



Sierra Rutile

## ASX ANNOUNCEMENT

29 JANUARY 2024

### Quarterly Activities Report – December 2023

Sierra Rutile Holdings Limited (ASX: SRX) (**Sierra Rutile** or the **Company**) provides its operational, development, ESG and corporate update for the quarter ended 31 December 2023. All figures are in US Dollars unless otherwise stated.

#### Key Features:

- **Rutile production** of 29kt was above prior quarter, and FY production totalled 113kt.
- **Rutile sales volume** of 34kt exceeded production and allowed for drawdown of finished goods inventory held. Following the end of the quarter, rutile sales volume of over 20kt have been contracted for delivery in Q1 2024 albeit at lower pricing than the current quarter.
- **Realised rutile price** of \$1,258 /t FOB. Soft pricing in line with prior quarter.
- **Net unit cash production costs** of \$1,268 /t up 9.7% on Q3 2023 on the back of increased mining volumes and deferred ilmenite by-product sale.
- **Third Amendment Agreement:** Discussions with the Government of Sierra Leone (**GoSL**) in respect of the Third Amendment Agreement continued and post quarter end the Company received correspondence from the GoSL stating GoSL's intention to proceed on the basis that, with effect from 1 July 2023, the fiscal regime set out in the Third Amendment Agreement would no longer apply to Sierra Rutile, and that Sierra Rutile would revert to the fiscal regime in place as at 20 November 2001 between Sierra Rutile and the GoSL (see separate announcement of today's date).
- **Notice of Suspension of Operations:** Sierra Rutile has issued a suspension notice to GoSL for operations at Area 1 under the relevant mining licence and mining act, which will take effect from 11 March 2024.
- **Sembehun:** Definitive Feasibility Study (DFS) expected by middle of H1 2024. Strategic discussions commenced on equity partnership opportunities.
- **Improved Safety:** LTIFR of 0.33 and TRIFR of 0.55. No LTIs in H2.
- **Environment:** Post quarter end, the Sierra Leone EPA Board formally approved the Sembehun Environmental, Social and Health Impact Assessment (ESHIA) and associated Environmental, Social and Health Management Plan (ESHMP) (see separate announcement of today's date).
- **Transcend Court Judgement:** Reduction in the Transcend judgement interest payment from 25% pa to 7.5% pa, reducing judgement liability to US\$1.6m.
- **Net cash at 31 Dec** of \$7.8m (unaudited) with significant increase in receivables as some excess finished goods inventories were sold. Capex substantially reduced.
- **Working capital at 31 Dec** of \$66.1m (unaudited), 19% lower than prior quarter primarily reflecting sales of inventory during the quarter at prices below total cost of production.
- **2024 Guidance:** In light of the notice of suspension following the end of the quarter, no guidance will be given for 2024.

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### **Sierra Rutile Managing Director and CEO, Theuns de Bruyn, commented:**

“Rutile sales volume for the December Quarter were a major improvement on the September Quarter, and, albeit at soft pricing, it is good to have signed contracts for over 20kt in rutile sales for Q1 this year.

Our safety performance, which has significantly improved was a positive in the December Quarter and is now industry leading. This performance can be largely attributed to improved contractor management and onboarding processes.

Sales volumes in Q4 exceeded production volumes which were solid. Net unit operating costs exceeded the price we are able to realise in the current market. Whilst the increase in net unit costs was partially as a result of a delayed by-product shipment it is, nevertheless, unsustainable, and a concerted effort commenced to identify material cost savings to enable Area 1 to remain viable in current market conditions is ongoing notwithstanding the notice of suspension of operations at Area 1 that will take effect from 11 March 2024.

The recent correspondence received from the GoSL on the Area 1 fiscal regime was extremely disappointing and we are continuing to engage with the GoSL on the matter as a priority. Please see the separate announcement of today's date regarding the status of these discussions.

Sembehun continues to advance with the DFS report progressing well. A key milestone was achieved post quarter end with approval of the ESHIA and ESHMP for Sembehun.

On the macro outlook, pigment demand remains under pressure in Europe and China; although weaker than in prior years, the US market appears to be in better condition. The welding market remains unchanged, with the few strong sectors not able to offset weak regional, infrastructure and construction activity.

We believe market conditions predominantly reflect a cyclical decline in demand, rather than a long term trend, and TZMI predict feedstock demand growth for 2024 in excess of supply growth.”





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### Operations - Area 1

Summary Physical and Financial	Units	Dec Qtr 2022	Mar Qtr 2023	June Qtr 2023	Sept Qtr 2023	Dec Qtr 2023	FY2023
<b>Safety</b>							
TRIFR	/mwhrs	1.34	1.35	1.15	0.77	0.55	n/a
LTIFR	/mwhrs	0.40	0.61	0.58	0.44	0.33	n/a
<b>Mining</b>							
Ore Mined	mt	3.1	3.8	3.4	1.0	1.6	9.8
HMC Grade	%	2.3	2.5	2.5	2.3	2.4	2.5
Rutile Grade	%	1.3	1.4	1.4	1.4	1.3	1.4
<b>Production</b>							
Rutile	kt	37	32	25	27	29	113
Ilmenite	kt	15	12	9	11	12	45
ZIC/GIC	kt	8	8	5	6	7	27
<b>Sales</b>							
Rutile	kt	41	30	28	11	34	102
Ilmenite	kt	12	11	16	10	-	37
ZIC/GIC	kt	28	7	16	-	11	34
<b>Revenue &amp; Cash Costs</b>							
Revenue - Rutile	US\$m	64	42	41	14	43	140
Unit price - Rutile	US\$/t	1,544	1,427	1,488	1,268	1,258	1,371
Revenue - Ilmenite/ZIC/ GIC	US\$m	11	5	15	4	4	29
Operating Cash Costs	US\$m	42	43	41	35	41	160
Net Operating Cash Costs - Rutile	US\$m	31	37	26	31	36	131
Unit Operating Cash Costs - Rutile	US\$/t	1,159	1,339	1,649	1,295	1,421	1,418
Net Unit Operating Cash Costs - Rutile	US\$/t	843	1,166	1,039	1,147	1,268	1,159
Capital	US\$m	7	7	8	7	3	25

**Note: ZIC/GIC refers to zircon-in-concentrate and garnet-in-concentrate; Capital includes Sembehun studies.**

During the quarter, and in H2 overall, Sierra Rutile reported 0 Lost Time Injuries (LTIs), and excellent safety numbers. The Company remains committed to maintaining and improving safety performance.



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### Area 1 Operations to be suspended

Area 1 Operations are to be suspended following notification of the GoSL's intention to proceed on the basis that, with effect from 1 July 2023, Sierra Rutile is to revert to the fiscal regime in place as at 20 November 2001.

The position of the Company is that the Third Amendment Agreement cannot be amended without the mutual agreement of Sierra Rutile. Reverting to the previous fiscal arrangements would make continuing operations in Area 1 uneconomic.

The dispute resolution provisions under the Third Amendment Agreement contemplate that the parties will attempt to resolve any dispute in good faith through negotiation following which there is provision for arbitration in the United Kingdom.

The current fiscal uncertainty (which has persisted since May 2023) does not provide a stable platform upon which Sierra Rutile can make ongoing strategic, capital or investment decisions or enter into the required major contracts necessary to continue production for the remainder of Area 1's mine life.

Consequently, Sierra Rutile has issued a suspension notice to GoSL for operations at Area 1 under the relevant mining licence and mining act, which is expected to take effect from 11 March 2024.

### Production

Q4 was impacted by soft rutile pricing and late substitution of a higher value rutile shipment in Q4 for a planned ilmenite shipment. The delay was solely due to logistics constraints, and this ilmenite shipment has now been loaded.

Ore mined during Q4 was 0.5Mt higher than Q3, but materially lower than Q4 2022. The significant wet season Run of Mine (ROM) ore stockpiles established during H1 2023 continued to be run down during October and November, with the mining rate eventually lifting in December.

Heavy minerals concentrate (HMC) production from the Wet Concentrator Plants was in line with expectations. Production levels, which originally declined in Q2 due to power constraints, are continuing to be maintained at lower levels whilst softer market demand conditions persist. Rutile production was marginally lower in November due to strike action and fuel shortages as a result of a brief period of civil unrest.

### Area 1 Key Updates

As noted above, Area 1 Operations are to be suspended with effect from 11 March 2024.

Other key updates are that following the end of the quarter, the Company experienced a failure of one of its powerhouse engines. This follows the failure of another engine in mid-2023. Whilst currently still able to run at planned throughput levels, the Company now effectively has no back-up generation capacity and has been negotiating with an international power supply contractor to provide replacement generators and operate these on behalf of Sierra Rutile so that the Sierra Rutile powerhouse can be retired. Negotiations are advanced but, given the significance of the contract, the Company has, so far, been unable to commit to the contract given ongoing uncertainties relating to the Area 1 fiscal regime.



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Optimisation at Area 1 advanced with work commenced on the Gangama North tidal bund to allow access to 3.7Mt of ore to mine for the DM2 operation in 2024. The project began in the first week of November 2023 and work included the completion of haul road water crossing and progress on the pioneer layer of the tidal bund. The project is expected to provide access to ore from the middle of February 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.

Timing of any investment is contingent on the status of the notice of suspension, improved market conditions and continuation of the Third Amendment Agreement fiscal arrangements.

### Unlocking value with Sembehun

Sembehun is home to one of the world's largest and highest grade natural rutile deposits, and offers the potential to extend Sierra Rutile's mine life by at least 13 years, and materially reduce operating costs.

The DFS is now estimated to be completed by mid-H1 2024 and represents an investment of nearly \$12m to date. Development of the DFS report is progressing well and execution strategy workshops are ongoing. The Independent Engineers (IE) Due Diligence was conducted through a site visit at the end of November 2023. An initial draft report was received and recommendations are being addressed. Capex is materially in line with the PFS, and capex and opex are being optimised through seeking in-country earth moving, civil engineering, mining and product hauling contractors.

Discussions are ongoing with major development partners to potentially fund key infrastructure associated with Sembehun, and strategic equity opportunities are also being explored.



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Post quarter end, the Environmental Protection Agency (EPA) in Sierra Leone has provided formal approval for the Sembehun ESHIA and ESHMP.

During the quarter, engagement with offtakers and other potential strategic partners commenced for Sembehun. These interactions will continue once final DFS results are available.

Any decisions in relation to Sembehun will be dependent on the position reached with the GoSL and achieving sustainable arrangements on which to proceed.

### **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.

During the quarter, work progressed on Sierra Rutile's inaugural standalone Sustainability Report.

The Company conducted a Rapid Appraisal Assessment to provide livelihood support to five communities that may be impacted by mining activities at the Gangama North Deposit.

In support of education, Sierra Rutile commenced the payment of scholarship funds to primary, secondary and university students from five mining chiefdoms.

The Company distributed 247 bags (50kg) of rice and 6 bags (25kg) of onions as Christmas gifts to community stakeholders in the five mining chiefdoms. The stakeholders included paramount chiefs, section and town chiefs, youth, women, religious leaders, the vulnerable and groups with disabilities.



The Regent Chief of Imperrri Chiefdom receiving SRL's Christmas Gift



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### Litigation

As previously announced, Sierra Rutile's operating subsidiary, Sierra Rutile Limited (**SRL**), has been involved in legal proceedings in Sierra Leone with Transcend International Resources Limited (**Transcend**) in relation to the supply and delivery of zircon middling.

During the quarter, the High Court of Sierra Leone awarded judgement in favour of Transcend for the \$816,500 claimed, general damages of \$350,000, costs to be taxed, and interest at 25% per annum until full payment.

The Company considered the interest of 25% per annum excessive and took steps for a reduction of the interest rates. Encouragingly, the initial interest set at 25% per annum has been reduced to 7.5% per annum, meaning that the judgement liability is estimated at \$1.6m.

### Corporate

Cash balance at quarter end was \$7.8 million (excluding \$40.6 million of additional funds set aside for rehabilitation by the independently managed Sierra Rutile Rehabilitation Trust).

Rutile inventories declined with sales exceeding production, whilst ore and HMC inventories declined materially as previously elevated stocks were drawn down. At quarter end, trade receivables were inflated as a result of these sales and these receivables are expected to be converted to cash during the current quarter.

In December mining ramped up again. Unit operating cash costs before by-product credits were 9.7% higher than the prior quarter on account of higher mined ore volumes.

In light of continued soft market conditions, consistent with treatment at the 30 June Half Year, the Company has fully impaired its Area 1 property, plant and equipment at 31 December 2023. This will result in a further non-cash charge of \$7.1m recognised in the Full Year Profit & Loss statement, in addition to the \$28.8m recognised in H1 2023. Sierra Rutile's Full Year results are being finalised and will be released to the ASX at the end of February.

Net working capital at the end of the quarter reduced to \$66.1 m (unaudited) comprised as follows:

	31 December 2023 \$m	30 September 2023 \$m
Cash	7.8	20.0
Trade and other receivables	54.4	33.6
Inventories (excl consumables)	38.4	49.8
Trade and other payables	(34.5)	(21.8)
Net working capital	66.1	81.6

The decline in overall net working capital of \$15.5m resulted primarily from losses arising from a provision against consumables and the sale of inventories built up in Q3, with an overall cost of production in excess of the sale price realised. All other capex spend has been reviewed and prioritised to ensure that only critical production related activities are funded. The Company's Gangama North tidal bund project is the last big earthworks project for Area 1 and is likely to now be scaled back

The potential Revolving Credit Facility, primarily negotiated to facilitate development at Mogbwemo, is on hold in light of the current situation regarding the Third Amendment Agreement.



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In addition to the \$1.5 million spent on the Sembehun DFS/ESHIA, an additional \$1.7 million of capital was invested during the quarter. Key capital works undertaken include:

- Various civil works including:
  - Completion of Gbeni in-pit wall 99%;
  - B6 Spillway lowering of pond level; and;
  - Construction of G12 retention Bund Wall;
- Construction of one plant site warehouse following the 2022 fire with a second warehouse in progress for completion in the near future.
- Construction of Nitti Port Warehouse which is also due for completion in the near future.

As part of the Company's marketing and financing efforts, Finance Director, Martin Alciaturi, presented at TZMI, the leading mineral sands industry conference in November 2023.

### Outlook

The global pigment market is expected to remain challenging in the short term, with mixed regional performance. While North America offers some positive signs, sluggish demand in Europe persists alongside continued weakness in China. During 2024 European pigment producers may claw back a degree of competitiveness against Chinese imports as freight rates rise (container ships avoid the Suez Canal), and depending on whether the EU decides to impose anti-dumping tariffs on Chinese pigment. Sierra Rutile believes the prevailing pigment market conditions predominantly reflect a cyclical decline in demand rather than a longer-term trend.

The welding market is likely to face similar challenges, with strong sectors, including the US and LNG shipbuilding in India, unable to fully offset broader economic softness in Europe and the broader infrastructure and construction activity. Demand for aerospace grade titanium remains strong.

While short-term market headwinds remain, a longer-term trend of global natural rutile supply deficit is emerging. Unfortunately, Sierra Rutile's ability to capitalise on this situation is unclear in light of recent developments with the GoSL despite the Company's strong relationships with major chloride pigment manufacturers and the world's top aircraft-grade titanium sponge producers.

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](mailto:martin.alciaturi@srx.group)

**Media:**

Shane Murphy  
FTI Consulting  
Ph: 0420 945 291  
Email: [shane.murphy@fticonsulting.com](mailto:shane.murphy@fticonsulting.com)



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### 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 Sembahun deposits. Sembahun 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](http://www.sierra-rutile.com)

### 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

To the extent, 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](http://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.