

QUARTERLY REPORT



MOUNT GIBSON IRON LIMITED REPORT FOR THE QUARTER ENDED 31 MARCH 2020 22 April 2020

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

- Iron ore sales of **1.0 million wet metric tonnes (Mwmt)** in the quarter, comprising 0.44 Mwmt of high-grade direct shipping ore (DSO) from Koolan Island and 0.59 Mwmt of low-grade material from Extension Hill in the Mid-West. Iron ore sales for the nine month year-to-date period total **3.8 Mwmt**.
- Quarterly sales revenue* of **\$82 million** Free on Board (FOB).
- Group cashflow of \$19 million for the quarter before investments in Koolan Island capitalised waste stripping (\$16 million), airstrip construction (\$5 million) and positive working capital movements, for an overall increase in cash and investment reserves by \$4 million. Cashflow and sales performance at Koolan Island reflected the impacts of adverse cyclone-related weather on mining, and operating restrictions arising from the Company's COVID-19 management plans.
- The Mid-West low grade sales program continued as planned. Additional sales arrangements were finalised during the quarter to extend the program to at least the middle of this year, and further sales are being investigated.
- Cash and liquid investments of **\$402 million** at 31 March 2020, and no borrowings.
- Group unit cash costs* of **\$80/wmt FOB** for the quarter before Koolan airstrip construction costs, and **\$71/wmt FOB** for the year to date. Koolan site cash costs were \$127/wmt FOB for the quarter including capitalised waste stripping investment. Mid-West cash costs were on plan at \$41/wmt FOB.
- In response to the COVID-19 virus pandemic, significant changes have been implemented to site operating protocols, travel arrangements and workforce rosters to ensure operational continuity.
- Group sales and cost guidance for FY2019/20 was withdrawn given the difficulty of reliably predicting performance in the prevailing uncertain regulatory and global conditions. However, production and sales for the June quarter are expected to improve on the March quarter.

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

Comment

Mount Gibson Chief Executive Officer, Peter Kerr, said: "Mount Gibson remains strong, stable and well positioned to weather the prevailing uncertain COVID-19 economic environment. We are fully supportive of the State and Federal Governments' regulatory measures to combat the spread of the virus, which are fundamental to protecting our people and the broader community. We are working hard to retain the privilege we've been granted to continue operating in these extraordinary circumstances.

"Even with the recent weather and COVID-19 challenges, we were able to finish the quarter with solid cash and investment reserves. The Mid-West operation continued its consistent run and, at Koolan Island, mining movement is steadily improving as we enter the second year of planned elevated waste stripping to set up the operation to maximise strong cash generation in future years."

PERFORMANCE AT A GLANCE

	Unit	Mar-2019 Quarter	Jun-2019 Quarter	Sep-2019 Quarter	Dec-2019 Quarter	Mar-2020 Quarter	2019/20 YTD
Standard DSO product sales	kwmt	402	370	664	733	439	<i>1,836</i>
Low Grade sales	kwmt	-	237	711	649	587	<i>1,948</i>
Total Ore Sales	kwmt	402	607	1,375	1,382	1,026	<i>3,784</i>
Platts 62% Fe CFR price, average	US\$/dmt	83	100	102	89	89	<i>93</i>
Platts 65% Fe CFR price, average	US\$/dmt	95	115	110	98	104	<i>104</i>
Realised Koolan fines FOB price*	US\$/dmt	-	106	95	73	86	<i>84</i>
Realised Mid-West fines FOB price [#]	US\$/dmt	44	29	29	26	27	<i>27</i>
Realised Mid-West lump FOB price [#]	US\$/dmt	58	36	35	35	37	<i>36</i>

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 since 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.

COVID-19 BUSINESS RESPONSE

Since early March 2020, the rapid global spread of Coronavirus (COVID-19) has necessitated significant and evolving responses by industry and government to slow the transmission rate of the virus. This has involved severe restrictions on the movement of people into and within Australia, and the implementation of strict social distancing requirements.

In collaboration with relevant authorities, the Australian resources sector has developed a range of stringent protocols allowing controlled movement of mining sector workers, notably fly-in/fly-out personnel, in order that essential activities and production can be maintained whilst limiting the potential spread of COVID-19 within the Australian population.

The wellbeing of its employees, contractors and local communities remains Mount Gibson's primary consideration. Accordingly, the Company has implemented a range of measures across its business consistent with advice from state and federal health authorities. The measures are particularly stringent for the Koolan Island operation given the Kimberley region is subject not only to the Western Australian Government's travel restrictions but also to Federal Government biosecurity requirements.

These measures have included stringent pre-travel screening and documentation, detailed social distancing during travel and at site, enhanced cleaning and personal hygiene measures, extended rosters to minimise travel, relocation of interstate personnel to WA, and replacement of commercial flights for Koolan Island personnel with dedicated air charter services. Site manning levels have also been reduced since mid-March by deferring non-essential work and implementing a freeze on interstate recruitment.

Mount Gibson's iron ore operations on Koolan Island in the Kimberley region, and at Extension Hill and the Geraldton Port in the Mid-West region, have consequently been able to continue albeit with increasing travel and operating constraints resulting in additional costs. This includes increased expenditure associated with bringing forward procurement of critical spares and consumables to avert potential supply chain interruptions.

OPERATIONS

Sales of high grade Direct Shipping Ore (DSO) from Koolan Island totalled 0.44 Mwmt in the March quarter. In addition, 0.59 Mwmt of low grade material from Extension Hill was shipped from the Geraldton Port in the quarter.

Mount Gibson is pleased to report that, notwithstanding the current global uncertainty, its customers have all continued to perform their obligations under its various offtake agreements for both its Koolan Island and Mid-West operations.

Operating statistics are tabulated in Appendix A.

Koolan Island

A total of 3.7 Mwmt of ore and waste was mined at Koolan Island during the March quarter, a reduction of 9% from the prior quarter. This reflected the previously reported cyclone-related heavy rain events in January, further disruptions associated with additional cyclonic activity in late February and early March, and the necessary operational changes implemented as part of the Company's COVID-19 response.

Ore production reflected the waste stripping schedule. As previously indicated, the planned elevated stripping phase of the mine, during which waste movement is at its highest and ore production at its most variable, is scheduled to be completed over the next 18 months. Thereafter, sales will rise and costs will decline in step with the significantly reduced waste to ore stripping ratio.

Ore production in the March quarter totalled 545,000 wmt, approximately 29% lower than in the preceding period. Ore sales in the quarter were in turn restricted to six shipments totalling 439,000 wmt of high grade DSO fines, taking sales for the first nine months of the 2019/20 financial year to just over 1.8 Mwmt.

The average grade of shipments in the quarter was 65.6% Fe. Sales from Koolan Island are made under long term offtake agreements 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.

Notwithstanding the reduced physical performance, Koolan Island generated operating cashflow of \$15 million in the quarter before capitalised waste stripping investment of \$16 million and initial construction costs on the new airstrip of \$5 million. The net site cashflow was a deficit of \$6 million.

Mining performance improved during March as mine planning and scheduling initiatives have been progressively implemented. As noted in Mount Gibson's operational update released to the market on 30 March 2020, mining and ore production are expected to improve further in the June 2020 quarter, subject to there being no further interruptions related to COVID-19 or significant adverse weather events.

Geotechnical works on the island-side Main Pit footwall (i.e. depressurisation drilling, cable bolting, shotcreting and installation of safety mesh) have also proceeded well. Seawall (hanging wall) instrumentation and monitoring data continues to demonstrate that the new seawall, which incorporates the installed impermeable seepage barrier and has been under full tidal loads for well over one year, is safe and performing to design expectations.

The site also successfully loaded its first Kamsarmax-class bulk carrier during March. These vessels are capable of carrying up to approximately 80,000 wmt relative to conventional Panamax vessels of approximately 72,000 wmt. Further use of these vessels may facilitate some modest shiploading and transport efficiencies.

Infrastructure Investment - Airstrip

As previously reported, in the December 2019 quarter the Company approved construction of a new 2.1 kilometre sealed all-weather airstrip in the centre of the Island, with estimated construction and commissioning costs of \$20 million.

This new airstrip is expected to deliver significant safety and efficiency benefits to the operation by enabling direct flights by jet aircraft from Perth. This will reduce average transit times for Perth-based employees, helping minimise 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 be maintained to accommodate the ~20% of site personnel residing in the local region.

The onset of the global COVID-19 pandemic has further demonstrated the value of this development, which will eliminate the need for most of the Koolan Island workforce to transit through Broome. The new airstrip is now considered a key element of Mount Gibson's longer term COVID-19 management plan.

Construction of the airstrip is proceeding well, with initial flights presently anticipated for October this year. Opportunities to expedite the schedule of this project are being pursued.

Mid-West Operations – Extension Hill

Mount Gibson commenced the existing low grade sales program from the Extension Hill mine site in June 2019. Sales since that time have totalled nearly 2.2 Mwmt. Cashflow from the program is modest but these sales will also assist in final site rehabilitation works.

Sales in the March quarter were in line with plan totalling approximately 587,000 wmt, comprising 233,000 wmt of low grade lump material and 354,000 wmt of low grade fines. Cashflow for the quarter totalled \$5 million including \$2 million from the ongoing rail credit refund. Sales for the nine month period have totalled 1.9 Mwmt. Marketing to further extend the program has resulted in sales arrangements recently being finalised for the balance of the financial year. Possible further sales beyond that point are under investigation.

Operations in the Mid-West continue to proceed well and costs remain in line with plan. Recently introduced regional travel restrictions to limit the spread of COVID-19 are not at this stage anticipated to significantly impact the Mid-West operations, however this will be further assessed over time.

CORPORATE

Realised Pricing and Revenue

Ore sales revenue for all products sold totalled \$82 million FOB in the March quarter. 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. Australian-dollar revenue also benefited from the significant decline in the AUD:USD exchange rate, with the AUD averaging US\$0.658 in the March quarter, compared with US\$0.683 in the preceding quarter.

The March 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 remained steady at US\$89 per dry metric tonne (dmt), consistent with the preceding quarter. However, the average Platts CFR price index for high grade 65% Fe fines increased by approximately 5% to US\$104/dmt for the quarter, reflecting a widening of the premium for high grade products.

During the quarter, high grade DSO fines from Koolan Island achieved an average realised price of US\$86/dmt FOB after penalties, compared with US\$73/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 (averaging US\$8-9 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\$27/dmt FOB for fines and US\$37/dmt FOB for lump ore in the quarter.

Cashflow and Cash Position

The Company's cash and liquid investments totalled \$402 million at 31 March 2020, compared with \$398 million at 31 December 2019. The quarter-end cash balance does not include any revenue from the Koolan Island shipment made at the end of March, the proceeds of which were received in April.

The quarterly cash increase of \$4 million comprised operating cashflow from Koolan Island of \$15 million before capitalised waste stripping investment of \$16 million and initial construction expenditure on the airstrip of \$5 million, positive cashflow from the Mid-West operations of \$5 million, interest income of \$2 million, corporate costs of \$3 million and positive working capital movements (reflecting the timing of receipts and payments) of \$6 million.

Cost Performance and Sales Guidance

Group cash costs averaged \$80/wmt FOB in the March quarter (before Koolan airstrip construction costs of \$5 million), compared with \$69/wmt FOB in the December quarter.

At Koolan Island, reflective of the mining constraints and disruption reported in the quarter, site cash costs averaged \$127/wmt FOB in the quarter (including capitalised waste investment of \$16 million), compared with \$84/wmt FOB for 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 \$41/wmt FOB for the quarter, in line with plan and consistent with figure of \$42/wmt reported for the preceding quarter.

As stated in Mount Gibson's Operational Update dated 30 March 2020, given performance in the March quarter, the current uncertain business environment and related operating challenges, it is presently difficult to provide reliable sales and cost predictions for the medium term. Accordingly, Mount Gibson has decided to withdraw its sales and cost guidance for the 2019/20 financial year.

However, as already noted, Mount Gibson currently expects improved ore production and sales from Koolan Island in the June 2020 quarter, subject to there being no further interruptions related to COVID-19 requirements or significant adverse weather events.

Half Year Financial Results

In February 2020, the Company released its financial results for the half-year ended 31 December 2019, reporting a net profit after tax of \$44.6 million on total ore sales revenue of \$230 million FOB.

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Mount Gibson will host an analysts/institutions teleconference at **11:00am AEST (9:00am WST)** on **Wednesday 22 April 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).

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Figure 1: Main Pit looking east, departing Panamax vessel Ya Tai 2, 1 April 2020.

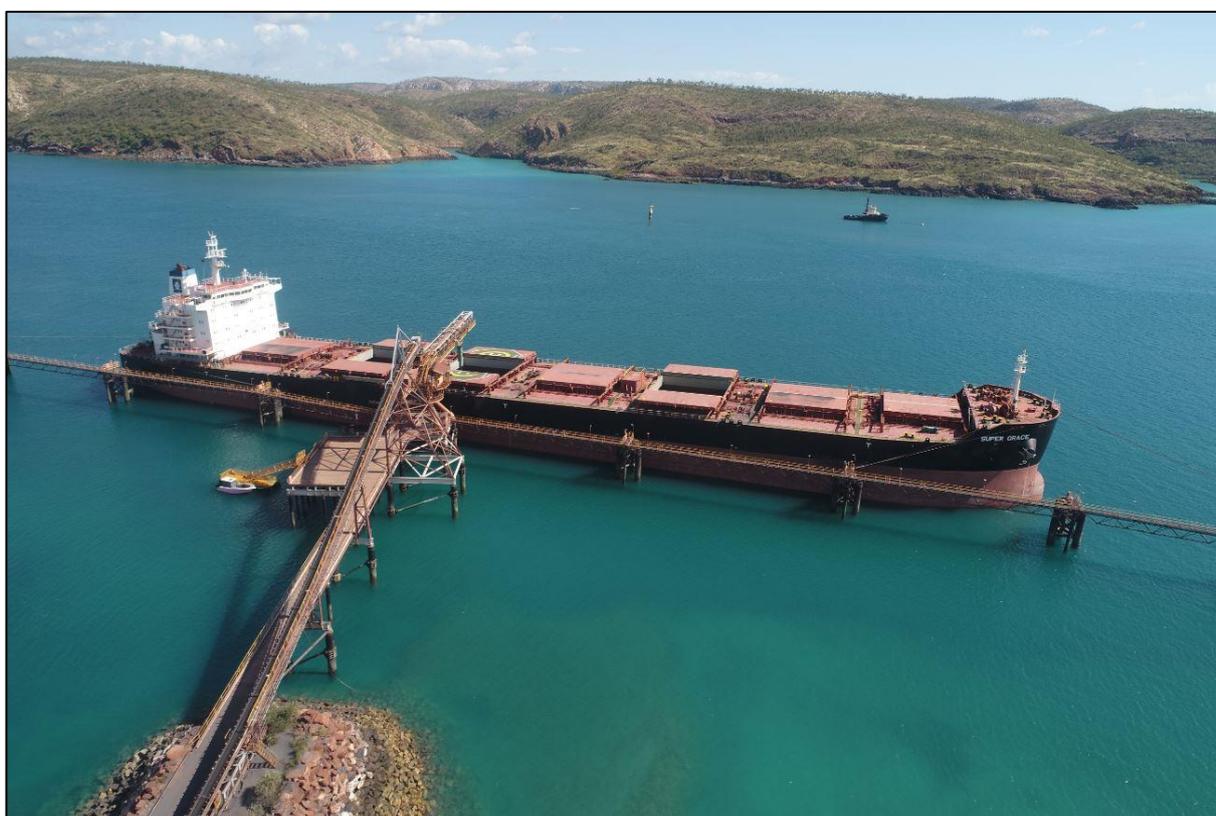


Figure 2: Kamsarmax-class carrier Super Grace being loaded at Koolan Island, 23 March 2020.

APPENDIX A

Mount Gibson Iron Limited Quarterly Operating Statistics

	Mar-2019 Quarter	Jun-2019 Quarter	Sep-2019 Quarter	Dec-2019 Quarter	Mar-2020 Quarter	2019/20 YTD
KOOLAN ISLAND	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)	(kwmt)
Mining & Crushing						
Waste mined	4,148	3,588	2,985	3,276	3,113	9,374
Ore mined	8	544	651	763	545	1,959
Ore crushed	5	425	661	722	432	1,815
Shipping/Sales*						
Standard DSO Lump	-	-	-	-	-	-
Standard DSO Fines	-	370	664	733	439	1,836
Total	-	370	664	733	439	1,836
MID-WEST						
Mining & Crushing						
Waste mined	-	-	-	-	-	-
Ore mined	-	-	-	-	-	-
Ore crushed	57	385	882	694	484	2,060
Shipping/Sales*						
Standard DSO Lump	254	-	-	-	-	-
Standard DSO Fines	148	-	-	-	-	-
Low grade Lump	-	120	473	478	233	1,184
Low grade Fines	-	118	238	172	354	763
Total	402	237	711	649	587	1,948
CONSOLIDATED DATA						
Shipping/Sales*						
Standard DSO Lump	254	-	-	-	-	-
Standard DSO Fines	148	370	664	733	439	1,836
Low Grade Lump	-	120	473	478	233	1,184
Low Grade Fines	-	118	238	172	354	763
Total	402	607	1,375	1,382	1,026	3,784
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 generally 72,000 wmt from Koolan Island. 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.