Largo Resources Reports First Quarter Net Income of $45.8 Million

written by Raj Shah | May 7, 2018
May 7, 2018 (Source) —

- *Net income of $45.8 million and earnings per share of $0.09*
- *Revenues of $91.0 million in Q1 2018, a 210% increase over Q1 2017*
- *Cash provided before non-cash working capital items of $61.9 million in Q1 2018, an increase of $56.8 million over Q1 2017*
- *Total production of 2,214 tonnes of V_2O_5 in Q1 2018, a 7% increase over Q1 2017*
- *Average V_2O_5 price of ~US$13.60/lb V_2O_5 in Q1 2018*
- *Cash balance at March 31, 2018 of $50.2 million and restricted cash of $4.4 million*

Largo Resources Ltd. ("Largo" or the "Company") (TSX: LGO) (OTCQB: LGORF) is very pleased to report net income of $45.8 million ($0.09 per share) for the three-month period ended March 31, 2018, the highest quarterly net income recorded by the Company to date.

Mark Smith, President and Chief Executive Officer for Largo, stated: *"We are extremely pleased to report the highest net income recorded in the Company's history for the first quarter of 2018. Operations at the Maracás Menchen Mine continued to generate significant operating cash flows and the Company remains committed to delivering strong financial performance for the balance of the year."*

He continued: *"Production for the quarter was impacted by unexpected maintenance to the cooler refractory, which has since been resolved and operations exiting the quarter returned to normalized production levels. We remain laser focused on stable production and maintaining the lowest possible unit costs at the Maracás Menchen Mine. Our goal is to be the most profitable vanadium operation in any pricing environment."*

Total production at the Maracás Menchen Mine in Q1 2018 was 2,214 tonnes of vanadium pentoxide ("**V2O5**"), a 7% increase over Q1 2017 but 13% lower than Q4 2017. Production in Q1 2018 was impacted by premature wearing of the cooler refractory, resulting in unexpected production downtime in January and February. The Company resolved these issues during March and production returned to previous levels, exiting the quarter with production of 863 tonnes of V_2O_5.

Overall V_2O_5 recovery rates at the Maracás Menchen Mine averaged 75% in Q1 2018, a strong improvement from the 72% achieved in Q1 2017 and consistent with the average for 2017. Recovery rates improved to 79% in March primarily due to greater operational stability in the kiln and cooler. The Company forecasts an overall recovery rate of 79% for the remainder of 2018.

Consolidated Q1 2018 Financial and Operational Results

Financial

All financial figures are in Canadian dollars unless otherwise stated.

	Three months ended			
		March 31, 2018		March 31, 2017
Revenues	**$**	**91,093**	$	29,425

Direct mine and mill costs		**(20,302)**		(20,450)
Operating costs		**(31,183)**		(29,601)
Net income (loss) before tax		**49,524**		(9,721)
Net income (loss)		**45,844**		(9,721)
Basic earnings (loss) per share		**0.09**		(0.02)
Diluted earnings (loss) per share		**0.07**		(0.02)
	Three months ended			
		March 31, 2018		March 31, 2017
Cash provided before non-cash working capital items	**$**	**61,855**	$	5,146
Net cash provided by operating activities		**24,940**		4,224
Net cash (used in) provided by financing activities		**(26,561)**		12,011
Net cash used in investing activities		**(3,714)**		(5,900)
	As at			
		March 31, 2018		December 31, 2017
Cash	**$**	**50,184**	$	54,725
Restricted cash		**4,374**		4,187
Working capital[1]		**22,867**		(33,078)

1. *Defined as current assets less current liabilities per the consolidated statements of financial position*

Operational

		Three months ended

		Q1 2018	Q1 2017
Concentrate produced (tonnes)		**77,222**	87,347
Grade of Concentrate (%V_2O_5)		**3.56**	3.32
Recovery of V_2O_5 %		**97**	97
Contained V_2O_5 (tonnes)		**2,747**	2,904
V_2O_5 flake produced (tonnes)		**2,214**	2,062
V_2O_5 flake produced (equivalent pounds)[1]		**4,881,029**	4,545,926
Cash operating costs[2, 3] per pound	**CDN$**	**$5.20**	$5.19
	US$[4]	**$4.11**	$3.90
	R$[4]	**$13.34**	$12.31

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

2.	*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 sales, general and administrative costs ("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 4. below. 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.*
3.	*Excludes corporate SG&A or CAPEX (Capital Expenditures).*
4.	*Refer to Management's Discussion and Analysis for the three-month period ended March 31, 2018 for exchange rates used.*

The Company recorded net income of $45.8 million in Q1 2018, compared to a net loss of $9.7 million in Q1 2017. This improvement was primarily due to an increase in revenues of $61.7 million, from $29.4 million in Q1 2017 to $91.0 millionin Q1 2018. This increase in revenue was partially offset by an increase in operating costs of $1.6 million, from $29.6 million in Q1 2017 to $31.2 million in Q1 2018, and an increase in professional, consulting and management fees of $1.9 million, from $2.1 million in Q1 2017 to $4.0 million in Q1 2018.

Revenues increased by 210% in the first quarter to $91.0 million compared to $29.4 million in Q1 2017, due to higher V_2O_5 prices. The average price per pound of V_2O_5 was approximately US$13.60 for Q1 2018, compared to approximately $5.15 for Q1 2017.

Operating costs of $31.1 million in Q1 2018 increased slightly when compared to $29.6 million in Q1 2017, which includes direct mine and mill costs of $20.3 million ($20.4 million in Q1 2017), depreciation and amortization of $8.7 million ($7.8 million in Q1 2017), royalties of $2.2 million ($1.0 million in Q1 2017) and an inventory write-down of $nil, ($0.3 million in Q1 2017). In Q1 2018 the Company generated positive cash from operating activities, with net cash provided by operating activities of $24.9 million, a significant increase over the $4.2 million recorded in Q1 2017.

Cash operating cost for Q1 2018 was $5.20/lb, consistent with $5.19/lb for Q1 2017. The cost per pound for Q1 2018 was slightly higher when compared with Q4 2017 primarily due to the lower production level arising from issues encountered with the cooler refractory. The production stoppages early in the quarter resulted in higher specific consumption of HFO, diesel and sodium carbonate. In addition, the Company experienced an increase in the cost of ammonium sulphate due to an underlying increase in the price of ammonia gas and sulphur. The Company has recently executed a new agreement for the supply of ammonium sulphate and expects the cost increase seen in Q1 2018 to be reversed in Q2 2018.

On March 29, 2018, the Company completed a restructuring and conversion of its existing swap facility with Banco Pine S.A., including the payment to Banco Pine S.A. of $11.5 million in settlement of accrued interest. This restructuring, combined with an increase in the Company’s trade receivables, contributed to the significant improvement in the Company’s working capital position at March 31, 2018, of $22.9 million, which compares with negative $33.1 million at December 31, 2017.

The Company is planning a seven-day shutdown in July 2018 to replace the refractory in the cooler and kiln. In addition, the Company aims to increase sales of “high purity” V_2O_5. In Q1 2018, 400 tonnes of high purity V_2O_5 flake were sold, being an increase of 95% over the 205 tonnes sold during fiscal 2017.

Exploration Update

The Company has planned a two-phased exploration program for 2018 at the Maracás Menchen Mine. Phase I is a 2,000 metre in-pit drill program designed to further define the reserve block model for production in the next two to three years. This program began in the middle of April 2018 and is anticipated to take two months to complete. The data will be modelled and used for mine planning and development purposes.

Phase II is a program that includes a ground magnetic survey, mapping and sampling of the concessions north of Novo Amparo Norte. This is approximately 12 kilometres of strike extension that has not previously been investigated. The goal of this work is to further evaluate the potential for along strike continuation of the magnetite mineralization and to maintain the Company’s concessions. In addition, Phase II includes a 4,950 metre drilling program focused on upgrading and expanding the satellite deposits and along strike high priority targets.

The information provided within this release should be read in conjunction with Largo’s unaudited condensed consolidated interim financial statements and management’s discussion and analysis for the three months ended March 31, 2018, which are available on our website at largoresources.com and on SEDAR.

About Largo Resources

Largo is a Toronto-based strategic mineral company focused on the production of vanadium flake, high purity vanadium flake and high purity vanadium powder at the Maracás Menchen Mine located in Bahia State, Brazil. Largo remains one of the lowest cost producers of vanadium in the world and is directly exposed to and is benefiting from the record increases in vanadium seen today. Largo is the only pure-play producer of vanadium and 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, please visit our website at www.largoresources.com.

Forward Looking Information

Disclaimer: This press release contains forward-looking information under Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to timing for and completion of the Maracás Menchen Mine expansion project and the costs associated therewith; Largo's development potential and timetable of its operating, development and exploration assets; Largo's ability to raise additional funds as may be necessary; the future price of vanadium; the estimation of mineral reserves and mineral resources; conclusions of economic evaluations; the realization of mineral reserve estimates; the timing and amount of estimated future production, development and exploration; costs of future activities; capital and operating expenditures; success of exploration activities; mining or processing issues; currency exchange rates; government regulation of mining operations; and environmental risks. 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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