



Sierra Rutile

ASX ANNOUNCEMENT

27 OCTOBER 2022

Quarterly Activities Report – September 2022

Sierra Rutile Holdings Limited (ASX: SRX) (**Sierra Rutile** or the **Company**) provides its operational, development, ESG and corporate update for the quarter ended 30 September 2022. All figures are in US Dollars unless otherwise stated.

Key Features:

- **Rutile production** of 28kt, down 22% on Q2 2022, impacted by unusually heavy wet season rainfall in August and September.
- **Rutile sales** of 33kt, exceeded production drawing on prior quarter inventory build.
- **Realised rutile price** of \$1,535/t FOB
- **Unit cash production costs** of \$1,464/t due to rainfall and with no concentrate by-product sales.
- **Sembehun Project:** Definitive Feasibility Study commenced – targeting completion during Q3 2023 ahead of final investment decision late 2023.
- **Safety:** One LTI injury was recorded resulting in a LTIFR of 0.29.
- **Environmental:** No significant incidents and rehabilitation target for full year completed.
- **Successful demerger** from Iluka Resources Limited.
- **Net cash at 30 September** was \$36.3m, up \$26.9m compared to the \$9.4m of pro-forma cash disclosed in the Demerger Booklet¹. The increase reflects year-to-date operating cashflows of \$41.0m, taxes paid of \$0.9m and capital expenditure of \$13.2m including \$2.1m of Sembehun study costs.
- **Full-year production, cost and capital expenditure levels** revised but remain consistent with strong cash generation.

Note: 1 See Section 3.24.5 of the Demerger Booklet annexed to the ASX release by Sierra Rutile entitled "Information Memorandum and Demerger Booklet" dated 25 July 2022, available at <https://sierrarutile.com/> and www.asx.com.au

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

"Our first quarter as an independent company was a challenging one. We experienced an extreme wet season in Sierra Leone, and the production and cost numbers reflect this. Our operations were hampered by unusually heavy rainfall in August and September which resulted in reduced mining and production, as well as additional costs for road maintenance. This came on top of the increased fuel costs that all mining operations have experienced in recent months. Despite these challenges, we expect performance to now track broadly in line with the improvements achieved over the past 18 months."

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“Unit costs for the quarter were high as a result of these factors and the fact that no ZIC by-product sales were scheduled in the quarter. Notwithstanding these difficulties, rutile prices remained relatively strong and it was pleasing to see that a positive operating cashflow was still generated during the Quarter.”

“Development of Sembehun moved to the next phase with the appointment of Hatch to commence the DFS. Sierra Rutile is already the largest natural rutile producer in the world, so we are very well positioned to significantly extend our mine life and continue to deliver value to all of our stakeholders through the development of Sembehun.”

Operations - Area 1

Summary	Units	Sep Qtr 2021	Mar Qtr 2022	Jun Qtr 2022	Sep Qtr 2022	YTD 2022
Safety						
TRIFR	/mwhrs	0.3	0.76	1.07	1.44	N/a
LTIFR	/mwhrs	0	0	0.15	0.29	N/a
Mining						
Ore Mined	mt	1.6	2.8	2.4	2.2	7.4
HMC Grade	%	2.7	3.2	3.0	2.7	3.0
Rutile Grade	%	1.5	1.7	1.7	1.3	1.6
Production						
Rutile	kt	36	35	36	28	100
Ilmenite	kt	16	15	15	14	44
ZIC/GIC	kt	10	9	10	7	26
Sales						
Rutile	kt	44	40	28	33	100
Ilmenite	kt	12	17	22	11	50
ZIC/GIC	kt	-	-	20	-	20
Revenue & Cash Costs						
Revenue - Rutile	US\$m	54	58	40	51	149
Unit price - Rutile	US\$/t	1,233	1,462	1,458	1,535	1,485
Revenue - Ilmenite/ZIC/GIC	US\$m	2	4	18	2	24
Operating Costs	US\$m	35	36	42	43	121
Net Operating Cash Costs - Rutile	US\$m	33	32	24	41	97
Unit Operating Cash Costs - Rutile	US\$/t	947	1,014	1,159	1,531	1,212
Net Unit Operating Cash Costs - Rutile	US\$/t	894	900	664	1,464	973

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



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The Company recorded its second LTI for 2022 as a result of an uncontrolled electrical discharge involving contractor's equipment. An ICAM investigation was initiated and the incident highlighted the need for additional controls required for contractor management.

Production at Area 1 during Q3 was impacted by unusually heavy rainfall in August and September. It was the highest quarterly rainfall recorded at site and a 39% increase over Q3 2021. Earlier in the year, stockpiling for the rainy season was delayed as a result of the pending suspension of operations at the end of 2021. The adverse weather conditions resulted in reduced ore being mined and processed and additional costs being incurred on road maintenance. Together with the impact of already elevated fuel prices, these maintenance costs had a negative impact on production costs for the September quarter which were 23% higher than the corresponding quarter in 2021.

Mining of the Taninahun deposit in the more northerly DM2 (Gangama) area started in June 2022. Initial mining included some areas outside of the optimised pit model resulting in lower grades. This was subsequently corrected after the reconciliation. The Taninahun deposit is scheduled to be mined out late this year at which point DM2 operations will move to Gangama West.

The DM1 & 4 operations in the Gbeni pit improved following the successful movement and permanent parking of the mining units and scrubbers in June 2022. The change results in a load and haul operation compared to the previous dozer push and mining unit movements. The change has also de-risked the equipment against pit flooding during heavy rains.

During the quarter, additional feed was added to the mineral separation plant in order to supplement the reduced mined ore. This supplementary feed was of a lower rutile grade.

The increased costs and reduced production levels flowed through to higher unit production costs which were already relatively high given no concentrate shipments were scheduled for the quarter. The Company expects to make a concentrate shipment, and benefit from by-product credits, during the last quarter of the year.

A key activity at present is the work being undertaken to potentially extend the mine life at Area 1. Drilling at the Pejebu resource commenced in July 2022 to improve the confidence level from indicated to measured. The drilling program is on track and planned to be completed by December 2022. Drilling at the Ndendemoia resource will start in November 2022 and is aimed to be completed by February 2023.

Despite the high unit costs for the quarter, a positive operating cashflow was still generated. The heavy rains, together with delays to approvals during the demerger process, also caused a slower rate of capital expenditure than originally planned with a total of \$7.7 million spent in the quarter on Area 1 capex. Full year capital expenditure is now expected to be lower than previously anticipated. The deferred capital expenditure is not expected to negatively impact operations in 2023.

Production levels have normalised since the end of the quarter and, the final quarter is expected to provide a strong finish to the year with significant concentrate sales scheduled. Nevertheless, given the rainfall impact and unanticipated costs arising from fuel price increases, the Company wishes to update full-year guidance as follows:



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	Demerger Booklet	New Guidance
Rutile production (kt)	144	135 – 137
Cash costs of production (\$m)	145	158-165
Unit cash production cost (\$/t R)	970	1150-1220
Unit cash production cost (net of co-product credits) \$/t R)	892	890 - 960
Capital expenditure (\$m)	41	27 - 30

Sierra Rutile will continue to monitor operating conditions and will update the market as necessary.

Development - Sembehun

During the quarter \$1.1 million was spent on advancing the Sembehun development and the Definitive Feasibility Study (DFS) for Sembehun commenced in September with the appointment of Hatch Limited as consulting engineers. Sembehun is 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.

Hatch will build upon the Pre-Feasibility Study they completed earlier this year, with the DFS scope of work including updated designs for open pit mine, wet concentration plants and magnetic separation plant at the Mineral Separation Plant, Tailings Storage Facility and associated infrastructure, as well as including operational readiness planning.

A phased development approach is planned to leverage the significant existing infrastructure in place at the Company's Area 1 operations, and integrate the potential development of Sembehun with the remainder of operations at Area 1. This approach aims to reduce execution risk, minimise Sembehun pre-production capital expenditure and maximise Sierra Rutile's ability to utilise cash flows generated from Area 1 to assist in funding the development of Sembehun.

The DFS is expected to take approximately 12 months to complete which would allow Sierra Rutile to reach a final investment decision for Sembehun in late 2023. The DFS and associated works are being funded from existing cash reserves and operating cashflow, and are included in the Company's capital expenditure guidance.

Environmental, Social and Governance

The full year land rehabilitation target of 150ha was achieved and post-planting maintenance works commenced. The 2023 Land Restoration and Implementation Plan was finalised.

Nine new cases of COVID-19 were recorded with minor symptoms reported. All cases are treated in line with WHO guidelines.



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In August, the Company commissioned two community health centres constructed within the company's operational areas in communities where Malaria and Typhoid are endemic and access to health facilities was very challenging. At the commissioning of the health centres, the Company emphasised its commitment to promote and support community projects that fall under Sierra Rutile's social investment support pillars of water, health, sanitation and education.



Subsequent to the end of the quarter, Knight Piesold were retained as Engineer of Record in respect of the monitoring and management of all tailings facilities at Sierra Rutile in accordance with the requirements of GISTM, ANCOLD and ICOLD.

Corporate

Sierra Rutile successfully completed its demerger from Iluka Resources Limited (**Iluka**) and listed on the Australian Securities Exchange on 27 July 2022.

Rutile sales volumes for the quarter were marginally below plan as a result of reduced production and shipment timing. Selling prices continued to improve across all applications.

Looking downstream, recessionary fears tinge the near term outlook for pigment, particularly in Europe, where volatile energy costs are multiples higher than North America and deteriorating consumer confidence is reducing consumption. Fortunately, rutile fundamentals are boosted by strong demand in titanium sponge destined for aerospace sector and helped by tight high-grade TiO₂ feedstock supply conditions.

Looking ahead, Q4 will be helped by sale of zircon by-product stock built up since mid-Q2.



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The Company generated net operating cashflow of \$1.5 million during the September Quarter. After capital expenditure of \$8.7 million, the Company closed the quarter with net cash of \$36.3 million. This is in addition to the rehabilitation trust fund established as a part of the demerger of the Company from Iluka to support Area 1 rehabilitation obligations¹.

As disclosed in the Demerger Booklet, a warehouse fire on 19 February 2022 damaged sheds containing stored equipment parts and spares². The gross loss caused by the fire was initially estimated at \$13.0 million however this was subsequently revised down to \$11.4 million after various items were able to be salvaged. An insurance claim has been lodged and the majority of funds claimed are expected from insurers before the end of the year.

Note: 1. See Section 9.3 of the Demerger Booklet annexed to the ASX release by Sierra Rutile entitled "Information Memorandum and Demerger Booklet" dated 25 July 2022, available at <https://sierrarutile.com/> and www.asx.com.au for more information regarding the rehabilitation trust fund

2. See Section 3.24.9 of the Demerger Booklet annexed to the ASX release by Sierra Rutile entitled "Information Memorandum and Demerger Booklet" dated 25 July 2022, available at <https://sierrarutile.com/> and www.asx.com.au

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

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



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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 “Information Memorandum and Demerger Booklet” dated 25 July 2022, 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.