

29 April 2020

ASX: ILU

## QUARTERLY REVIEW TO 31 MARCH 2020

### COVID-19 PANDEMIC – UPDATE ON BUSINESS IMPACT

- Iluka's first priority is the safety and wellbeing of its people, their families and the communities in which the company operates.
- A Crisis Management Team was established on 5 March to coordinate and oversee Iluka's crisis response at the group level. Emergency Management Teams have been established at each operational site and site-specific infectious disease management plans are in place.
- Operational continuity has been maintained, with all mining and processing sites currently operational. No known cases of COVID-19 have been confirmed at any of Iluka's sites.
- While the company's Sierra Rutile business remains operational, Sierra Leone has closed its borders and this has impacted the ability to maintain planned levels of production-focused expatriates. Supply chain continuity is being managed, with emerging risks including potential interruptions to fuel and critical spares deliveries in Sierra Leone.
- The Chinese ceramic industry went into total lockdown during February and was then shut until the middle of March, resulting in significantly lower zircon sales than expected prior to the pandemic.
- For titanium dioxide sales, Iluka retains a high degree of revenue certainty due to take or pay contracts covering the majority of the company's rutile and synthetic rutile production.
- Project delays – mining trials at Balranald (New South Wales) and Sembahun (Sierra Leone) have been delayed as a result of travel restrictions; plans to reschedule the trials are well advanced.
- The demerger of Iluka's royalty business remains scheduled for execution in 2020. Iluka is currently targeting for the demerger documentation to be finalised and distributed to shareholders as soon as practicable following the completion of the Half Year Accounts. Iluka notes the South Flank development is now 66% complete and remains on track for first production in 2021<sup>1</sup>.
- Withdrawal of 2020 guidance - given continued uncertainty in relation to the impacts and duration of the pandemic, the company announced at its Annual General Meeting on 9 April it had withdrawn 2020 guidance.
- Iluka has altered production settings at the Narngulu mineral separation plant to reduce zircon production during this period of market uncertainty. If the new production settings remain in place for the remainder of the year, zircon production would be approximately 170 thousand tonnes (a reduction of 110 thousand tonnes from withdrawn guidance levels).
- Iluka retains a strong financial position, with no net debt as at 31 March 2020 and \$548 million of facilities available.

### Q1 PERFORMANCE

- Zircon/Rutile/Synthetic Rutile (Z/R/SR) production of 153 thousand tonnes, down 16% from December quarter 2019.
  - Zircon production of 50 thousand tonnes in line with plan to process lower zircon assemblage heavy mineral concentrate (HMC) and reduce stock build in what is traditionally a seasonally low quarter for sales
  - Group rutile production down 12% from previous quarter to 49 thousand tonnes

<sup>1</sup> BHP Quarterly Activities Report, 21 April 2020

- Synthetic rutile production in line with expectations at 53 thousand tonnes
- Z/R/SR revenue and sales lower.
  - Zircon sales down 62% from previous March quarter, primarily reflecting ceramic industry shutdowns in China
  - Titanium dioxide sales were down from a strong December 2019 quarter; but in line with expectations and previous quarters, with this market to date less impacted by the COVID-19 pandemic

## SUMMARY OF PHYSICAL AND FINANCIAL DATA

	Mar-19 Qtr	Dec-19 Qtr	Mar-20 Qtr	Mar-20 Qtr vs Dec-19 Qtr	Mar-20 Qtr vs Mar-19 Qtr
	kt	kt	kt	%	%
<b><u>Production</u></b>					
Zircon	87.2	68.9	50.1	(27.2)	(42.5)
Rutile <sup>1</sup>	40.4	55.8	49.3	(11.6)	22.0
Synthetic Rutile	26.8	56.4	53.2	(5.5)	98.3
<b>Total Z/R/SR Production</b>	<b>154.4</b>	<b>181.1</b>	<b>152.6</b>	<b>(15.7)</b>	<b>(1.2)</b>
Ilmenite	42.8	91.9	108.9	18.4	154.4
<b>Total Mineral Sands Production</b>	<b>197.2</b>	<b>273.0</b>	<b>261.5</b>	<b>(4.2)</b>	<b>32.6</b>
<b><u>Sales</u></b>					
Zircon	65.6	89.1	24.9	(72.0)	(62.0)
Rutile <sup>1</sup>	43.4	75.7	47.2	(37.6)	8.9
Synthetic Rutile	28.2	66.8	51.0	(23.6)	81.0
<b>Total Z/R/SR sales</b>	<b>137.2</b>	<b>231.6</b>	<b>123.1</b>	<b>(46.8)</b>	<b>(10.3)</b>
Ilmenite	63.3	29.8	33.6	12.7	(47.0)
<b>Total Mineral Sands sales</b>	<b>200.5</b>	<b>261.4</b>	<b>156.7</b>	<b>(40.1)</b>	<b>(21.8)</b>
Z/R/SR sales revenue A\$ million	231.1	377.7	209.7	(44.5)	(9.3)
Ilmenite and other revenue A\$ million	19.2	17.0	22.5	32.4	16.9
<b>Mineral Sands Revenue A\$ million</b>	<b>250.3</b>	<b>394.7</b>	<b>232.2</b>	<b>(41.2)</b>	<b>(7.2)</b>
<b>Average AUD:USD cents</b>	<b>71.2</b>	<b>68.3</b>	<b>65.9</b>	<b>(3.5)</b>	<b>(7.5)</b>

<sup>1</sup> Rutile sales and production volumes include the lower value titanium dioxide product, HYTI, that typically has a titanium dioxide content of 70-90%. This product sells at a lower price than rutile, which typically has a titanium dioxide content of 95%.

## **PRODUCTION COMMENTARY**

### **Australian Operations**

Iluka's Jacinth-Ambrosia mine in South Australia operated at full capacity over the quarter. Mining continued at the Ambrosia deposit, with 75 thousand tonnes of heavy mineral concentrate (HMC) produced.

In Western Australia, the Cataby operation improved throughput rates to produce 115 thousand tonnes of HMC. This included 77 thousand tonnes of magnetic material (for synthetic rutile production) and 38 thousand tonnes of non-magnetic material (for zircon and rutile production).

The Narngulu mineral separation plant (MSP) processed 136 thousand tonnes of HMC during the quarter, including material from both the Cataby and Jacinth-Ambrosia mines. Operational settings at the plant were adjusted during the fourth quarter 2019 to meet market requirements across the zircon product suite, including the processing of HMC with lower zircon assemblage. This continued through the first quarter of 2020.

Iluka has amended production settings at the Narngulu mineral separation plant to reduce zircon production during the uncertainty created by the COVID-19 pandemic. If the production settings remain in place for the remainder of the year, zircon production would be approximately 170 thousand tonnes (a reduction of 110 thousand tonnes from withdrawn guidance levels). The plant retains full flexibility to return to higher production settings within 24 hours.

Synthetic rutile kiln 2 at Capel produced 53 thousand tonnes of synthetic rutile, in line with plans.

### **Sierra Leone Operations**

Rutile production was 36 thousand tonnes, down from 44 thousand tonnes in the preceding quarter.

First quarter production was expected to be lower than the previous quarter due to planned downtime for infrastructure moves and the mines operating in lower grade mine blocks. This has been further impacted by COVID-19 disruptions, including the ability to maintain specialised skillsets typically provided by expatriate resources.

Community unrest, as noted in the ASX release on 20 February 2020, also affected production across all mining fronts for several days in the quarter.

## Mineral Sands Production

	Mar-19 Qtr	Dec-19 Qtr	Mar-20 Qtr	Mar-20 Qtr vs Dec-19 Qtr	Mar-20 Qtr vs Mar-19 Qtr
	kt	kt	kt	%	%
<b>Zircon<sup>1</sup></b>					
Jacinth-Ambrosia/Mid west WA	78.2	47.9	39.5	(17.6)	(49.5)
Cataby/South west WA	9.0	16.9	10.6	(37.1)	18.6
Sierra Leone	-	4.1	-	(100.0)	n/a
<b>Total Zircon Production</b>	<b>87.2</b>	<b>-</b>	<b>-</b>	<b>n/a</b>	<b>n/a</b>
<b>Rutile</b>					
Jacinth-Ambrosia/Mid west WA	9.3	5.1	6.5	27.4	(30.4)
Cataby/South west WA	1.7	6.7	6.8	2.3	301.7
Sierra Leone	29.4	44.0	36.0	(18.2)	22.5
<b>Total Rutile Production</b>	<b>40.4</b>	<b>55.8</b>	<b>49.3</b>	<b>(11.6)</b>	<b>22.0</b>
<b>Synthetic Rutile (WA)</b>	<b>26.8</b>	<b>56.4</b>	<b>53.2</b>	<b>(5.5)</b>	<b>98.3</b>
<b>TOTAL Z/R/SR PRODUCTION</b>	<b>154.4</b>	<b>181.1</b>	<b>152.6</b>	<b>(15.7)</b>	<b>(1.2)</b>
<b>Ilmenite</b>					
Jacinth-Ambrosia/Mid west WA	26.1	20.5	25.4	23.5	(3.0)
Cataby/South west WA	3.5	55.0	68.4	24.2	1,874.3
Sierra Leone	13.2	16.4	15.1	(7.8)	14.6
<b>Total Ilmenite</b>	<b>42.8</b>	<b>91.9</b>	<b>108.9</b>	<b>18.5</b>	<b>154.4</b>
<b>TOTAL MINERAL SANDS PRODUCTION</b>	<b>197.2</b>	<b>273.0</b>	<b>261.5</b>	<b>(4.2)</b>	<b>32.6</b>

<sup>1</sup> Iluka's zircon production figures include volumes of zircon attributable to external processing arrangements.

## MINERAL SANDS MARKET CONDITIONS

### Zircon

Zircon sales for the quarter were 25 thousand tonnes, down 62% from the corresponding quarter in 2019. The zircon prices achieved in the quarter were marginally lower than the previous quarter; as noted previously Iluka does not expect that lower prices will stimulate additional global demand for zircon.

First quarter zircon sales are typically low, reflecting Chinese New Year holiday shutdowns. After a seasonally normal low offtake in January, the Chinese ceramic industry progressively went into total lockdown in response to the COVID-19 pandemic during February and was then shut until the middle of March. The widespread and prolonged shutdowns in China for much of the quarter resulted in significantly lower zircon sales than expected. As at the end of March quarter, markets outside China were not yet affected; and the decline in zircon sales to China, including zircon-in-concentrate, accounted for the vast majority of this downturn.

With gradual easing of restrictions at the end of the quarter in China, operating rates had returned to 50-60% at the end of April, with variations across provinces.

In Europe, tile makers were running as planned and zircon sales were not impacted until late in the quarter when Italy, followed by Spain, halted all production. Since then Southern Europe has restarted at a low level.

The foundry market slowed down due to the closure of car manufacturing plants in every region and a marked reduction of consumer goods exports from China.

The fused zirconia market in China ramped-up production post Chinese New Year and by the end of February was running at 75-80% capacity to meet pending and new export orders. The Chinese domestic market demand remains subdued.

Zirconium chemicals and refractory segments were more resilient, resuming production by the middle of February, with solid export orders reported in the first quarter, although softer since the pandemic spread to Europe and North America.

### Titanium Dioxide Feedstocks

Iluka's high grade titanium sales in first quarter 2020 were 98 thousand tonnes, down 31% from December quarter 2019 but in line with previous quarters. The rutile price (excluding HYTI)<sup>1</sup> received during the March quarter 2020 has increased around 4% compared to the previous quarter.

To date, the industry has had limited impacts from the COVID-19 pandemic so far. Iluka's titanium feedstock customers continued to run their operations at normal capacity utilisation rates in the first quarter 2020 and Iluka's shipping schedules remain on track for second quarter 2020. While some of Iluka's customers have reported concerns over potential feedstock supply disruptions from other mineral sands producers in the second quarter and beyond, others are more focused, in the current environment, on limiting feedstock inventories. Iluka will work with existing and potential customers to maintain continuity of supply.

The welding application experienced some softness as a result of COVID-19 containment measures implemented in various countries, in particular in China and India. Further, potential delays of infrastructure projects are expected to dampen welding demand in subsequent quarters.

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<sup>1</sup>Included in rutile sales volumes reported elsewhere in this Quarterly Review is a lower titanium dioxide product, HYTI that typically has a titanium dioxide content of 70 to 91%. This product sells at a lower price than rutile, which typically has a titanium dioxide content of 95%.

## **PROJECT UPDATES**

Updates on selected projects for the March quarter are detailed below.

### **Sembehun, Sierra Leone**

The Sembehun group of deposits are situated 20 to 30 kilometres north-west of the existing Sierra Rutile operations. Sembehun is one of the largest and highest quality known rutile deposits in the world. Iluka is committed to determining a development approach in a disciplined and rigorous manner which ensures optimum value can be created from Sembehun.

The Concept Study initiated in the second half of 2019 has now been completed. The study was focussed on identifying and evaluating optimum infrastructure, logistics, processing and mining methods and has identified a preferred development approach. In support of this approach a field trial of an alternative mining method was planned for the second quarter. However, as noted at the Annual General Meeting, in response to COVID-19 restrictions enforced by the Government of Sierra Leone, all field work has been suspended. It is unclear when further Sembehun field work will be possible; consequently, the completion of the feasibility work on Sembehun is subject to delay.

### **Eneabba, Western Australia**

Phase 1 of the Eneabba project in Western Australia involves the extraction, processing and sale of a strategic stockpile rich in monazite (a mineral containing rare earth elements) and zircon. This stockpile is currently stored in a mining void resulting from Iluka's traditional mineral sands operations in the region.

First production was recorded on 8 April, ahead of schedule, and finished goods are now being transported to the Geraldton storage facility prior to shipment. First sales are scheduled for Q3 2020.

Studies into Phase 2 of the project, which involves further processing, are being progressed as a high priority.

### **Balranald, New South Wales**

Balranald and Nepean are two rutile-rich deposits in the northern Murray Basin, New South Wales. Owing to their relative depth, Iluka is assessing the potential to develop these deposits via a novel, internally developed underground mining and backfilling technology.

A third technology trial (T3) was scheduled for the second quarter of 2020. The purpose of T3 is to determine whether the technology is economically viable in a continuous mining and processing environment.

Mobilisation of key contractors has been delayed as a result of travel restrictions associated with the COVID-19 pandemic. Site works in preparation for T3 are continuing and the company is working with its contractors and technology partners to assess options to undertake the trial as soon as practicable in 2020.

### **Puttalam Quarry, Sri Lanka**

Puttalam Quarry (PQ) is a large, predominantly sulphate ilmenite deposit, located in the Puttalam District of Sri Lanka, approximately 170 kilometres from the capital Colombo.

Iluka currently holds an exploration lease (EL) for the PQ deposit which is due to expire in September 2020. Iluka has commenced the process to convert the EL to an Industrial Mining License (IML) in accordance with local regulations. However, there remains a number of matters requiring Sri Lankan Government action to enable the granting of the IML and, with parliament dissolved pending an election, this puts the grant of the IML prior to expiry of the exploration license at risk.

In the event Iluka is not granted an IML, or granted an extension to the EL, or afforded security of tenure over the EL while the application for the IML is reviewed, then the company's interest in the PQ deposit could lapse. The reported resources associated with the PQ deposit and adjacent Watti and Coco tenements (which are viewed as resources supporting an extension of the PQ project development rather than an independent development opportunity) is approximately 673 Mt.

## Other Projects, Australia

As noted at Iluka's Annual General Meeting on 9 April, completion of the preliminary feasibility studies for the Atacama and Wimmera projects will be delayed until 2021 as focus in both projects shifts to improving product quality. For Atacama, this focus is on finding a processing solution for the ilmenite which represents ~66 per cent of the valuable mineral assemblage, but is currently ascribed no value. For Wimmera, the focus is on improving the final zircon quality and optimising the production of the rare earth carbonates; a processing path also applicable to rare earth resources at Eneabba.

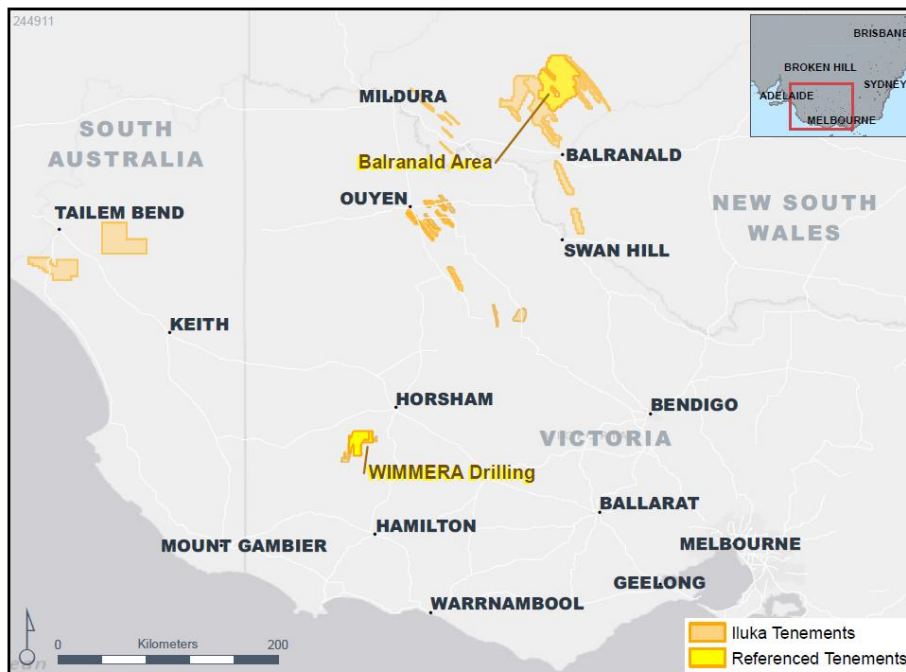
Refer Iluka's website ([www.iluka.com](http://www.iluka.com)) – Section: Company Overview, Projects, for more detail on all projects.

## EXPLORATION

Expenditure on exploration and evaluation charged to the profit and loss account for the March quarter 2020 was \$2.8 million (Q1 2019: \$2.0 million).

### Australia

During January, a total of fourteen holes for 1,361 metres were drilled on tenement EL8522 (Murray Basin, New South Wales) targeting the identification of high grade rutile and zircon rich strand deposits. Samples have been submitted to Iluka's Narngulu laboratory for processing and results are likely to be available early in Q2 2020. The future direction of this project will be determined once results have been received and interpreted.



### Canada

Iluka continues to fund Society d'Exploration Vior Inc. (Vior) to undertake exploration in the Foothills and Grand Duc projects in Quebec. A program of nine diamond holes was completed for a total of 1,515 meters of drilling during the quarter. Material is being submitted for further analysis. However, laboratory facilities capable of completing this work are currently closed due to the COVID-19 pandemic.



## TELECONFERENCE DETAILS

A conference call for equity market participants will take place at **10.00am (AEST)** on **Wednesday, 29 April 2020**. All participants wishing to attend the call must pre-register online before they can receive the relevant dial-in numbers. Pre-registration may require a few minutes to complete so it is advised that participants do so prior to the start of the call.

Participants can pre-register for the conference call by navigating to the link below. Once pre-registration has been complete, participants will receive dial-in numbers, a Direct Event passcode, and a registrant ID number.

Pre-registration link: <https://apac.directeventreg.com/registration/event/4259136>

To join the conference, simply dial the number in the calendar invite you receive after pre-registering, enter the passcode followed by your PIN, and you will join the conference immediately.

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**APPENDIX 1 - OPERATING MINES – PHYSICAL DATA**  
**3 Months to 31 March 2020**

	Jacinth- Ambrosia / Mid west	Catoby / South west	Australia Total	Sierra Leone	Group Total
<b>Mining</b>					
Overburden Moved kbcm	1,314	2,855	<b>4,169</b>	-	<b>4,169</b>
Ore Mined kt	2,503	2,305	<b>4,808</b>	2,763	<b>7,571</b>
Ore Grade HM %	3.3%	5.8%	<b>4.8%</b>	3.5%	<b>4.4%</b>
VHM Grade %	2.9%	4.7%	<b>4.0%</b>	2.6%	<b>3.6%</b>
<b>Concentrating</b>					
HMC Produced kt	75	115	<b>190</b>	85	<b>275</b>
VHM Produced kt	64	100	<b>164</b>	58	<b>221</b>
VHM in HMC Assemblage %	85.9%	86.2%	<b>86.1%</b>	67.5%	<b>80.3%</b>
Zircon	50.7%	10.6%	<b>26.3%</b>	4.5%	<b>19.6%</b>
Rutile	8.2%	6.8%	<b>7.4%</b>	44.6%	<b>18.9%</b>
Ilmenite	27.0%	68.7%	<b>52.3%</b>	18.3%	<b>41.8%</b>
HMC Processed kt	91	109	<b>200</b>	86	<b>286</b>
Finished Product <sup>1</sup> kt					
Zircon	39.5	10.6	<b>50.1</b>	-	<b>50.1</b>
Rutile	6.5	6.8	<b>13.3</b>	36.0	<b>49.3</b>
Ilmenite (saleable/upgradeable)	25.4	68.4	<b>93.7</b>	15.1	<b>108.9</b>
Synthetic Rutile Produced kt	-	53.2	<b>53.2</b>	-	<b>53.2</b>

**Explanatory comments on terminology**

**Overburden moved** (bank cubic metres) refers to material moved to enable mining of an ore body.

**Ore mined** (thousands of tonnes) refers to material moved containing heavy mineral ore. For Catoby/ South West this refers to ore treated.

**Ore Grade HM %** refers to percentage of heavy mineral (HM).

**VHM Grade %** refers to percentage of valuable heavy mineral (VHM) - titanium dioxide (rutile and ilmenite), and zircon found in a deposit.

**Concentrating** refers to the production of heavy mineral concentrate (HMC) through a wet concentrating process at the mine site, which is then transported for final processing into finished product at the company's Australian mineral processing plant, or the Sierra Leone mineral processing plant.

**HMC produced** refers to HMC, which includes the valuable heavy mineral concentrate (zircon, rutile, ilmenite) as well as other non-valuable heavy minerals (gangue).

**VHM produced** refers to an estimate of valuable heavy mineral in heavy mineral concentrate expected to be processed.

**VHM produced and the VHM assemblage** - provided to enable an indication of the valuable heavy mineral component in HMC.

**HMC processed** provides an indication of material emanating from each mining operation to be processed.

**Finished product** is provided as an indication of the finished production (zircon, rutile, ilmenite) attributable to the VHM in HMC production streams from the various mining operations. Finished product levels are subject to recovery factors which can vary. The difference between the VHM produced and finished product reflects the recovery level by operation, as well as processing of finished material/concentrate in inventory. Ultimate finished product production (rutile, ilmenite, and zircon) is subject to recovery loss at the processing stage – this may be in the order of 10 per cent.

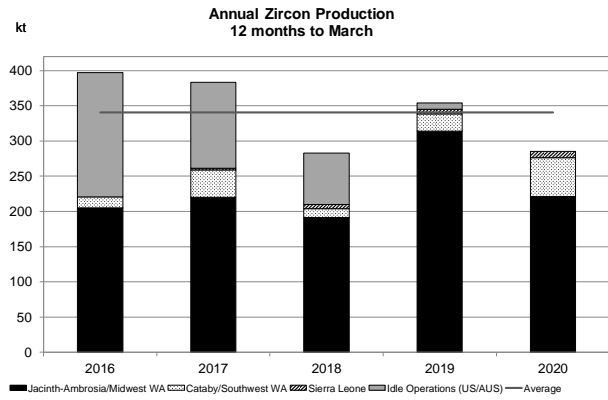
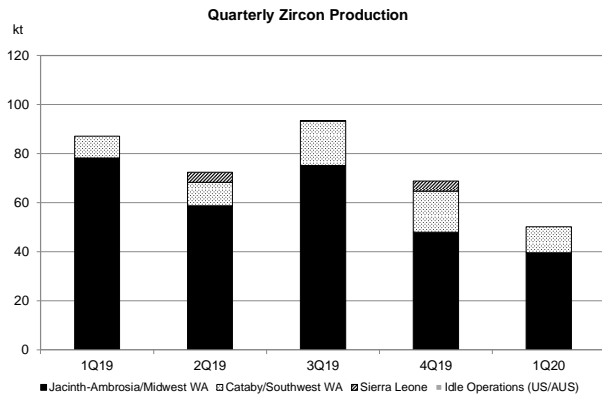
**Ilmenite** is produced for sale or as a feedstock for synthetic rutile production.

Typically, 1 tonne of upgradeable ilmenite will produce between 0.56 to 0.60 tonnes of SR. Iluka also purchases external ilmenite for its synthetic rutile production process.

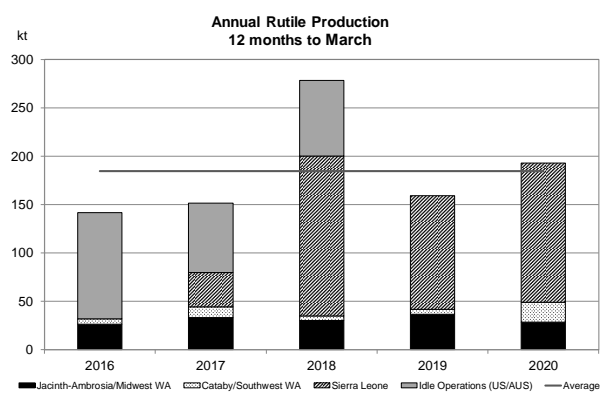
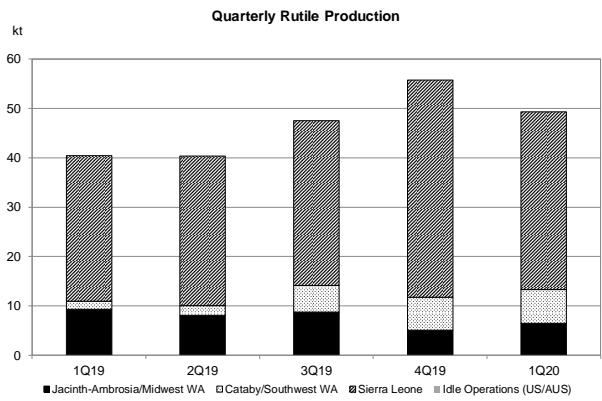
<sup>1</sup> Finished product includes material from heavy mineral concentrate (HMC) initially processed in prior periods.

## APPENDIX 2 – PRODUCTION SUMMARIES

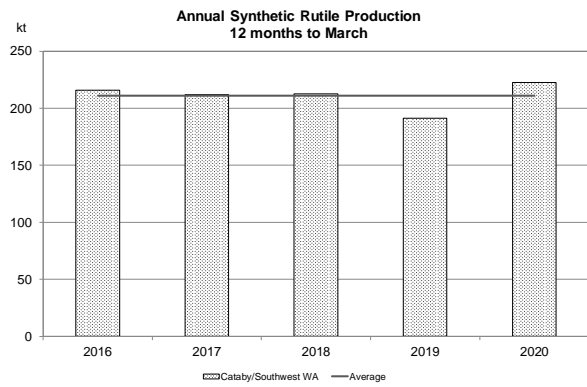
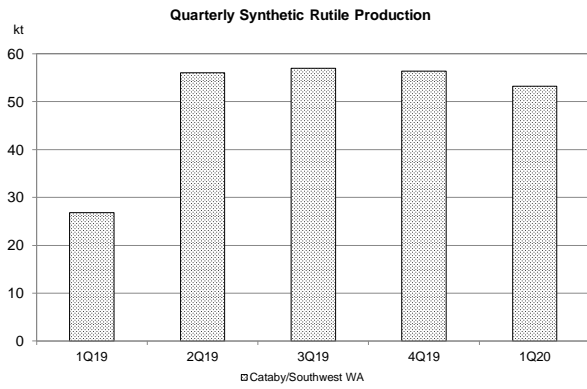
### Zircon



### Rutile



## Synthetic Rutile



## Ilmenite

