



## Mount Gibson Iron Limited

ABN 87 008 670 817



### ASX ANNOUNCEMENT

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Level 1, 2 Kings Park Road  
West Perth 6005, Western Australia  
PO Box 55, West Perth WA 6872  
Telephone: 61-8-9426-7500  
Facsimile: 61-8-9485 2305  
E-mail: admin@mtgibsoniron.com.au

## December 2021 Half-Year Financial Result

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

- **Total iron ore sales of 0.7 million wet metric tonnes (Mwmt)** (1HFY21: 2.3Mwmt), comprising 0.4 Mwmt from Koolan Island and 0.3 Mwmt from the Shine operation in the Mid-West.
- **Progression of the major waste stripping program at Koolan Island, with significant operational and financial improvement expected in the June 2022 half-year** as the Main Pit waste to ore stripping ratio declines and high-grade shipment volumes start to increase.
- **Net loss after tax of \$65.6 million**, including previously guided impairments and inventory write-downs totalling \$41.4 million (before tax) related to the now-suspended Shine operation (1HFY21: \$74.5 million net profit).
- **Net cash outflow from operations of \$53.2 million** (1HFY21: cash inflow of \$113.8 million) before interest income of \$1.6 million, capitalised waste stripping and other mine development expenditure of \$116.1 million, the purchase of plant and equipment of \$24.0 million, and payment of the \$12.2 million cash component of the FY21 final dividend.
- **Cash and investment reserves of \$142.1 million** at 31 December 2021, down from \$364.7 million at 30 June 2021.
- **Group ore sales guidance for FY22 of 1.8-2.0 Mwmt**, including 1.5-1.7 Mwmt from Koolan Island, with forecasts to be updated following the northern Australian wet season.

### Comment

Mount Gibson Chief Executive Officer, Peter Kerr, said: "Mount Gibson undertook a period of significant investment in the December half-year to prepare the Koolan Island operation for substantial increases in high grade iron ore shipments going forward, and also made the decision to suspend the Mid-West Shine operation given a rapid deterioration in market conditions, in order to preserve the future value of that deposit.

"As previously disclosed, the Company drew heavily on its cash reserves, with the Koolan Island operation set to achieve increased high grade ore production and a reduced waste to ore stripping ratio – the main drivers of lower unit costs – as the June 2022 half-year progresses, subject to the usual potential impacts of both the current northern wet season and the fast-evolving COVID-19 situation in Western Australia.

"Stronger prevailing iron ore market conditions since the start of 2022 and the improved outlook for high grade and low-impurity iron ore feedstocks into the global steel sector further highlight the underlying value of Koolan Island as high-grade product sales increase this year.

"These factors give us confidence in our expected generation of substantial cashflow from Koolan Island over the next five years and the pursuit of new opportunities for the business."

<b>Summary Results</b> (all currency expressed in Australian dollars)		<b>Half-Year ended 31-Dec-2021</b>	<b>Half-Year ended 31-Dec-2020</b>
<b>Physicals:</b>			
Iron ore mined	<i>M wmt</i>	0.8	1.4
Iron ore sold	<i>M wmt</i>	0.7	2.3
<b>Financials:</b>			
Sales revenue, including shipping freight (CFR basis)	<i>\$m</i>	27.3	258.8
Interest income	<i>\$m</i>	1.5	3.5
Cost of sales, including shipping freight (CFR basis)*	<i>\$m</i>	(100.9)	(146.9)
<b>Gross profit/(loss)</b>	<i>\$m</i>	<b>(72.1)</b>	<b>115.4</b>
Other income, including rail credit	<i>\$m</i>	8.7	5.1
Impairment of property, plant and equipment (Shine)	<i>\$m</i>	(1.7)	-
Impairment of mine properties (Shine)	<i>\$m</i>	(35.0)	-
Administration and other expenses	<i>\$m</i>	(9.9)	(6.8)
Net foreign exchange and marked-to-market movements**	<i>\$m</i>	17.0	(6.5)
Finance expenses	<i>\$m</i>	(0.5)	(0.5)
<b>Profit/(loss) before tax</b>	<i>\$m</i>	<b>(93.5)</b>	<b>106.7</b>
Tax benefit/(expense)	<i>\$m</i>	27.9	(32.2)
<b>Net profit/(loss) after tax</b>	<i>\$m</i>	<b>(65.6)</b>	<b>74.5</b>
Totals may not add due to rounding.			
*Cost of sales includes a write-down of \$4.0 million of the carrying value of ore inventories at the closed Shine operation and a net write-down of \$7.9 million to the carrying value of low and medium grade ore stockpiles at Koolan Island. This is in addition to \$36.7 million in impairment adjustments to the carrying values of Shine's mine properties and property, plant and equipment, as shown separately above, and the write-down of \$0.7 million related to the carrying value of Shine's consumables inventories, included in administration and other expenses.			
**Marked-to-market movements comprise realised and unrealised foreign exchange, commodity hedging and financial asset movements.			

## Earnings Summary and Financial Position

Mount Gibson Iron Limited (**Mount Gibson** or the **Company**) recorded a net loss after tax of \$65.6 million for the half-year ended 31 December 2021 on total iron ore sales of 0.7 Mwmt. Sales comprised 0.4 Mwmt of lower grade fines material from Koolan Island while the major waste stripping program was progressed, and 0.3 Mwmt of medium grade material from the Shine operation in the Mid-West.

Reduced production and ore quality at Koolan Island was a result of limited access to high-grade ore zones as mining activities focused on the major waste stripping program and upper western footwall ground support works in the Main Pit. Consequently, sales in the December half-year were temporarily sourced from lower grade material at the lateral extents of the Main Pit and from the nearby Acacia East satellite pit. Ore quality in 2022 has already improved and volumes are scheduled to steadily increase from the June half-year onwards in line with the anticipated lower waste-to-ore strip ratio in the Main Pit.

Ore sales revenue totalled \$17.5 million FOB (Free on Board, after shipping freight), after adverse provisional pricing adjustments of \$18.8 million, compared with revenue of \$240.7 million FOB on ore sales of 2.3 Mwmt in the prior corresponding half-year period.

On a pre-tax basis, the Company recorded a loss of \$93.5 million compared with a profit of \$106.7 million in the prior corresponding period. The result included impairments and inventory write-downs at the suspended Mid-West Shine operation totalling \$41.4 million, in line with guidance. The Company recorded a tax benefit for accounting purposes in the December 2021 half-year of \$27.9 million compared with a tax expense of \$32.2 million in the prior corresponding half-year period.

## **Koolan Island Operations**

Activity at Koolan Island in the December half-year remained focused on progressing the bulk waste stripping program and the upper footwall ground support works in the Main Pit, as well as the crushing plant upgrade. These initiatives will facilitate materially increased high grade ore production, sales and cashflow from the June 2022 half-year onwards.

The mine incurred a loss before interest and tax of \$46.2 million in the half-year (after net inventory write-downs of \$7.9 million) reflecting investment in the above activities which temporarily restricted production to lower grade material, and the adverse impact on operating productivity arising from intermittent government restrictions on travel and workforce mobility related to COVID-19 outbreaks in Australia.

Total mining movement was 9.3 Mwmt (including 0.7 Mwmt of waste rehandled within Main Pit) for the December half-year, consistent with the overall mine plan, resulting in an average waste:ore strip ratio of approximately 17:1 in the December half-year. While progress was impacted by the factors referred to above, the strip ratio is anticipated to fall significantly to average approximately 6:1 in the June 2022 half-year. This reflects the scheduled increase in high-grade iron ore production from the Main Pit. From mid-2022 the stripping ratio will continue to progressively decline and is expected to average approximately 1.5:1 over the following five year period, resulting in a significant reduction in total mining movement and unit cash costs per tonne shipped. Further, the Company has committed to the purchase (via suitable lease finance arrangements) of a replacement truck fleet from mid-2022 onwards to better suit the future pit design and assist with productivity, cost and emissions objectives.

The cash draw at Koolan Island totalled \$157.4 million in the half-year reflecting lower sales revenue from temporarily reduced ore volumes and quality, the advanced waste stripping investment of \$79.3 million, and progression of the footwall ground support and crusher upgrade projects together totalling \$33.2 million. Operating cashflows are anticipated to improve through the June 2022 half-year as ore quality and shipment volumes progressively increase.

## **Mid-West Operations**

The Mid-West operations comprise the recently suspended Shine iron ore mine, transport infrastructure and the Company's bulk storage facilities at the regional port of Geraldton. The Mid-West operations incurred a loss before interest and tax of \$59.0 million for the December half-year, after recording impairment and inventory write-down expenses of \$41.4 million following suspension of the Shine operation. The Company continued to receive the historical rail credit, with \$4.1 million recorded as other income in the half-year.

Development of the Shine project, 85km north of the Extension Hill site, commenced in late 2020 with an initial targeted mine life of two years. Mining operations commenced in April 2021 with ore crushed on-site and trucked 300km via public roads to the Company's export facilities at Geraldton Port. The first ore shipment was completed in August 2021.

While production performance at Shine was consistent with plan, the operation suffered from the rapid deterioration in iron ore market conditions, particularly with regard to widening discounts for iron ores grading under 60% Fe, increased penalties for impurities and a sharp increase in shipping freight costs. Consequently, in October 2021 the Company announced a staged suspension of operations at Shine to preserve the value of the Shine deposit and provide time to assess the iron ore market outlook.

After the planned final shipment of lump ore in October, the Company negotiated the sale of two further shipments of fines material from available stockpiles. Sales from Shine consequently totalled approximately 0.3 Mwmt in the December half-year.

The cash outflow at Shine for the December half-year period was \$29.9 million, reflecting site development and waste stripping costs in the September quarter and closure costs, net of final revenues, in the December quarter. Given the suspension of the Shine operation, the book carrying value of the business unit has been impaired and written down for accounting purposes by \$41.4 million (before tax) as at 31 December 2021, comprising \$35.0 million for mine development, \$1.7 million for property, plant and equipment, and \$4.7 million for low-grade ore and consumables inventories.

The site is now being held on a low-cost care and maintenance program pending a reassessment of market conditions. In the meantime, a number of the Company's employees at Shine have been redeployed to Koolan Island, helping to alleviate some of the ongoing labour pressures in certain areas at that operation.

### Cashflow Summary

The Group's cash and investment reserves - comprising cash and cash equivalents, term deposits, subordinated notes and financial assets held for trading - totalled \$142.1 million as at 31 December 2021, a reduction of \$222.6 million over the half-year.

The key components of the movement are tabulated below and reflect the following business activities in the half-year period:

<b>Cashflow Summary</b>	<b>Koolan Island \$m</b>	<b>Shine \$m</b>	<b>Corporate &amp; Other \$m</b>	<b>Total \$m</b>
Operating cashflow before capital expenditure	<b>(29.7)</b>	<b>(18.0)</b>	<b>(5.4)</b>	<b>(53.2)</b>
Capital expenditure:				
Advanced waste stripping (capitalised deferred stripping costs)	(79.3)	(8.5)	-	(87.8)
Mine development (including ground support activities)	(25.8)	(2.5)	-	(28.3)
Key projects (including Koolan Island crusher upgrade)	(22.2)	-	-	(22.2)
Sustaining capital, equipment purchase, exploration and other	(0.3)	(0.8)	(0.6)	(1.8)
	<b>(157.4)</b>	<b>(29.9)</b>	<b>(6.0)</b>	<b>(193.2)</b>
Realised net hedging losses				(10.6)
Other financing activities and net working capital movements				(6.6)
Dividend payment (cash component of the FY21 final dividend)				(12.2)
Total movement in cash and investment reserves in the period				<b>(222.6)</b>

Minor discrepancies may appear due to rounding.

- Koolan Island** - Significant progression was made on the advanced waste stripping program within the Koolan Island Main Pit, with total material mined of 9.3 Mwmt (including 0.7 Mwmt of waste rehandled within Main Pit) at an average waste to ore strip ratio of approximately 17:1. Concurrent with this mining activity, which has been more challenging than expected given skilled labour shortages arising from Western Australian COVID-related border closures, significant investment was made in the geotechnical ground support program on the upper western footwall in the Main Pit and the crusher upgrade project which was substantially completed by period-end. During this high waste stripping phase, sales revenue was negligible due to the significantly reduced realised pricing achievable for the medium and lower grade ore produced, resulting in a decision to delay the sale of most of this material until it can be blended with higher grade ore in future periods.
- Shine (Mid-West)** – Cashflows at Shine reflected mine development and waste stripping activity as well as the later suspension of operations due to the significant iron ore price falls, product discounting and higher shipping freight rates experienced in the half-year, net of the revenues achieved from five shipments made in the period.
- Corporate and Other** – Key expenditure related to corporate, administration, rehabilitation (for closed sites) and exploration activities, net of interest income and the historical Mid-West rail credit. In addition, the Company realised losses related to historical iron ore hedging positions, net of realised gains on foreign exchange and financial asset positions (net loss \$10.6 million).

Mount Gibson does not have bank borrowings and has an undrawn \$100 million revolving credit facility with HSBC. Debt comprises lease liabilities (\$12.5 million), an insurance premium funding facility (\$7.3 million) and an off-balance sheet performance bonding facility (\$7.5 million utilised of a \$20 million facility).

## Market conditions and pricing

Iron ore market conditions deteriorated significantly in the December half-year in response to Chinese Government-imposed restrictions in steel making to meet defined production limits set for the 2021 calendar year. This deterioration was particularly severe for lower and medium grade products such as those produced from the Company's Mid-West Shine operation.

The Platts Index price for delivery of 62% Fe iron ore fines to northern China consequently fell from approximately US\$220 per dry metric tonne (**dmt**) CFR in July 2021 to a low of US\$87/dmt in November 2021 before recovering moderately to US\$119/dmt in late December and averaging US\$136/dmt for the half-year period. Discounts for iron ores grading 58% Fe and below also widened substantially during the period, with the Platts 58% Fe Index averaging US\$95/dmt CFR in the half-year. The decline in prices was moderately offset by a weaker Australian:US dollar exchange rate, which averaged US\$0.732 in the period, compared with US\$0.772 in the immediately preceding six-month period.

Most product sold from Koolan Island was lower grade material (55-58% Fe) sourced from outside the Main Pit Ore Reserve and is not representative of the higher grade production currently being sold or expected to be sold over the remainder of the mine life. Medium-grade iron ore sold from the Shine project in the Mid-West realised an average price of US\$59/dmt FOB for fines and US\$82/dmt FOB for lump.

## Group Guidance

The focus for the second half of FY22 at Koolan Island is to substantially complete the planned open pit waste stripping program and the upper footwall support program, and to finish commissioning of the upgraded crushing facility in order to resume high grade ore production and enable significantly increased ore shipments. At Shine, the Company will undertake timely assessment of market conditions to determine the feasibility of restarting the operation.

On a Group basis over FY22, Mount Gibson is targeting total iron ore sales of 1.8-2.0 Mwmt. Koolan Island is expected to contribute iron ore sales of 1.5-1.7 Mwmt in the year, depending on the impacts of the northern Australian wet season. The Shine operation in the Mid-West contributed iron ore sales of 0.3 Mwmt in the December half-year and, with the current suspension of operations, no further shipments from Shine have been included in the guidance.

## Dividend

An interim dividend has not been declared.

## Financial Statements

Full details of Mount Gibson's financial results for the six months ended 31 December 2021 are available in the Appendix 4D and financial statements released to the ASX today and published on the Company's website.

### Authorised by:

Peter Kerr, Chief Executive Officer

For further information:

#### **Peter Kerr**

Chief Executive Officer  
Mount Gibson Iron Limited  
+61-8-9426-7500

[www.mtgibsoniron.com.au](http://www.mtgibsoniron.com.au)

#### **John Phaceas**

Manager Investor & External Relations  
+61-8-9426-7500  
+61-(0)411-449-621

Mount Gibson will host an analysts and institutions teleconference at **11:30am AEDT today, Wednesday 23 February 2022**. Investors will be able to listen in to the teleconference by dialing **1300 278 865** 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).