



Mount Gibson Iron Limited

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ASX ANNOUNCEMENT

16 August 2017

Profit Results for 2016-17 Financial Year and Declaration of Final Dividend

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

- Gross profit from continuing operations of **\$36.5 million** before tax (2015-16: \$34.6m).
- Sales revenue from continuing operations of **\$162 million** (2015-16: \$235m), and total sales revenue of **\$173 million** including the discontinued Tallering Peak operation.
- Total product sales **3.2 million wet metric tonnes** (Mwmt) (2015-16: 5.0 Mwmt).
- Net profit after tax of **\$26.3 million** (2015-16: \$0.3m before insurance settlement of \$86m).
- Cash, term deposits and liquid investments of **\$447 million** at 30 June 2017, an increase of \$47 million over the year, and excluding \$64.3 million settlement proceeds of the Koolan Island business interruption insurance claim received in July 2017.
- All-in group cash costs* of **\$52/wmt** FOB (2015-16: \$48/wmt) including net inventory build.
- Iron Hill mine approved, first ore sales achieved in June 2017.
- High-grade Koolan Island Mine Restart Project approved, material siteworks commenced in June and first ore sales targeted for early 2019.
- Fully franked final dividend of **2.0 cents per share**.
- Sales guidance for 2017-18 of **3.5–3.8 Mwmt** at all-in group cash cost* of **\$47-52/wmt FOB**.

**All-in group cash costs are reported FOB and include all operating, capital, royalties and corporate costs, excluding development capital related to the Koolan Island restart project.*

Comment

Mount Gibson Chief Executive Officer, Jim Beyer, said: "The Mount Gibson team has delivered a robust operational and financial result with an increase in our gross profit from continuing operations to \$36.5 million, and delivering an overall net profit after tax of \$26.3 million during a period of continued price volatility and significant operational transition.

"This performance, together with the \$64.3 million settlement of our business interruption insurance claim in July, puts the Company in a strong position heading into the new financial year, as we ramp up production and sales from Iron Hill and progress our high grade Koolan Island Restart Project.

"It's very pleasing to reflect this financial performance in the payment of a fully franked final dividend of 2 cents per share.

"Underpinned by our ongoing commitment to financial and operational discipline, Mount Gibson has strong prospects ahead of it with Iron Hill now fully operational, development underway to restart Koolan Island, and the financial capacity to act on additional value-creation opportunities that may emerge."

Group Summary Results		Year ended 30 June 2017	Year ended 30 June 2016
Physicals (continuing & discontinued operations):			
Ore tonnes mined	<i>M wmt</i>	1.9	6.0
Ore tonnes sold	<i>M wmt</i>	3.2	5.0
Revenue (continuing & discontinued operations):			
Average realised price, all products (FOB)	<i>\$/wmt</i>	54.7	48.4
Consolidated sales revenue	<i>\$m</i>	173.1	240.5
Continuing Operations (Extension Hill & Koolan Island):			
Sales revenue	<i>\$m</i>	162.0	235.2
Interest income	<i>\$m</i>	12.1	9.7
Cost of goods sold	<i>\$m</i>	(134.5)	(213.7)
Impairment write-back/(loss) on ore inventories	<i>\$m</i>	(3.1)	3.4
Gross profit/(loss) from continuing operations	<i>\$m</i>	36.5	34.6
Administration and other expenses	<i>\$m</i>	(22.1)	(19.4)
Finance costs	<i>\$m</i>	(1.1)	(1.8)
Underlying gross profit/(loss)* from continuing operations after administration and finance costs	<i>\$m</i>	13.3	13.4
Other income (including Koolan insurance settlement in 2015/16)	<i>\$m</i>	5.9	91.8
Other impairment write-back/(loss)	<i>\$m</i>	5.0	(25.7)
Profit/(loss) before tax from continuing operations	<i>\$m</i>	24.2	79.5
Income tax benefit	<i>\$m</i>	1.5	0.8
Profit/(loss) after tax from continuing operations	<i>\$m</i>	25.6	80.3
Discontinued Operations (Tallering Peak):			
Sales revenue	<i>\$m</i>	11.1	5.3
Cost of goods sold	<i>\$m</i>	(13.7)	(6.2)
Impairment write-back on ore inventories	<i>\$m</i>	3.4	6.8
Profit/(loss) after tax from discontinued operations	<i>\$m</i>	0.7	6.0
Net profit/(loss) after tax	<i>\$m</i>	26.3	86.3
Totals may not add due to rounding.			
* The underlying basis is an unaudited non-IFRS measure that in the opinion of the Directors provides useful information to assess the Company's financial performance.			

Table 1 – Financial Performance

Earnings Summary

Mount Gibson Iron Limited (**Mount Gibson**) recorded a net profit after tax of \$26.3 million for the year ended 30 June 2017 on total sales revenue of \$173.1 million and total ore sales of 3.2 million wet metric tonnes ("**Mwmt**"), including sales of low grade material from Extension Hill and the discontinued Tallering Peak operation.

The result compares with a net profit after tax of \$86.3 million reported for the prior year, during which the Company recorded the \$86 million settlement of the property damage component of its Koolan Island insurance claim.

Realised Pricing

During the 2016-17 financial year, the 62% Fe Platts Index price averaged US\$70 per dry metric tonne ("**dmt**"), compared with US\$51/dmt in the prior year. More significantly, the price differential between the benchmark Platt's 62% Fe and 58% Fe pricing indices widened significantly over the course of the year. After peaking at US\$62/dmt in November 2016, the Platts 58% Fe index price dipped below US\$32/dmt in June, having a significant impact on sales revenue from the Company's Mid West operations.

Reflective of these conditions, Mount Gibson achieved an average realised price for standard iron ore fines product from Extension Hill of approximately US\$44/dmt Free on Board ("**FOB**"), after grade and provisional

pricing adjustments and penalties for impurities, compared with an average of US\$34/dmt in the 2015/16 financial year. However, the 2016/17 average excludes the June quarter of 2017 in which no fines material was sold.

The weighted average realised price for all products sold, including low grade material from Talling Peak and Extension Hill, was \$55/wmt FOB, compared with \$48/wmt FOB in the prior year.

Cashflow Summary

Mount Gibson delivered a solid financial performance for the year ended 30 June 2017 during a period of substantial operational transition and volatile iron ore prices.

Net cashflow from operating activities after corporate, administration, Koolan feasibility study and Koolan insurance claim costs totalled \$5.4 million, plus interest receipts of \$11.5 million. Cash reserves, including term deposits and liquid investments, increased by \$46.7 million over year to \$446.8 million as at 30 June 2017, including receipt in July 2016 of the \$34.6 million balance of the property damage component of the Koolan Island insurance claim agreed towards the end of the prior financial year.

All-in group cash costs averaged \$52/wmt in the year, including net inventory build costs incurred during the June quarter as production and sales transitioned to the new Iron Hill operation following the completion of mining at the nearby Extension Hill pit in late 2016. This compared with average all-in cash costs of \$48/wmt in the prior year.

The Extension Hill/Iron Hill operations achieved a strong operational performance in the year, with total ore shipments of 2.8 Mwmt, comprising 1.3 Mwmt of lump ore, 0.8 Mwmt of fines ore and 0.7 Mwmt of low grade lump material.

Mining was completed in the Extension Hill pit during November 2016. Sales of run-of-mine ore stockpiles continued into the June half of 2017 as the Company developed the nearby Iron Hill deposit, augmented by sales from existing low grade stockpiles. Development of Iron Hill commenced following receipt of final regulatory approvals in February 2017, and first ore sales were achieved in June, contributing 0.1 Mwmt of high grade lump sales for the 2016-17 year.

The Extension Hill/Iron Hill operations generated strong cashflow of approximately \$29 million over the year, despite the volatility of iron ore pricing and widening differential between the Platts 58% Fe and Platts 62% Fe pricing indices, reflecting the Company's ongoing focus on cost control and operational efficiency.

Historical fixed infrastructure and transport obligations relating to transport arrangements at Extension Hill were fully amortised by the end of the financial year. These obligations totalled \$15 million at 30 June 2016.

Activity at Koolan Island during the year focused on completing the Company's evaluation of the potential to reinstate the Main Pit seawall and recommence high grade production. Approximately \$1.5 million was spent on completing this evaluation by April 2017, when the project was approved (refer ASX release dated 27 April 2017). Following approval, approximately \$5 million was spent on the project during the June 2017 quarter, related primarily to equipment purchases, labour and equipment mobilisation, and waste rock placement. Construction of the starter embankment for the seawall commenced in June.

As announced, the Project is a financially compelling high grade production opportunity, with first sales targeted in early 2019.

Mount Gibson also continued to monetise a number of shipments of remnant low grade material from the closed Talling Peak mine site during the year. These spot sales, totalling 0.4 Mwmt of low grade lump and fines material, generated a modest cash margin and assisted with environmental rehabilitation at the Talling Peak mine site. Final sales of this remnant material were concluded in the March 2017 quarter.

Koolan Island Seawall Insurance Claim

Following the \$86 million cash settlement of the property damage component of the Company's insurance claim reached with the insurers in June 2016, discussions continued during 2016/17 between Mount Gibson and its insurers in relation to the separate business interruption component of the claim. Subsequent to the end of the financial year in July 2017, the Company announced it had reached final agreement with 14 insurers, representing 92.5% of the Company's insurance cover for business interruption suffered as a result of the seawall failure, for a cash settlement of the claim for \$64.3 million.

Proceeds of the settlement were received in July, further strengthening the Company's cash position as it continues to evaluate resource investment opportunities and progresses activities to recommence production from the Main Pit at Koolan Island.

Negotiations will continue separately with one further insurer representing the remaining 7.5% of the Company's business interruption coverage.

The business interruption settlement takes total cash proceeds received from Mount Gibson's insurance claim relating to the seawall failure to just over \$150 million.

Looking Forward

Mount Gibson's overall objective is to maintain and grow long-term profitability through the discovery, development, operation and acquisition of mineral resources. As an established producer and seller of hematite iron ore, Mount Gibson's strategy is to grow its profile as a successful and profitable supplier of raw materials.

Key influences on the success of Mount Gibson are not only iron ore prices and foreign exchange rates but also consistency in government policy, the continued attainment of regulatory approvals, the ability to delineate new mineral resources and ore reserves, and the continued control of operating and capital costs.

The Board's corporate objective is to grow the Company's cash reserves and continue to pursue an appropriate balance between the retention and utilisation of cash reserves for value-accretive investments. The Board has determined the following key business objectives for the 2017/18 financial year:

- **Mid-West operations** - continue to mine the Iron Hill deposit while optimising production rates and controlling costs, to extend the life of the Extension Hill operation and prepare the site for its ultimate closure in the following year.
- **Koolan Island** - successfully rebuild the Main Pit seawall, dewater the pit and prepare the site for commencement of commercial production, with initial ore sales anticipated in early 2019.
- **Cost reductions** - continue to drive for sustainable cost improvements across the existing business.
- **Treasury returns** - maintain the increased yield on the Group's cash reserves.
- **Growth projects** - continuation of the search for business development opportunities in the resources sector.

Mid-West Outlook

As previously reported, during the 2016/17 year the Group secured the final outstanding approvals for development of the Iron Hill deposit and commenced initial ore sales. Life-of-mine sales from Iron Hill are anticipated to total 5.5-6.0 Mwmmt through to the expected end of production in late 2018, at an average site cash cost of \$42-46/wmt sold.

Iron Hill sales will be augmented by sales from existing Extension Hill low grade stockpiles when suitable prices can be attained.

Koolan Island Outlook

Activity at Koolan Island is now focused on the rebuild of the Main Pit seawall and the recommencement of commercial production, with first ore sales targeted for early 2019. As reported, seawall reconstruction and pit dewatering costs are estimated at \$97 million, with estimated peak cash draw prior to cashflow of \$145 million. Forecast capital expenditure for the 2017/18 financial year is \$80-85 million.

Ore Reserves totalling 12.8Mt grading 66.0% Fe were re-established for Main Pit (refer ASX release dated 27 April 2017), giving an initial mine life of 3.5 years. A potential Stage Two pit extension is under evaluation to convert an additional 7Mt of Mineral Resources at the eastern end of Main Pit to Ore Reserves.

Life of mine all-in cash costs are projected at \$53/wmt FOB, including development capex and final closure costs, resulting in an estimated breakeven Platts 62% Fe price of US\$46/dmt CFR including capital and closure costs.

Group Sales Guidance and Cash Costs Guidance

Mount Gibson expects its annual sales for the 2017/18 financial year to be between 3.5 and 3.8 Mwmmt of iron ore at an average all-in group cash cost of \$47-52/wmt. All-in cash costs are reported FOB and include

cash operating expenditure, royalties, sustaining capital expenditure and corporate costs, and exclude project capital expenditure.

Dividend

Following consideration of the solid operational performance of the business, the Board has declared a fully franked final cash dividend of 2.0 cents per share, with a record date of 29 September 2017 and payable on 16 October 2017.

The Appendix 4E and annual financial statements are attached.

For further information:

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Mount Gibson will host an analysts/institutions teleconference at **11.00am AEST** on **16 August 2017**. Investors will be able to listen in to the teleconference by dialing **1800 857 029** 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 1800 857 079 (Australian callers) or +61 3 8788 6028 (overseas callers).

Competent Persons Statements

Main Deposit Mineral Resources

The information in this report relating to the Mineral Resources of Main Deposit at Koolan Island is based on information compiled by Elizabeth Haren, a Competent Person who is a member and Chartered Professional of the Australasian Institute of Mining and Metallurgy and a member of the Australian Institute of Geoscientists. Ms Haren was a full-time employee of, and is now a consultant to, 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'. Ms Haren consents to the inclusion in this report of the matters based on her information in the form and context in which it appears.

Main Deposit Ore Reserves

The information in this report relating to Ore Reserves at Koolan Island is based on information compiled by Brett Morey, a Competent Person who is a member of the Australasian Institute of Mining and Metallurgy. Brett Morey is a full-time employee of Mount Gibson Iron Limited. Mr Morey 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.