averaged \$42/wmt FOB for the quarter, in line with guidance.

Mount Gibson now expects total iron ore sales for the 2019/20 financial year to increase approximately 30% to 4.8–5.3 Mwmt, following extension of the Mid-West low grade sales program, at an average Group all-in cash cost of \$70-75/wmt FOB (unchanged).

Within this, Koolan Island sales guidance remains unchanged at 2.7–3.0 Mwmt of high grade DSO, with site cash costs of \$77-82/wmt FOB reflecting performance to date, the impact of wet season rains and all waste stripping activity which is highest in the first two years of the mine life. The Mid-West is expected to contribute sales of 2.1-2.3 Mwmt of low grade material at a cash cost of \$40-45/wmt FOB (unchanged). Group cash costs are reported FOB and include all operating, sustaining capital, royalties and corporate costs. Site cash costs are reported FOB and include royalties, sustaining capital expenditure and corporate cost allocations.

Executive & Board Appointments

In October 2019, Mount Gibson announced the appointment of Mr Mark Mitchell as the Company's Chief Operating Officer, following the retirement of long-serving senior operations executive Mr Scott de Kruijff.

In December 2019, the Company announced the appointment of Mr Ding Rucai as a Non-Executive Director of Mount Gibson as the new representative of Shougang Fushan Resources Group Limited, the Company's second largest 14.1% shareholder. Mr Ding succeeded Mr Li Shaofeng, who stepped down from the Board after almost 8 years' service as a Non-Executive Director of the Company to pursue other personal business interests.

Annual General Meeting

The Company held its Annual General Meeting in Perth on 13 November 2019. All resolutions were passed.

Half Year Financial Results 2019/20

Mount Gibson plans to release its financial results for the half year ended 31 December 2019 on 19 February 2020.

Authorised by

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Mount Gibson will host an analysts/institutions teleconference at **11:00am AEDT (8:00am WST)** on **Friday 24 January 2020**. 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, mid-January 2020.



Figure 2: Main Pit central and western zone mining activities, mid-January 2020.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics

	Dec-2018 Quarter	Mar-2019 Quarter	Jun-2019 Quarter	Sep-2019 Quarter	Dec-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	3,276	6,261
Ore mined	-	8	544	651	763	1,414
Ore crushed	-	5	425	661	722	1,383
Shipping/Sales*						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	-	-	370	664	733	1,397
Total	-	-	370	664	733	1,397
MID-WEST						
Mining & Crushing						
Waste mined	57	-	-	-	-	-
Standard ore mined	757	-	-	-	-	-
Low-grade ore mined [#]	54	-	-	-	-	-
Total ore mined	810	-	-	-	-	-
Ore crushed	980	57	385	882	694	1,576
Shipping/Sales*						
Standard DSO Lump	475	254	-	-	-	-
Standard DSO Fines	537	148	-	-	-	-
Low grade Lump	-	-	120	473	478	951
Low grade Fines	-	-	118	238	172	410
Total	1,012	402	237	711	649	1,360
CONSOLIDATED DATA						
Shipping/Sales*						
Standard DSO Lump	475	254	-	-	-	-
Standard DSO Fines	537	148	370	664	733	1,397
Low Grade Lump	-	-	120	473	478	951
Low Grade Fines	-	-	118	238	172	410
Total	1,012	402	607	1,375	1,382	2,757
<p>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.</p>						

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.