



Sierra Rutile

## ASX ANNOUNCEMENT

27 JULY 2023

### Quarterly Activities Report – June 2023

Sierra Rutile Holdings Limited (ASX: SRX) (**Sierra Rutile** or the **Company**) provides its operational, development, ESG and corporate update for the quarter ended 30 June 2023. All figures are in US Dollars unless otherwise stated.

#### Key Features:

- **Rutile production** of 25kt was impacted by the Mineral Separation Plant (**MSP**) being off-line for most of June as a result of the power generation constraints previously advised in June. Power generation expected to return to full capacity in Q3.
- **Rutile sales** of 28kt were maintained at a similar level to the prior quarter (30kt) despite weakening pigment markets. Sales continue to support ongoing cashflow requirements for the capital program at Area 1.
- **Realised rutile price** of \$1,488/t FOB benefitted from sales to the more buoyant titanium sponge market and increased geographical diversification.
- **Net unit cash production costs** of \$1,039/t improved on the prior quarter benefitting from significant by-product sales despite the lost production in June.
- **Upside from Mogbwemo Tails Project approval:** Following detailed internal study, Board approved investment in a new concentrator to reclaim historic tailings from the Mogbwemo dredge pond.
- **Sembehun Project:** Definitive Feasibility Study (**DFS**) and Environmental, Safety and Health Impact Assessment (**ESHIA**) progressing to plan targeting completion end of 2023. Product samples received excellent customer verification, confirming high-purity rutile.
- **Safety and environment:** One lost time injury (**LTI**) was recorded resulting in LTIFR of 0.58 and a TRIFR of 1.15. There were no significant environmental incidents and on track to rehabilitate more than 280ha for 2023.
- **Net cash at 30 June** was \$32.7m (unaudited), after capital expenditure of \$7.6m driven largely by the roll-on effect of lower Q1 sales and significant increases in inventories of ore ahead of wet season and Heavy Mineral Concentrate (**HMC**) as MSP was off-line.
- **2023 Guidance revised:** On the back of HMC production constrained during June and July due to power availability restraints:
  - Full year 2023 production guidance has been reduced to 124kt-126kt of rutile with a corresponding increase to full-year net unit cost guidance to \$990-1,055/t.
  - Significant ore stockpile build is allowing much more efficient wet season HMC production as planned but Q3 is no longer expected to be significantly free cash flow (**FCF**) positive following lower than originally anticipated Q2 sales.
  - Sierra Rutile positive fundamentals remain unchanged with longer-term global supply deficit anticipated as growing demand outstrips depleting global resources.



Sierra Rutile

## ASX ANNOUNCEMENT

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

“The June quarter saw Sierra Rutile maintain good sales and cash generation to support the development of Sembehun, despite some specific operational challenges and softening of demand across the industry. The Sembehun development continues on track and lab samples were tested by customers in 17 different locations, receiving good feedback and confirming the high purity of the rutile. In the next six to nine months, we are planning to complete the DFS and move towards having a robust funding plan and a much longer mine life.

The June power supply issues impacted production; however, we expect this situation to be rectified early in the second half and heavy mineral concentrate stocks recently built up to be processed to saleable product.

Given the current weaker market conditions for rutile, we opted to prioritise heavy mineral concentrate production over rutile production, building substantial ore stockpiles, also in advance of the wet season. This is also expected to materially reduce mining costs during Q3.

Although production for the quarter was below our expectations, we continue to operate profitably and generate cash to reinvest in future growth. We invested in Area 1 projects with drilling at the Ndendemoia, Pejebu and Mogbwemo deposits, with findings to be incorporated into a new Resource Statement in Q3. There is a considerable upside from the Mogbwemo tailings to supplement ore from virgin deposits.

Realised rutile pricing improved during the quarter on weaker volumes as a result of a higher proportion of sales going to the better performing titanium sponge/metal market and to China. We are seeking to diversify our customer base and to this extent, first significant sales were recently made to a new Chinese customer. Softening of the pigment market remains, particularly in Europe, due to ongoing economic uncertainty in an inflationary environment and this may impact sales in the second half of 2023.

As a globally significant natural rutile producer, we believe the long-term outlook for our industry and our Company remains positive. We have an attractive growth pathway with the Sembehun project, and we are taking steps to preserve our competitive position.”



***DM1/4 Gabion wall under construction with completed conveyer slab***



Sierra Rutile

## ASX ANNOUNCEMENT

### Operations - Area 1

Summary Physical and Financial	Units	June Qtr 2022	Mar Qtr 2023	June Qtr 2023	Guidance 2023
<b>Safety</b>					
TRIFR	/mwhrs	1.07	1.35	1.15	n/a
LTIFR	/mwhrs	0.15	0.61	0.58	n/a
<b>Mining</b>					
Ore Mined	mt	2.4	3.8	3.4	n/a
HMC Grade	%	3.0	2.5	2.5	n/a
Rutile Grade	%	1.7	1.4	1.4	n/a
<b>Production</b>					
Rutile	kt	36	32	25	<b>124-126</b>
Ilmenite	kt	15	12	9	n/a
ZIC/GIC	kt	10	8	14	n/a
<b>Sales</b>					
Rutile	kt	28	30	28	n/a
Ilmenite	kt	22	11	16	n/a
ZIC/GIC	kt	20	7	16	n/a
<b>Revenue &amp; Cash Costs</b>					
Revenue - Rutile	US\$m	40	41	41	n/a
Unit price - Rutile	US\$/t	1,458	1,427	1,488	n/a
Revenue - Ilmenite/ZIC/GIC	US\$m	18	5	15	n/a
Operating Cash Costs	US\$m	42	43	41	<b>160-168</b>
Net Operating Cash Costs - Rutile	US\$m	24	37	26	n/a
Unit Operating Cash Costs - Rutile	US\$/t	1,159	1,339	1,649	<b>1,290-1,335</b>
Net Unit Operating Cash Costs - Rutile	US\$/t	664	1,166	1,039	<b>990-1,055</b>
Capital	US\$m	4	7	8	<b>32-34</b>

**Note: ZIC/GIC refers to zircon-in-concentrate and garnet-in-concentrate**

During the quarter, the Company reported one LTI as a result of a serious accident. The injured individual was immediately treated at the Sierra Rutile clinic and then transferred to Freetown where the individual is recovering. Whilst Sierra Rutile's LTIFR and TRIFR fell during the quarter, the Company remains committed to improving safety performance and recent significant improvements include improved contractor management procedures and onboarding of contractors.

HMC production was below expectation mainly because of the power disruptions announced in June 2023 (ASX announcement 14 June 2023). The decision was taken to provide power to three of the concentrators while extending a planned maintenance shutdown at the MSP.

3



Sierra Rutile

## ASX ANNOUNCEMENT

As a result, end product production during June was minimal with the MSP only resuming production early in July 2023.

Repairs to the power units are being fast-tracked and power supply is not expected to remain a constraint to production after the end of July 2023.

The quarter saw significant investment in working capital as well as ongoing capital expenditure at Area 1. The planned stockpiling of ore ahead of the concentrators in advance of the wet season rains was successfully implemented at both Gangama and Lanti/Gbeni, with combined stockpiles of approximately 1.8Mt of ore at 30 June contrasting with approximately 0.2Mt of ore 12 months previously. This activity is expected to have a payback in materially reduced mining costs during Q3. HMC inventories at 30 June were also bolstered by the decision to pause operation of the mineral separation plant during June as a result of reduced power availability as well as weaker product market conditions.

Costs for the quarter were well below budget with the MSP and one concentrator non-operational for most of June. A number of one-off expenses were however incurred in seeking to rectify the power situation and, despite strong by-product sales, largely from a significant ZIC shipment, net unit cash costs were higher than budget due to the reduced production.

### **Development – Mogbwemo Tails**

In recent months, Sierra Rutile has been investigating draining the Mogbwemo pond and mining the tailings to supplement the MSP's feed. These historic tailings present an opportunity to reduce the cost of production for a portion of the remaining Area 1 production ahead of Sembehun production or extend the overall life of Area 1. Historic low efficiency operations by a contractor resulted in the discharge of plant tails with rutile grades that subsequent drilling indicated can be profitably reclaimed.

In February 2023, a study commenced to evaluate reclaiming the tails to produce HMC through a wet gravity concentrator spiral plant. Activities include:

- Spiral test work – 3<sup>rd</sup> party and on-site plant scale – complete.
- Phase 1 drilling for geological modelling – complete; phase 2 started.
- Engineering contractor identified following a tender evaluation process for the design and supply of the plant – complete.
- Preliminary process engineering and flowsheet development, including an equipment list and power requirements – complete.
- Ordering of spirals to mitigate risk as long lead item – complete.
- Lowering of the Mogbwemo pond level – commenced in stages.
- Geological modelling to enable declaration of the tailings as a JORC resource – expected August 2023.

Construction of the relocatable modular spiral plant could commence in early 2024, with commissioning a few months later.

No increase in the closure cost liability from mining this area is anticipated since the area has already been disturbed, has not yet been rehabilitated and is included in the overall Area 1 closure plan.



Sierra Rutile

## ASX ANNOUNCEMENT

The Sierra Rutile Board considers the project to be attractive and accordingly the Board has approved the project subject to, among other things, declaration of at least 11Mt of JORC Resource at a grade in excess of 1.2% rutile (using a 0.65% cut-off grade).

Key metrics for the project will be released once a JORC Resource has been declared in the coming weeks.

### **Development – Sembahun opportunity**

During the quarter, Sierra Rutile made further progress on the development of Sembahun, with \$2.9 million spent advancing the DFS, which is due to be completed by the end of 2023.

Key activities during the quarter included:

- Requests for quotation issued to numerous vendors to allow development of more accurate costings for the engineering packages; and
- Power supply package has gone to market with favourable interest shown in the Hybrid option.

The decision was made to develop Sembahun as a single phase development to maximise project value and debt funding capacity, whilst reducing potential risks. Cutfield Freeman & Co was appointed to assist in arranging debt funding with a Final Investment Decision (FID) targeted for Q1 2024.

All specialist studies for the ESHIA have now been completed (following end of quarter) and publication of the ESHIA is targeted for 13 August 2023 with public participation expected to be conducted between mid-September at Sembahun, Area 1 and Freetown.

During the quarter, Sembahun lab samples were tested by Sierra Rutile customers, confirming the product quality is comparable or better than current Area 1 production. A high level of acceptance was received from customers in 17 different locations, validating the attractiveness of the deposit.

### **Exploration**

The Company did not undertake any substantive mining exploration activities during the quarter.

### **Environmental, Social and Governance**

As the largest private sector employer in Sierra Leone, Sierra Rutile has a long-standing commitment to environmental, social and governance (ESG) practices and contributing to the country's growth and employment.

During the quarter, work commenced on Sierra Rutile's inaugural stand-alone Sustainability Report.

Significant progress has been made on rehabilitation activities, and the Company is now on-track to rehabilitate more than 280ha of previously mined areas during 2023 and is also discussing with the Government the process to hand back land (and thereby avoid further surface rent charges).



Sierra Rutile

## ASX ANNOUNCEMENT

In 2022, Sierra Rutile began working with in country stakeholder Tacugama Chimpanzee Sanctuary, to introduce Environmental Education and Sensitisation into communities and schools near Mobimbi Hills, which is home to critically endangered Western Chimpanzees. Sierra Rutile is committed to the conservation of this species in the mining lease. The goal of this project is not only to engage local people to protect Chimpanzees and other species of conservation concern, but also to educate them on the threats to the environment, how these threats impact their lives and livelihoods and what actions can be undertaken to mitigate them. Sierra Rutile employees are also taking part in environmental sensitisation programs conducted in the workplace.

The Environmental Education program includes a suite of activities: radio advertisements, two informational billboards at key locations in the area, three school based educational curriculum additions for primary and secondary school children, community workshops and the formation of an environmental youth club called "Roots and Shoots".

Roots and Shoots was started by Dr. Jane Goodall and groups are found in over 60 countries. The Roots and Shoots group started at Sierra Rutile has been taken on by the Mogbwemo Queens, a local young women's football team. The group conducts environmental activities as a club and recently, along with Sierra Rutile staff and local community members, participated in a community clean up.



***Sierra Rutile Roots & Shoots Club, with members of the Mogbwemo Queens young women's football club***



Sierra Rutile

## ASX ANNOUNCEMENT

### Corporate

The cash balance at quarter end was \$32.7 million (excluding \$41.9 million invested funds held by the independently managed Sierra Rutile Rehabilitation Trust). This was impacted by the significant inventory build (ore and heavy mineral concentrate) which is expected to be converted back to cash in later periods.

Capital of \$7.6 million was invested into long-term assets during the quarter. In addition to the \$2.9 million spent on the Sembehun DFS/ESHIA, key capital works undertaken during the quarter included:

- substantial completion of in-pit walls in Gbeni tailings dams to enable tailings capacity for the Lanti operations through to Q4 2025;
- delivery of DM1/4 apron feeders and commencement of installation to complete relocation of scrubbers/sizers;
- construction of a haul road connecting Gbeni pit to the DM2 concentrators; and
- continuing construction of an additional warehouse at Nitti port as well as warehouse store sheds replacing those lost in the 2022 fire.



***Gbeni In-Pit Wall Construction***

During the quarter the Company was advised by the Government of Sierra Leone (**GoSL**) that they are seeking to renegotiate the terms of the Third Amendment Agreement between Sierra Rutile and the GoSL. The Third Amendment Agreement is in relation to the fiscal regime applying to the remaining production from the existing Area 1 operations (ASX announcement 4 May 2023). Any changes to the fiscal regime requires the Company's agreement. The concessions provided by the Third Amendment were provided in order to assist the Company

7



Sierra Rutile

## ASX ANNOUNCEMENT

maintain operations and aligned with the Company's objective of continuing towards construction of/production from Sembahun. The communication from the GoSL was received shortly before the elections recently held in Sierra Leone and, now that the election process has been completed, the Company expects to hold discussions with GoSL about possible amendments to the Third Amendment Agreement in coming weeks.

Following the appointment of a financial adviser to assist with securing debt facilities for Sembahun, further meetings were held with potential financiers together with the development of marketing materials ahead of a formal market testing process commencing in July 2023.

### Outlook

The weighted average realised rutile price improved during Q2, being positively impacted by a higher proportion of sales made to titanium sponge manufacturers – where strong aerospace linked consumption continues to drive demand. The Company is seeking to diversify its customer base and the first significant sales volumes were made to a new Chinese customer in June 2023. Notwithstanding these factors, pigment producers report weak market conditions and anecdotal reports suggest the Northern Hemisphere spring coating season failed to materialise. As a result, TiO<sub>2</sub> pigment manufacturer inventories continue to grow despite industry wide production curtailments.

In light of the subdued market conditions, and production disruption arising from the reduced power availability, full year 2023 guidance has been reduced. Sales volumes as well as prices for Q3 are expected to be below those experienced in Q2 and it is no longer expected that Q3 will be strongly FCF positive.

Steps are being taken to reduce the level of support costs incurred by the business to align with these reduced production levels, however, it is expected that reduced production volumes will inevitably result in an increase in unit costs.

Total capital expenditure for the year is now expected to be slightly lower than previously forecast notwithstanding early commitments towards the Mogbwemo project, mainly as a result of descoping and other project efficiencies.

In the longer term, global supply deficit is anticipated as growing demand outstrips depleting global resources, and Sierra Rutile is ideally placed to take advantage of this given the extent and quality of its natural rutile product, together with prior investment in processing and logistics infrastructure.

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

**Media:**

Shane Murphy  
FTI Consulting  
Ph: 0420 945 291  
Email: shane.murphy@fticonsulting.com





Sierra Rutile

## ASX ANNOUNCEMENT

### 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

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.