



Sierra Rutile

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28 APRIL 2023

Quarterly Activities Report – March 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 March 2023. All figures are in US Dollars unless otherwise stated.

Key Features:

- **Rutile production** of 32kt, down 13% on Q4 2022, as a result of various operational issues.
- **Rutile sales** of 30kt were also lower as inventory levels rebuilt from year-end lows and European customer demand softened.
- **Realised rutile price** of \$1,427/t FOB was impacted by recessionary conditions in the pigment market.
- **Unit cash production costs** of \$1,166/t net of by-product sales were elevated by the lost production.
- **Sembehun Project:** Definitive Feasibility Study (DFS) and Environmental, Safety and Health Impact Assessment (ESHIA) continued to progress and are expected to complete by end of 2023.
- **Safety and environment:** Two lost time injuries (LTIs) were recorded resulting in LTIFR of 0.61. There were no significant environmental incidents.
- **Net cash at 31 March** increased by \$19.6m to \$57.3m (unaudited), after capital expenditure of \$6.9m driven largely by the high level of sales late in Q4 converting to cash.
- **2023 Guidance reiterated:**
 - Full year 2023 guidance remains in place, noting production and capex estimated to be at the lower end of guidance, resulting in unit costs likely to be at the higher end of guidance.
 - Lower cash generation anticipated in Q2 due to lower sales in Q1 compared to Q4 2022.
 - Encouragingly, Q3 expected to be FCF positive as a result of ore stockpiled ahead of the wet season.



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Comment from Sierra Rutile Managing Director and CEO, Theuns de Bruyn:

“Although our operating performance in the March quarter was slightly below expectations, we are taking steps to address the issues that contributed to the lower feed grades caused by delays in mining block preparation and unaccounted product losses. We are investigating the latter and implementing additional controls. We experienced two lost time injuries, both contractor related, and are implementing additional controls to improve our contractor onboarding and management processes.

Production for the quarter was generally in line with expectations, but we encountered some challenges in March when production was lost due to water pump unavailability, below budget grades at DM1/4 and a 19-hour power outage. Net unit costs for the quarter were higher than anticipated due to the reduced production.

Although realised rutile pricing softened as a result of low pigment demand, particularly in Europe, we remain optimistic about our by-product sales in 2023, with the majority of such revenue anticipated in Q2 and Q4.

Strong operating cashflow and the recovery of further monies from our insurance claim for the warehouse fire in February 2022, allowed us to invest nearly \$7 million into capital projects during the quarter.

The Sembehun DFS and associated ESHIA continued to progress well and are on track for completion by the end of 2023. The results from our annual resource and reserve statement were very positive providing further confidence that Sierra Rutile can support a consistent production profile for the coming years, including during the expected Sembehun construction and ramp up phases.”



DM1/4 Gabion wall under construction



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Operations - Area 1

Summary Physical and Financial	Units	Mar Qtr 2022	Dec Qtr 2022	Mar Qtr 2023	Guidance 2023
Safety					
TRIFR	/mwhrs	0.76	1.34	1.35	n/a
LTIFR	/mwhrs	0	0.40	0.61	n/a
Mining					
Ore Mined	mt	2.8	3.1	3.8	n/a
HMC Grade	%	3.2	2.3	2.5	n/a
Rutile Grade	%	1.7	1.3	1.4	n/a
Production					
Rutile	kt	35	37	32	140-144
Ilmenite	kt	15	15	12	n/a
ZIC/GIC	kt	9	8	8	n/a
Sales					
Rutile	kt	40	41	30	n/a
Ilmenite	kt	17	12	11	n/a
ZIC/GIC	kt	-	28	7	n/a
Revenue & Cash Costs					
Revenue - Rutile	US\$m	58	64	41	n/a
Unit price - Rutile	US\$/t	1,462	1,544	1,427	n/a
Revenue - Ilmenite/ZIC/GIC	US\$m	4	11	5	n/a
Operating Cash Costs	US\$m	36	42	43	165-180
Net Operating Cash Costs - Rutile	US\$m	32	31	37	n/a
Unit Operating Cash Costs - Rutile	US\$/t	1,014	1,159	1,339	1,200-1,275
Net Unit Operating Cash Costs - Rutile	US\$/t	900	843	1,166	950-1,025
Capital	US\$m	1	7	7	32-36

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

During the quarter, the Company reported two Lost Time Injuries (LTIs): a contractor's truck rolled over after hitting the road's divider bund wall causing the driver to fracture their wrist, and a contract welder suffered a fractured ankle when a screen at the MSP shifted onto their lower leg. Both injured individuals are recovering well. Sierra Rutile's LTIFR for the quarter was 0.61 and the TRIFR was 1.3. The Company is committed to improving safety performance and it remains an operational priority.



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Unlike the past two quarters during which mined ore was supplemented with lower grade tails, little supplementary feed was utilised this quarter with the tidal bunds now in place at GW2&3 allowing mining to resume at Gangama West where grade is better than recently mined areas.

Production for the period was generally in line with expectations up until March when production was lost due to water pump (un)availability, below budget grades at DM1/4 and a 19-hour power outage caused by a tree that was lodged on the power lines due to adverse weather conditions.

The planned build of ore stockpiles at DM2 (Gangama) in advance of the wet season progressed to plan, however delays in the award of the DM1/4 mining contract hindered progress at the Lanti stockpile. Nonetheless, the Lanti stockpile is already significantly larger since the start of the 2022 wet season. Subsequent to quarter end, Mano Mining, a Sierra Leonean headquartered company, was awarded the DM1/4 mining contract and began mobilising to site. Mano Mining's likely start date of 1 May at DM1/4 is envisaged to allow for the completion of both stockpiles as originally planned.

Costs for the quarter were broadly in-line, but net unit cash costs, which were expected to be up on the prior corresponding period, were higher than anticipated due to reduced production. Although the majority of revenue from by-product sales is estimated to be generated in Q2 and Q4 of 2023, a small amount of garnet-in-concentrate was sold during the quarter. While volumes sold were relatively low, the pricing for ilmenite sales was reasonably strong.

In respect of resource drilling, 255 holes were drilled at Pejebu with a further 80 holes planned. The findings from both Pejebu and the earlier drilling at Ndendemoia will be incorporated into a new resource and reserve statement to be finalised in Q3. In the meantime and acknowledging the declining grades and increasing haulage distances as Area 1 approaches the end of its life, the Company has been investigating draining the Mogbwemo pond and mining the tailings to supplement the MSP's feed. These investigations have included plant scale test work, initial resource drilling, baseline environmental monitoring, and discussions around the design, manufacture and supply of a modular, relocatable spiral plant suitable for this material. Whilst no decision has yet been made, potential exists for construction of this plant to commence in early 2024 with commissioning a few months later.

Development - Sembehun

During the quarter, Sierra Rutile made progress in the development of Sembehun, with \$2.7 million allocated towards advancing the DFS, which is expected to be completed by the end of 2023.

Key activities during the quarter included:

- Completion of mine design and schedule;
- Completion and review of metallurgical test results;
- Completion of tailings storage facility design;
- Production of marketing samples for provision to customers in coming months;
- Fauna studies as part of the ESHIA; and
- Operational readiness workshops involving all mine functions.

With slightly lower recoveries anticipated than at Area 1, a slightly larger feed prep area (scrubbing and screening) has now been designed at the front end of the wet concentrator plants WCPs to handle increased RoM ore volumes.



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Environmental, Social and Governance

Sierra Rutile has a long-standing commitment to implementing effective environmental, social and governance practices. As part of these efforts, a contractor was appointed for rehabilitation earthworks following the release of trust funds for the 2023 rehabilitation program. Seedling production for rehabilitation purposes reached 92% of the full-year target.

During the quarter, a variety of social initiatives were undertaken including:

- Construction of a new three-classroom school at Matagelema town;
- Funding construction of a three-classroom building at TVSS Secondary school at Moriba town;
- Educational scholarship support towards 149 students within Area 1;
- Purchase of a new ambulance to service Sembehun operations; and
- Funding (together with Australian High Commission under the Australian Direct Aid Program) of a waste management project in Moriba and Mogbwemo towns.

The Company approved its first Modern Slavery Statement which is available on the Company's website (www.sierra-rutile.com)

Corporate

The quarter saw strong net cash inflows, driven by several factors. The most significant contributor was the anticipated reduction in the high receivables balance at year-end, following strong Q4 sales. In addition, the cash balance at quarter end of \$57.3 million (excluding \$41.4 million additional funds held by the independently managed Sierra Rutile Rehabilitation Trust), was further bolstered by:

- receipt of the \$2.5 million funds for 2023 rehabilitation activities;
- a \$3.6 million prepayment relating to an April shipment; and
- additional insurance recoveries.

Partially offsetting these factors were increases in finished goods inventories and the disappointing enforcement of a High Court judgement against Sierra Rutile's operating subsidiary, SRL, notwithstanding the fact that SRL's appeal has still not been heard. Together with interest charged at 25%, this led to payments totalling \$2.7 million being made during the quarter to Transcend International Resources.

Despite restricted global rutile supply, dampened feedstock demand is weighing on feedstock fundamentals, with difficult business conditions expected to persist for some months to come. After a significant decline in Q4 2022, European and American pigment deliveries appeared to pick up in early 2023, only to moderate again due to a perceived lack of underlying demand.

During the first quarter of 2023, the weighted average realised rutile price was negatively affected by reduced profitability among downstream customers. This was particularly evident in Europe, where demand for pigment was low, pigment manufacturing facilities were running at reduced rates and one of the largest producers is under considerable financial stress. Similarly, weak economic conditions in Europe constrained sales of IGR for welding applications.



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Nonetheless, Sierra Rutile continued to engage with industry peers through participation in leading conferences, networking and business development events. The Company presented alongside the Government of Sierra Leone at the annual Mining Indaba conference in Cape Town in February. Meetings were held at the conference with numerous potential financiers of Sembehun and discussions are expected to gather pace during Q2 following the appointment of a financial adviser likely in early May.

Capital expenditure during the quarter totalled \$6.9 million. Besides the \$2.7 million spent on the Sembehun DFS/ESHIA, key capital works were undertaken during the quarter, including:

- completion of Gangama tidal bund construction;
- substantial completion of manufacture of DM1/4 apron feeders as well as a gabion wall to allow installation/commissioning at end of Q2; and
- commencement of construction of additional warehouse at Nitti port as well as warehouse store sheds replacing those lost in the 2022 fire.



GW2/3 tidal bund

The Company published its full year financial results as well as its inaugural annual report incorporating a JORC-compliant update to Mineral Resource and Ore Reserve estimates as



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at 31 December 2022 [Announcement dated 24 March 2023]. Pleasingly, Sierra Rutile effectively replaced its entire 2022 production, ending the year with an increase in rutile reserves compared to the start of the year. Further resource drilling continues at Pejebu, with additional volumes expected to be added to reserves by mid-2023. The potentially new resources are not reflected in the recently released Resource and Reserve Statement.

On a corporate front, preparations proceeded for the Company's first AGM which will be held virtually on 18 May 2023.

Outlook

Full year 2023 guidance remains in place, however Sierra Rutile notes that both production and capex are now expected to be at the lower end of guidance, resulting in unit costs likely being at the top of the guidance range.

The comparatively low sales in Q1 will translate into significantly lower cash generation during Q2 when compared to Q1 but, with ore being stockpiled ahead of the wet season, the expectation is that Q3 should be free cashflow positive unlike the 2022 wet season.

Total capital expenditure for the year is estimated to be weighted to the first half.

Ends

This ASX Release was authorised for release to the ASX by the Board.

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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 Sembehun deposits. Sembehun 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

Forward looking statements



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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 (**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.