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Review of Sierra Rutile Carrying Value Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the call in relation to the ASX announcement this morning on the review of SRL carrying value and Australian rehabilitation provision adjustments.

At this time, all participants are in a listen-only mode. After the speakers' remarks there will be a question and answer session. If you'd like to ask a question at that time, you'll need to press star one on your telephone. I'd now like to hand over to Mr Tom O'Leary, Managing Director and CEO. Thank you, please go ahead.

Tom O'Leary: Good morning. I appreciate you making the time to join the call. I'd like to provide a brief outline of the announcement we've made this morning, and then I'll open up the line for questions. With me I have Adele Stratton, CFO and Melissa Roberts, GM Investor Relations and Commercial.

Today's announcement is obviously very disappointing. We said previously that performance at Sierra Rutile has been below the Company's expectations. Since acquisition in 2016, approximately US\$75 million has been spent on capacity increases at Sierra Rutile's operations, Gangama and Lanti, in accordance with the Company's investment case at the time of acquisition, and a further US\$75 million has been spent on sustaining capital and safety and environmental improvements.

However, performance has continued to be impacted by lower than originally expected ore throughputs and runtimes due to a range of issues including materials handling, maintenance outages and production interruptions, difficulty attracting skilled labour and the suitability of equipment for local labour, environmental and ore conditions.

We've been active in trying to overcome these problems; bringing in additional management and external maintenance expertise, investing in labour upskilling and training, as well as improving community relations and changing parts of our plant operating configuration.

But despite improving production over the second half of 2019 as the mining expansions have been commissioned, overall operational performance has remained below the original investment case. We're also yet to determine a development plan for Sembehun and therefore can't currently attribute meaningful value to that deposit for accounting purposes, albeit we remain committed to finding a development option that is suitable for Sembehun.

We've assessed that the carrying value for Sierra Rutile should be reduced to US\$50 million, resulting in a \$290 million impairment and that the value of the deferred tax asset be fully written off.

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We remain focused on optimising the existing Gangama and Lanti operations of Sierra Rutile, on capturing the value of the world-class Sembehun rutile deposit, and on maximising the overall value of the Sierra Leone operations for our shareholders and other stakeholders. We'll approach those tasks with the necessary discipline around capital spending that's been evident in capital allocation at, for example, Cataby.

As I said at the outset, this is a very disappointing outcome, and with that we'll move on to your questions.

Operator: Ladies and gentlemen, if you'd like to ask a question please press star one on your telephone and wait for your name to be announced. Once again, to ask a question please press star one on your telephone.

Our first question comes from Jack Gabb from Bank of America. Please go ahead.

Jack Gabb: (Bank of America, Analyst) Good morning, Tom and team. Just two quick questions on Sembehun if that's okay. Firstly, can you just give us a clear idea of what update we'll receive middle of next year in terms of is this an update of the scoping study in PFS? Is it an initial stage where there will then be a follow-up six months of additional studies? Just give an expectation of what kind of an update we'll get.

Then secondly, you mentioned in the release some of the trials - or new mining method trials are yielding encouraging results. Can you just give us a little bit more detail there?

Also I guess the issue with Sembehun was primarily the CapEx and whether any of the recent work has established or found areas where you can save on CapEx. Thanks.

Tom O'Leary: Yes, thanks, Jack. In terms of progress on Sembehun, at the moment, Matt Blackwell's team there is going through the analysis of a very wide range of options. As you know, we've gone back to think very laterally about how this could be exploited effectively, and so a range of options are being considered.

At the moment, that team is actually going through what they're calling a fatal flaws analysis to assess which of these range of options can be eliminated early on. Then they're going to narrow those down into scoping studies and then move into PFS of maybe one or two preferred options.

So by June, as we've said in the announcement, we should have undertaken some field trials in the first part of the year, and so by June we'd expect to be able to give some pretty clear guidance on the nature of the options we're moving into PFS.

In terms of the trials next year, there are a range of trials and, look, for commercial reasons I don't want to go into the details of what we're trialling.

In terms of CapEx, we're very much looking to limit the capital expenditure involved in the Sembehun project to a size that is appropriate for the context of Sierra Rutile and Sierra Leone and the track record and performance we've achieved there to date.

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Jack Gabb: (Bank of America, Analyst) Okay, thanks.

Operator: Our next questions comes from Glyn Lawcock from UBS. Please go ahead.

Glyn Lawcock: (UBS, Analyst) Good morning, Tom, just a couple of quick ones. Just the tax offset from the impairment, is there one? Then just on the tax losses you've written off, I assume if Sembehun goes ahead at some time in the future can they be reinstated?

Then finally just extending on from the first answer, you talk about additional production, outcomes of these trials through existing mining areas. So do you think there's actually an opportunity to push the four years at Lanti and Gangama beyond that? Is that in your options as well, as well as Sembehun? Thanks.

Tom O'Leary: Yes, thanks. Glyn. No, there's no tax offset for the write-down. In terms of the reinstatement of the tax asset, yes, absolutely that can be reinstated if the tax liability is there or would otherwise be there.

In terms of pushing the existing operations, yes, you've read that correctly.

Glyn Lawcock: (UBS, Analyst) Can you give some more clarity around what that is potentially you're looking at there just to get extra life out of Lanti and Gangama? Thanks.

Tom O'Leary: Yes, well, we're looking at whether we can alter our mine plan to access some other material there, and also whether the mining methods that we are exploring might be suitable to supplement existing operations as well, either during or post the depletion of those existing areas.

Glyn Lawcock: (UBS, Analyst) So tell me is there a resource that's being targeted? I guess we've got the resource statement for Sembehun, but Lanti and Gangama what you're saying is there's some material that's not part of the resource statement that will come into play.

Tom O'Leary: No. It's part of the resource statement but it's potentially able to be exploited. Talking about Pejebu and Taninahun. It's deposits that we've drawn the market's attention to before. It's just whether we can exploit those economically.

Glyn Lawcock: (UBS, Analyst) So just to save me looking it up, do you have the resource numbers that are sitting out there for those? Is it broken out for that detail that we can see?

Tom O'Leary: No, not really to a high level of detail.

Glyn Lawcock: (UBS, Analyst) So just finally, can you help us out at all with what the resource is for that area? Do we have an inferred resource?

Tom O'Leary: I mean on Pejebu there was a release that we made a while ago so that is in the public domain.

Glyn Lawcock: (UBS, Analyst) Okay, I'll track it down. Thanks.

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Operator: Once again, if anyone would like to ask a question please press star one on your telephone. Thank you. I will now pass back to the speakers for any closing comments.

Tom O'Leary: Okay. Well, look, thank you for your time this morning. As is obvious, it's a pretty disappointing outcome, but as I said, we remain focused on optimising the value of the existing operations and working very hard on the Sembehun opportunity.

Thanks again for your time.

Operator: Thank you. Ladies and gentlemen, that does conclude the call for today. Thank you so much for your attendance. You may now disconnect.

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