

# Largo Resources Reports Record Second Quarter 2018 Cash Flows Before Non-Cash Working Capital Items of \$77.7 Million, on Revenues of \$103.3 Million

written by Raj Shah | August 14, 2018

August 13, 2018 ([Source](#)) – Q2 2018 Highlights (*unless otherwise noted, all financial amounts in this news release are expressed in Canadian dollars*)

- Net income of \$90.7 million and earnings per share of \$0.17 after a deferred income tax recovery of \$45.6 million
- Revenues of \$103.3 million in Q2 2018, a 189% increase over Q2 2017 and a 13% increase over Q1 2018
- Cash provided before non-cash working capital items of \$77.7 million in Q2 2018, an increase of \$66.7 million over Q2 2017
- Total production of 2,458 tonnes of  $V_2O_5$  in Q2 2018, a 13% increase over Q2 2017 and an 11% increase over Q1 2018
- Average Vanadium Pentoxide ( $V_2O_5$ ) price of ~US\$15.44/lb  $V_2O_5$  in Q2 2018
- Cash balance at June 30, 2018 of \$84.2 million (excluding restricted cash of \$201.2 million)

Largo Resources Ltd. (“**Largo**” or the “Company”) (**TSX: LGO**) (OTCQX: LGORF) is very pleased to report record net income of \$90.7 million (\$0.17 per share) and cash flows provided

before non-cash working capital items of \$77.7 million on revenues of \$103.3 million in the three-month period ended June 30, 2018..

Mark Smith, President and Chief Executive Officer for Largo, stated: *"We are extremely pleased with our financial and overall operational performance during the second quarter of 2018. In continuing the success of Q1 2018, Largo recognized revenues of \$103.3 million during the quarter and achieved net income of \$90.7 million, including a non-cash deferred income tax recovery of \$45.6 million. Importantly, because of this ongoing strong performance, our net debt level as at June 30, 2018 was approximately \$115 million, or approximately US\$87 million)."*<sup>1</sup>

He continued: *"The Maracás Menchen Mine continued to produce strong results operationally during the second quarter of 2018. Our operations team continues to focus on implementing improvements in maintenance and production practices. The Company's consistent low cash costs combined with the continued strengthening of  $V_2O_5$  prices makes Largo one of the most profitable vanadium producers in the world."*

Total production at the Maracás Menchen Mine in the second quarter of 2018 was 2,458 tonnes of vanadium pentoxide (" $V_2O_5$ ") compared to 2,214 tonnes of  $V_2O_5$  in the first quarter of 2018, and 2,183 in the second quarter of 2017. The Company also achieved a new daily average production record in the month of June with 29.4 tonnes of  $V_2O_5$  produced per day.

The global recovery rate (from ore to flake) averaged 79.2% in the second quarter of 2018, representing an increase of 4.3% over the first quarter of 2018 and 6.6% over the second quarter of 2017. Higher global recovery rates for the quarter are primarily due to greater operational control of the kiln and cooler. The Company forecasts an overall recovery rate of 79%

for the remainder of 2018.

Maintenance performed during May as a result of the national truckers' strike in Brazil allowed the operations team at the Maracás Menchen Mine to replace the flaking wheel, assess the furnace refractory, change the de-ammoniator wires in the fusion section, and complete minor repairs to the kiln and cooler refractory. Further, the Company has postponed the planned seven-day shutdown to replace the refractory in the cooler and kiln to fourth quarter of 2018.

Total sales of high purity  $V_2O_5$  flake was 420 tonnes in the second quarter of 2018, representing a 5% increase from the first quarter of 2018 and brings the total high purity sales in the six months ended June 30, 2018 to 820 tonnes. This represents a significant increase from the 205 tonnes sold in the during the full year of 2017. In addition, the Company expects to complete the ramp up to handle and pack high purity  $V_2O_5$  powder.

## **Consolidated Q2 2018 Financial and Operational Results**

### **Financial**

*All financial figures are in Canadian dollars unless otherwise stated.*

	Three months ended			
		<b>June 30, 2018</b>		June 30, 2017
Revenues	\$	<b>103,321</b>	\$	35,797
Direct mine and mill costs		<b>(19,128)</b>		(20,074)
Operating costs		<b>(30,220)</b>		(29,925)
Net income (loss) before tax		<b>50,305</b>		(13,885)

Income tax expense		(5,163)		—
Deferred income tax recovery		45,593		—
Net income (loss)		90,735		(13,885)
Basic earnings (loss) per share		0.17		(0.03)
Diluted earnings (loss) per share		0.14		(0.03)
	<b>Three months ended</b>			
		<b>June 30, 2018</b>		June 30, 2017
Cash provided before non-cash working capital items		77,654		10,991
Net cash provided by operating activities	\$	69,530	\$	7,733
Net cash used in financing activities		(22,250)		(2,083)
Net cash used in investing activities		(5,082)		(3,861)
	<b>As at</b>			
		<b>June 30, 2018</b>		December 31, 2017
Cash	\$	84,194	\$	54,725
Restricted cash		201,230		4,187
Working capital <sup>1</sup>		70,743		(33,078)
1.	<i>Defined as current assets less current liabilities per the consolidated statements of financial position</i>			

### Operational

	<b>Q2 2018</b>	Q2 2017	2017 Total
V <sub>2</sub> O <sub>5</sub> flake produced (tonnes)	<b>2,458</b>	2,183	9,297
Crushing recovery (%)	<b>97.2</b>	95.3	95.7
Milling recovery (%)	<b>95.8</b>	97.6	98.0

	Kiln recovery (%)	<b>89.7</b>	85.4	86.1
	Leaching recovery (%)	<b>97.6</b>	96.4	97.0
	Chemical plant recovery (%)	<b>97.2</b>	97.2	96.7
	Global recovery (%) <sup>1</sup>	<b>79.2</b>	74.4	75.7
1.	<i>Global recovery is the product of crushing recovery, milling recovery, kiln recovery, leaching recovery and chemical plant recovery.</i>			
			<b>Q2 2018</b>	Q2 2017
	V <sub>2</sub> O <sub>5</sub> flake produced (equivalent pounds) <sup>1</sup>		<b>5,418,956</b>	5,094,877
	Cash operating costs <sup>2, 3</sup> per pound	<b>CDN\$</b>	<b>\$4.97</b>	\$4.19
		<b>US\$<sup>4</sup></b>	<b>\$3.85</b>	\$3.25
		<b>R\$<sup>4</sup></b>	<b>\$13.87</b>	\$11.40
1.	<i>Conversion of tonnes to pounds, 1 tonne = 2,204.62 pounds or lbs.</i>			

2.	<i>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&amp;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&amp;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&amp;A.</i>
3.	<i>Excludes corporate SG&amp;A or CAPEX (Capital Expenditures).</i>
4.	<i>Refer to Management’s Discussion and Analysis for the three-month period ended March 31, 2018 for exchange rates used.</i>

## **Second Quarter 2018 Financial Results**

The Company reported net income of \$90.7 million or \$0.17 earnings per share in the second quarter of 2018, continuing the strength shown in Q1 2018. The Company recorded net income before tax of \$50.3 million in the second quarter of 2018 and net income of \$90.7 million after the recognition of a deferred income tax recovery of \$45.6 million.

The Company also reported record revenues for the quarter of \$103.3 million, compared to \$35.8 million in the second

quarter of 2017 and \$91.1 million in the first quarter of 2018. The significant increase in revenues over the second quarter of 2017 is attributable to an increase in  $V_2O_5$  prices. The average price per pound of  $V_2O_5$  was approximately US\$15.44 for the second quarter of 2018, compared to approximately \$5.76 for the second quarter of 2017.

Cash provided before non-cash working capital items was \$77.7 million in the second quarter of 2018, representing a 25.5% increase over the first quarter of 2018 and compared to \$11.0 million in the second quarter of 2017.

Cash operating costs decreased from the first quarter of 2018 by 4% to \$4.97 (US\$3.85) per pound of  $V_2O_5$  in the second quarter of 2018. The cost per pound for the second quarter of 2018 was lower when compared with the first quarter of 2018 primarily due to the higher production level and actions taken to control the issues encountered with the cooler refractory. The consequent production stability resulted in lower specific consumption of sodium carbonate and fuel for kiln roasting during the quarter and the Company executed a new agreement for the supply of ammonium sulphate in April, reversing the increase seen in the first quarter of 2018 due to an underlying rise in the price of ammonia gas and sulphur.

The overall benefit of the increased revenues was tempered by increases in corresponding royalty expenses and certain largely non-cash foreign exchange adjustments required as a result of the weakening of the Brazilian Real against the USD (and given that certain of the Company's debts in Brazil are denominated in USD).

### **Secured Note Offering and Subsequent Repayment of Brazilian Debt**

The Company announced in May that it had completed the private

placement offering of US\$150,000 aggregate principal amount of senior secured notes due in 2021 with a coupon of 9.25%. In addition, the Company announced that on August 2, 2018, it had repaid in full its indebtedness with the Brazilian National Economic and Social Development Bank and its remaining credit facilities held with a syndicate of commercial lenders (see press release dated August 2, 2018). The repayment represents a fundamental step in the Company's development and will allow Largo to realize the benefits of its recently completed note offering through the improvement in capital structure, reduction in interest costs and the simplification of reporting obligations.

### **Conference Call**

Largo Resources management will host a conference call on Thursday, August 16, 2018, at 10 a.m. EDT, to discuss both operational and financial results for the second quarter of 2018.

#### *Conference Call Details:*

<b>Date:</b>	Thursday, August 16, 2018
<b>Time:</b>	10:00 a.m. EDT
<b>Dial-in Number:</b>	Local / International: +1 (416) 764-8688
	North American Toll Free: (888) 390-0546
	Brazil Toll Free: 08007621359
<b>Conference ID:</b>	28824991
<b>Webcast URL:</b>	<a href="https://event.on24.com/wcc/r/1812791/D0163D1A668B073174EFF61881F1CA7B">https://event.on24.com/wcc/r/1812791/D0163D1A668B073174EFF61881F1CA7B</a>
<b>Replay Number:</b>	Local / International: + 1 (416) 764-8677
	North American Toll Free: (888) 390-0541
	Replay Passcode: 824991#
<b>Website:</b>	To view press releases or any additional financial information, please visit our Investor Relations section of the Largo Resources website at: <a href="http://www.largoresources.com/investors">www.largoresources.com/investors</a>



A playback recording and webcast slides will be available on the Company's website for a period of 60-days following the conference call and webcast.

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 six months ended June 30, 2018, which are available on our website at [www.largoresources.com](http://www.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. 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](http://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.

***Neither the Toronto Stock Exchange (nor its regulatory service provider) accepts responsibility for the adequacy or accuracy of this release.***

<sup>1</sup> Net debt is a non-GAAP measure and is defined as cash and restricted cash, less debt (both long term and short term) and accrued interest.