



Sierra Rutile

## ASX ANNOUNCEMENT

25 JANUARY 2023

### Quarterly Activities Report – December 2022

Sierra Rutile Holdings Limited (ASX: SRX) (**Sierra Rutile** or the **Company**) provides its operational, development, ESG and corporate update for the quarter ended 31 December 2022. All figures are in US Dollars unless otherwise stated.

#### Key Features:

- **Rutile production** of 37kt, up 32% on Q3 2022, as normal operations resumed following unusually heavy rain in Q3.
- **Rutile sales** of 41kt were also well up on the prior quarter and exceeded production as weather constraints dissipated.
- **Realised rutile price** of \$1,544/t FOB remained strong consistent with Q3 2022.
- **Unit cash production costs** of \$843/t net of by-product sales substantially lower (down 42%) than Q3 2022 on improved production and sales of concentrate by-products.
- **Sembehun Project:** Definitive Feasibility Study (DFS) and Environmental, Safety and Health Impact Assessment (ESHIA) progressed to schedule.
- **Safety and environment:** One lost time injury (LTI) was recorded resulting in LTIFR of 0.40. There were no significant environmental incidents.
- **Insurance claim:** Deed of settlement executed providing for recovery of \$7.2m with \$4.6m received from insurers during quarter and a further \$2.6m to be received in current quarter.
- **Net cash at 31 December** increased to \$37.7m (unaudited), after capital expenditure of \$6.6m thanks to steady operating cashflow and partial insurance recovery.
- **Full-year 2022 production and operating costs were in line with expectations whilst some planned capital expenditure was able to be deferred to 2023.**
- **2023 Guidance issued** reflecting:
  - Production averaging 12kt rutile per month weighted marginally to second half.
  - Marginal increase in operating costs due to increased volume of ore mined and greater haulage distances partially offset by improved contract mining rates.
  - Operating costs weighted to first half due to ore stock-build ahead of the wet season.
  - Consistent annual unit operating costs net of by-product credits.
  - Increased capital expenditure as key initiatives relating to remaining Area 1 operations are executed and as Sembehun DFS is completed.



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

“Operating performance during the December quarter was significantly better than the previous quarter as production normalised after the especially heavy rains of the 2022 wet season.

Net unit costs for the quarter benefitted from the normalised production as well as credits from shipment of by-products as per forecast.

Realised rutile pricing was consistent with the prior quarter resulting in an average price received for the full-year of over \$1,500 allowing reasonable margins to be achieved. Our pigment customers experienced very challenging market conditions during the quarter and we expect to see some slight softening in rutile prices at the start of 2023 as a result.

Steady operating cashflow and the recovery of some of the monies due in respect of the warehouse fire insurance claim from February 2022 allowed us to record a positive free cashflow despite investing nearly \$7m into capital projects during the Quarter.

The Sembahun DFS and associated ESHIA continued to progress to plan, as did the Area 1 life of mine extension drilling program. We look forward to announcing results from this program when we release our updated resource and reserve statement in a few weeks’ time.”



*Aerial view of DM2 WMC at Gangama*



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### Operations - Area 1

Summary	Units	Dec Qtr 2021	Mar Qtr 2022	Jun Qtr 2022	Sep Qtr 2022	Dec Qtr 2022	FY 2022
<b>Safety</b>							
TRIFR	/mwhrs		0.76	1.07	1.44	1.34	N/a
LTIFR	/mwhrs		0	0.15	0.29	0.40	N/a
<b>Mining</b>							
Ore Mined	mt	2.1	2.8	2.4	<b>2.2</b>	<b>3.1</b>	<b>10.5</b>
HMC Grade	%	2.9	3.2	3.0	<b>2.7</b>	<b>2.3</b>	<b>2.8</b>
Rutile Grade	%	1.6	1.7	1.7	<b>1.3</b>	<b>1.3</b>	<b>1.6</b>
<b>Production</b>							
Rutile	kt	35	35	36	28	37	<b>136</b>
Ilmenite	kt	16	15	15	14	15	<b>59</b>
ZIC/GIC	kt	9	9	10	7	8	<b>34</b>
<b>Sales</b>							
Rutile	kt	32	40	28	33	41	<b>142</b>
Ilmenite	kt	14	17	22	11	12	<b>62</b>
ZIC/GIC	kt	20	-	20	-	28	<b>48</b>
<b>Revenue &amp; Cash Costs</b>							
Revenue - Rutile	US\$m	40	58	40	51	64	<b>213</b>
Unit price - Rutile	US\$/t	1,246	1,462	1,458	1,535	1,544	<b>1,502</b>
Revenue - Ilmenite/ZIC/GIC	US\$m	11	4	18	2	11	<b>35</b>
Operating Cash Costs	US\$m	39	36	42	43	42	<b>163</b>
Net Operating Cash Costs - Rutile	US\$m	28	32	24	41	31	<b>128</b>
Unit Operating Cash Costs - Rutile	US\$/t	1,098	1,014	1,159	1,531	1,159	<b>1,198</b>
Net Unit Operating Cash Costs - Rutile	US\$/t	795	900	664	1,464	843	<b>939</b>

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

The Company recorded its third LTI for the year during the quarter when a contractor's finger was caught in a vehicle door severing the tip. As a result, the LTIFR at the end of 2022 was 0.40 and the TRIFR was 1.3.





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Production for the quarter was strong with good mining volumes offsetting lower than planned grades as a result of:

- mining lower grade Lanti remnant block (DM1&4) whilst the planned mining face was being cleared and prepared, haul roads were repaired and pits dewatered at the end of the wet season; and
- lower grade Taninahun ore continuing to be mined at DM2 whilst tidal bunds were established at Gangama West.

As Area 1 approaches the end of its life and grades decline, volumes of ore required to be mined have increased as have transport distances between pits and concentrators with a corresponding impact on mining costs. With reduced grades, and therefore higher ore volumes, concentrating power consumption has also increased. During the quarter, additional feed was again added to the mineral separation plant in order to supplement concentrate from the mined ore. This supplementary feed, which comprised some tailings previously stockpiled, was also of a comparatively low rutile grade.

Tidal bunds are now in place at GW2&3 and mining has resumed at Gangama West with grade improvement now being seen.

Mining operations at DM2 were outsourced under a long-term mining contract in July 2022 and a competitive tender process has commenced which is expected to see all remaining mining operations similarly outsourced during the March 2023 quarter. In addition to limiting capital investment in mining fleet, outsourcing of mining operations is expected to enable reduction of various “semi-fixed” maintenance costs over time.

A key activity during the quarter was the drilling program aimed at potentially extending mine life at Area 1. Such extension is key to the strategy of phasing development of Sembehun and moderating funding requirements. Planned drilling at the Ndendemoia resource was completed during the quarter (119 holes for 914m) as was the great majority of drilling at the Pejebu resource (122 holes for 878m). An updated resource and reserve statement is expected to be released with the Company’s financial results in late February 2023.

A capital program has now commenced to maximise the efficiency of remaining operations at Area 1 with key elements of this program summarised in the “Outlook” section below.

### **Development - Sembehun**

During the quarter \$1.8 million was spent on advancing the DFS for Sembehun. Key activities/milestones include:

- Overall engineering design criteria have been completed together with bridge and haul road designs.
- Geotechnical and hydrogeological drilling campaigns were completed and samples delivered to laboratories.
- Geotechnical analysis underway and designs for tailings storage facilities and process water dam are progressing to schedule.
- Flood line delineation complete and hydrological monitoring under way.
- Metallurgical testwork progressing to schedule.



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In addition, various activities proceeded in respect of the Sembahun ESHIA:

- Biodiversity terrestrial, marine and estuarine survey.
- Surface water, groundwater, soils and sediment samples abstracted.
- Social and socio-economic studies were undertaken, including an update of the Inventory of Loss in respect of those persons who will be physically and/or economically displaced.
- Air quality monitoring continues in respect of Particulate Matter (PM), NO<sub>x</sub>, SO<sub>x</sub>, and Dust Fallout (DFO).
- The Greenhouse Gas (GHG) and climate change study was progressed.
- Cultural heritage studies were undertaken.
- Noise monitoring remains ongoing.

### Environmental, Social and Governance

As previously reported, 150 hectares of previously disturbed land were rehabilitated during 2022 and plans are in place to rehabilitate 250 hectares during 2023. Subsequent to year-end, the Trustee of the Sierra Rutile Rehabilitation Trust released monies to fully fund the 2023 program.

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

- groundnuts, rice and vegetable production by women in Taninahun and Gbonjeima villages in the Area 1 communities.
- 99 students of SRL's Community Educational Scholarship Programme for 2022/2023 academic year.
- household poultry farms at Semabu Village near Gangama Deposit.
- provision of start-up tools and kits to 25 youths from Foinda after completion of 18-month technical and vocational skills training at the Sierra Leone Opportunities Industrialisation Centre.

As part of its commitment to upskill and train its national workforce, Sierra Rutile recently partnered with the Imperial College of Mines and Safety in Ghana and sent three of its employees and one member of the local mining community to Ghana on a three-month course in engineering and artisan skills. The beneficiaries graduated with advanced diplomas in Industrial Electrical Maintenance during the quarter and have now returned to the Company with improved skills.

### Corporate

The final quarter of the year is typically the highest quarter for sales coming after the logistical constraints of the Q3 wet season and this was the case in 2022.

Rutile selling prices were steady across all applications, however sales volumes of Industrial Grade Rutile (IGR) were below expectations due to weak industrial, manufacturing and infrastructure activity impacting European welding related demand.



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Pigment customers (especially in Europe) also came under increased pressure during the quarter, curtailing production in response to deteriorating consumer demand impacted by rising inflation, high energy costs, and increasing interest rates. This is expected to manifest in softer pigment demand during early 2023. Interest in rutile remains robust despite lower pigment production rates, since Western titanium sponge manufacturers have increased output to meet growing requirements of civil and military aerospace customers and as a result of constrained global rutile supply.

Sierra Rutile presented at the annual TZMI conference in Singapore. Meetings were held with numerous customers leading to several subsequent sales. Customers from all market sectors are keen for Sembehun to be progressed with many expressing interest in supporting the development.

The Company reached an agreement with insurers providing for recovery of \$7.2 million in respect of the warehouse fire that occurred on 19 February 2022.

The Company generated net operating cashflow of \$8.0 million during the December Quarter including an initial \$4.6 million recovered from insurers. After capital expenditure of \$6.6 million, the Company closed the year with net cash of \$37.7 million (excluding funds held by the independently managed Sierra Rutile Rehabilitation Trust).

### Outlook

Sierra Rutile provides the following guidance for 2023:

	2022 Actual	2023 Guidance	Comments
Rutile production (kt)	136	140 - 144	~12kt per month
Operating cash costs (\$m)	163	165 - 180	Increased ore mined and haulage distances
Unit operating cash costs (\$/t R)	1,198	1200 - 1275	As above
Unit operating cash costs (net of by-product credits) \$/t R)	939	950 - 1,025	Reduced by-product pricing
Capital expenditure (\$m)	20	32 - 36	See below

**Footnote 1: 2022 actual data is unaudited**

The Company plans to build material ore stockpiles during the first half of 2023 enabling production to be maintained through the wet season as well as an increase in total production for the year. Grade variation throughout the year means rutile production is expected to be marginally weighted to the second half.



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Sierra Rutile will make material capital investments during 2023 both in completing the Sembehun DFS and in maximising the efficiency of remaining Area 1 operations. In addition to sustaining items such as tailings wall raises, additional haul roads and IT system upgrades investments will be made in:

- Replacement of warehouse sheds lost in 2022 fire.
- Additional finished goods storage at Nitti port.
- Additional tidal bunds to facilitate mining of Gangama West 2&3.
- Implementation of apron feeders at DM1 and DM4 so as to complete conversion of DM1/4 plants to Load & Haul operations and simplify the DM1/4 front ends.

Total capital expenditure for the year is expected 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](http://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](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.