Largo Reports Highlights of its Fiscal 2017 Financial and Operating Results

written by Raj Shah | March 24, 2018
March 23, 2018 (Source) –

- Revenues for Q4 2017 exceeded direct mine and mill costs by $29,516; achieved with a Q4 average price of vanadium pentoxide of US$8.13. The posted price range of vanadium pentoxide effective as of March 23, 2018 is US$15.00 to $16.00/lb (Source: Metal Bulletin).
- 2018 production guidance is 8,950 to 9,950 tonnes (approximately 19.7 to 21.9 million pounds) of vanadium pentoxide, to be produced at an estimated annual average cash operating cost per pound of US$4.15.
- Cash generated from operating activities for Q4 2017 was $38,530.
- December 31, 2017 cash and restricted cash of $54,725 and $4,187 respectively.
- Recoveries continued to improve over 2017, with the global recovery rate over the year (from ore to flake) averaging 75.5%. For Q4 2017, the global recovery rate was 79% which is a significant improvement from the 72% achieved in Q1 2017.
- The Company achieved a new monthly production record of 903 tonnes of V_2O_5 in December 2017, and a new quarterly production record of 2,539 tonnes of V_2O_5 for Q4 2017.
- The Company’s vanadium pentoxide has been qualified for use by all major producers of master alloys for the aerospace industry outside of China.

Largo Resources Ltd. (“Largo” or the “Company”) today released highlights of its financial results for the year ended December 31, 2017, as filed in full on SEDAR at http://www.sedar.com and on the Company's website at http://www.largoresources.com. The reader is cautioned that the below excerpt should be read in conjunction with the Company's annual consolidated financial statements for the years ended December 31, 2017 and 2016 as well as the management's discussion and analysis for the year ended December 31, 2017 ("MD&A"). Note references in this press release refer to the notes contained in Largo's annual consolidated financial statements for the years ended December 31, 2017 and 2016. Financial numbers are reported in thousands of Canadian dollars, except for per share amounts.

Mark Smith, President and Chief Executive Officer for Largo, stated: "Our financial performance continues to improve, as is evidenced by our strong Q4 2017 results. We anticipate that these results will continue to improve alongside the strengthening vanadium price. We are delighted with the Company's recent results. We continue to highlight our strong production record, stable cash operating costs and the positive outlook for vanadium prices, as we continue to deliver improved financial performance."

Q4 2017 highlights[1]

	Q4 2017	Q4 2016
	$	$
Revenues	48,994	31,482
Direct mine and mill costs	19,478	21,080
Cash provided by operating activities	38,530	4,519

Summary of the Company's 2017 financial results[2]

	Dec. 31, 2017	Dec. 31, 2016

	$	$
Cash	54,725	758
Total Current Assets	89,100	32,211
Mine properties, plant and equipment	282,218	321,084
Total Assets	371,318	353,295
Total Current Liabilities	122,178	94,082
Total Liabilities	296,960	326,469
	2017	**2016**
	$	$
Revenues	167,723	81,233
Direct mine and mill costs[3]	(80,401)	(77,226)
Operating costs	(120,402)	(113,173)
Net loss	(10,414)	(55,630)
Basic loss per share	(0.02)	(0.14)
Net cash provided by (used in):		
Operating activities	58,598	(15,942)
Financing activities	17,573	29,193
Investing activities	(19,408)	(15,565)

1.	Financial numbers are reported in thousands of Canadian dollars, except for per share amounts.
2.	References to “2017” and “2016” refer to the twelve-month periods ended December 31, 2017 and December 31, 2016, respectively, and as reported in the Company’s annual consolidated financial statements for the years ended December 31, 2017 and 2016.
3.	Refer to note 20.

Cash operating costs since the commencement of commercial production on October 1, 2015[4]

	Production Tonnes	Production Pounds Equivalent	CDN$ Cost per pound	US$ Cost per pound
Q4 2015	1,654	3,646,441	$5.97	$4.47
Q1 2016	1,169	2,577,201	$6.52	$4.75
Q2 2016	2,311	5,094,877	$4.19	$3.25
Q3 2016	2,182	4,810,481	$4.67	$3.59
Q4 2016	2,304	5,079,444	$4.82	$3.60
Q1 2017	2,062	4,545,926	$5.19	$3.90
Q2 2017	2,183	4,812,685	$4.80	$3.56
Q3 2017	2,513	5,540,210	$4.47	$3.56
Q4 2017	2,539	5,597,530	$4.53	$3.57

4.	Refer to the "Non-GAAP Measures" section of the Company's MD&A for a discussion regarding the calculation of these Non-GAAP Measures and additional discussion of cash operating costs elsewhere in the Company's MD&A.

Maracás Menchen Mine operating results

The Maracás Menchen Mine operation produced its first vanadium pentoxide flake on August 2, 2014. On October 1, 2015, the Company declared commercial production at the Maracás Menchen Mine.

Expenditures of $18,551 were capitalized to mine properties, plant and equipment during the year ended December 31, 2017 (year ended December 31, 2016 – $12,971).

During Q4 2017, production output was 1% higher than in Q3 2017. The lowest monthly production in Q4 2017 was in October with an output of 773 tonnes of V_2O_5, which was lower than expected due to the poor performance of the deammoniator exhaust system. Total production for 2017 was 9,297 tonnes of V_2O_5, which represents approximately 96.5% of nameplate capacity. Nameplate annual production capacity for the Maracás Menchen Mine is 9,634 tonnes of V_2O_5, or approximately 26.4 tonnes per day.

The cost per pound (in $) for Q4 2017 was relatively consistent with Q3 2017, with a variance of only 1%, and was 6% lower than in Q2 2017. This is primarily due to higher production and higher global metal recovery during the second half of 2017. The performance in Q4 2017 was impacted by the challenges faced with the deammoniator exhaust system in October 2017. The improved results in the second half of 2017 are due to the improvements implemented during the kiln refractory shutdown in March and April 2017 and the improvements made in July and August 2017 in the deammoniator exhaust system.

In Q1 and Q2 2018 the Company is focused on stabilizing production and performance following the implementation of improvements in maintenance and production practices. Production in January 2018 was 706 tonnes of V_2O_5 and in February 2018, 645 tonnes of V_2O_5 was produced. This lower production was attributable to temporary maintenance performed on the cooler refractory system which has now been completed. The Company anticipates that production will return to nameplate capacity of ~800 tonnes of V_2O_5 per month in March 2018, with a planned seven-day shutdown in July 2018 to replace the refractory in the cooler and kiln.

The cost per pound for 2017 (see “Non-GAAP Measures” section of this MD&A) was $4.72, which is lower than the 2017 guidance of $4.99 as published in the Q3 2017 MD&A. This achievement demonstrates the greater consistency in operations and production achieved at the Maracás Menchen Mine in the second half of 2017. Consequently, the Company expects to build on this in 2018. Production guidance for 2018 is as follows:

	Annual Production High-End	Annual Production Low-End	Average Annual Production	Estimated Annual Average US$/CDN$ Cash Operating Costs Per Tonne [1,2,3]	Estimated Annual Average US$/CDN$ Cash Operating Costs Per Pound [1,2,3]
2018 [2]	9,950 tonnes [4] ~ 21.9 million lbs	8,950 tonnes [4] ~ 19.7 million lbs	9,450 tonnes [4] ~ 20.8 million lbs	US$9,150 CDN$11,384	US$4.15 CDN$5.16

1.	*The cash operating costs reported are on a non-GAAP basis. Cash operating costs include all cash expenditures, the main categories being mining costs, plant and maintenance costs, sustainability costs, mine and plant administration costs, royalties and SG&A. Cash operating costs excludes depreciation and amortization charges, interest or any other debt servicing costs and commissions on sales. Refer to the "Non-GAAP Measures" section of this MD&A. See also 3. below. The estimated average annual R$/US$ and CDN$/US$ exchange rates used for 2018 are approximately 3.27 and 1.24 respectively.*
2.	*Excludes corporate SG&A or CAPEX (Capital Expenditures).*
3.	*The reader is cautioned that the cash operating costs presented are intended to serve as a guide to the magnitude of the Company's monthly operating expenditures on a cash basis and excludes financing costs associated with the operations and non-cash accounting charges (including but not limited to depreciation and amortization expense, accretion, share-based payments, or foreign exchange and derivative gains or losses). The measure may therefore not be comparable to other companies or the results of similar operations and does not meet any definition of GAAP. Refer to the "Non-GAAP Measures" section of this MD&A.*

4.	*Conversion of tonnes to pounds, 1 tonne = 2,204.62 pounds or lbs.*

2017 Highlights

The Company’s Maracás Menchen Mine produced 9,297 tonnes of vanadium pentoxide (“V_2O_5“) in 2017.

On January 9, 2017 and January 24, 2017, the Company announced the closing of the first and second tranches of a non-brokered offering of units. The Company received gross proceeds of $16,083 from the sale of 35,740 units of the Company. Each unit was sold at a price of $0.45 and consisted of one common share of the Company and one common share purchase warrant. Each whole warrant will be exercisable into one common share at a price of $0.65 per share for a period of three years from closing of the offering. Refer to note 10(b) for further details.

On February 24, 2017, the Company agreed to a new schedule of payments for its short term loan. Consequently, the Company received waivers, which included the payment of principal and interest on February 28, 2017, to allow the revised loan documents to be duly executed. In return for receiving the waivers, the Company was required to pay a restructuring fee of US$100 through the delivery of common shares of the Company by April 24, 2017. This condition was satisfied and the revised loan documents were duly executed on March 24, 2017, with further amendments executed on June 30, 2017, August 28, 2017, October 30, 2017 and November 22, 2017 to defer the June to November 2017 payments to December 2017. On December 1, 2017, the Company reached an agreement to settle in full its outstanding short term loan through the issuance of units in a non-brokered offering of units (see note 8(f)) that closed on December 13, 2017.

On March 15, 2017, the Company announced that the consortium of three commercial banks in Brazil had agreed to temporarily waive the requirement that the Company inject a further US$5,000 in working capital into Vanádio that was due by that date. In connection with the granting of this temporary waiver, the three commercial banks and the Company agreed that the Company would fund certain payment obligations to the three commercial banks which had previously been delayed. On June 30, 2017, the three commercial banks agreed to terminate the March 2017 capital injection requirement and to postpone the June 2017 capitalization requirement until December 31, 2017. The Company complied with the funding of the previously delayed payment obligations, following which, the three commercial banks terminated the June 2017 capitalization requirement on December 31, 2017.

On April 12, 2017, the Company announced it had entered into a US$2,000 six-month short term loan with a shareholder of the Company (who has an interest in the Company of less than 10%) at an interest rate of 9% per annum. Pursuant to the terms of the loan, the Company issued 400 common share purchase warrants to the lender with each warrant being exercisable to acquire one common share of the Company at a price of $0.50 until December 31, 2020. On October 10, 2017, the Company executed an amendment to the terms of the loan. Under the revised terms, the maturity date was extended from October 11, 2017 to December 16, 2017 in return for the Company paying an extension fee of US$120 on or before December 16, 2017. Should the Company repay the Bridge loan in full prior to December 16, 2017, the extension fee was to be reduced to US$70. The loan was repaid in full on December 5, 2017 together with the extension fee of US$70.

On October 26, 2017, the Company announced the results of an independent NI 43-101 Technical Report, containing a Life of Mine Plan for its Maracás Menchen Mine, a Feasibility Study for the Campbell Pit at the Maracás Menchen Mine, and a Preliminary Economic Assessment for Gulçari A Norte, Gulçari B, Novo Amparo, Novo Amparo Norte, Campbell in pit inferred resources and São José satellite deposits at the Maracás Menchen Mine. The Technical Report was prepared by GE21 Consultoria Mineral Ltda.

On December 1, 2017 and December 13, 2017, the Company announced the closing of the first and second tranches of a non-brokered offering of units. The Company received gross proceeds of $35,500 from the sale of 43,293 units of the Company. Each unit was sold at a price of $0.82 and consisted of one common share of the Company and one-half of a common share purchase warrant. Each whole warrant will be exercisable into one common share at a price of $1.15 per share for a period of five years from closing of the offering. As part of this non-brokered offering of units, the Company fully settled its short term loan through the issuance of 7,307 units of the Company. Proceeds from this non-brokered offering were used to repay the bridge loan in full. Refer to notes 8(f), 8(g) and 10(b) for further details.

Significant events and transactions subsequent to 2017

On January 12, 2018 and February 14, 2018, the Company made the final payments of US$1,000 and US$1,001, respectively, in full settlement of the total aggregate arbitration settlement of US$11,500 (see note 8(h)).

On March 5, 2018, the Company announced that it intends to qualify, produce and sell V_2O_5 powder via the Company's existing offtaker of all vanadium products currently produced from the Company's Maracás Menchen Mine.

On March 8, 2018, the Company announced that it had entered into a binding term sheet for the restructuring and conversion of its existing Swap Facility (see note 8(d)). Under the terms of the binding term sheet, Largo will acquire approximately U.S.$9,000 (approximately R$28,795) of face value of the outstanding amount and the remaining amount will then be amended in accordance with the terms disclosed in note 21.

About Largo

Largo Resources is a Toronto-based strategic mineral company focused on the production of vanadium flake, high purity vanadium flake and powder at the Maracás Menchen Mine located in Bahia State, Brazil. As the only pure-play producer of vanadium, Largo is one of the lowest cost producers of the mineral in the world and is directly exposed to the record vanadium prices recently recorded. Largo also has interests in a portfolio of other projects, including: a 100% interest in the Currais Novos Tungsten Tailings Project in Brazil; a 100% interest in the Campo Alegre de Lourdes Iron-Vanadium Project in Brazil; and a 100% interest in the Northern Dancer Tungsten-Molybdenum property in the Yukon Territory, Canada. The Company's common shares are principally listed on the Toronto Stock Exchange under the symbol "LGO". For more information on Largo Resources, please visit our website at www.largoresources.com.

Cautionary Notes:

This press release contains forward-looking information under Canadian securities legislation. Forward-looking information includes, without limitation, statements with respect to completion of a listing on a U.S. stock exchange. Generally, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. All information contained in this news release, other than statements of current and historical fact, is forward looking information. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Largo to be materially different from those expressed or implied by such forward-looking statements, including but not limited to those risks described in the annual information form of Largo and in its public documents filed on SEDAR from time to time. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made. Although management of Largo has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Largo does not undertake to update any forward-looking statements, except in accordance with applicable securities laws. Readers should also review the risks and uncertainties sections of Largo’s annual and interim MD&As.

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