

Farallon Announces Second Quarter Financial And Operating Results - Record Production Performance Continues

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26m lb of Zinc Produced at a Total Cash Cost(1) of \$0.05/lb payable zinc

VANCOUVER, Aug. 11 /CNW/ - [Farallon Mining Ltd.](#) ("Farallon" or the "Company") (TSX:FAN) announces its financial and operating results for the three months ended June 30, 2010. Currency amounts are stated in United States Dollars, unless otherwise noted. This news release should be read in conjunction with the Company's financial statements and MD&A which are available on SEDAR and the Company's website.

The Company's G-9 mine produced a record 26.3 million pounds of zinc and 2.3 million pounds of copper in concentrates at a total cash cost(1) of \$0.05/lb of payable zinc, generating operating earnings of \$11.3 million and \$6.6 million in cash from operations before changes in non-cash working capital.

"The G-9 mine has continued the trend of increasing production on a quarterly basis, and is now achieving its operating cost targets," said President and CEO Dick Whittington. "Production increased 10% from 1,650 tpd in the first quarter to 1,816 tpd in the second quarter, or 21% above the design throughput of 1,500 tpd. At the same time, unit production costs declined 17% from \$77/t milled to \$64/t milled. As a result, the G-9 mine is now one of the lowest cost zinc mines in the world on a total cash cost(1) basis at \$0.05/lb of paid zinc. Operationally, our focus is improving the mine output while, corporately, we continue to seek business combinations that will allow us to deliver on our objective of becoming a mid-tier, multi-mine company."

A summary of the results for the three months ended June 30, 2010 ("Q2") compared to the three months ended March 31, 2010 ("Q1") are as follows:

Financial

- Operating earnings of \$11.3 million, up from \$9.1 million in Q1.
- Net earnings in Q2 were impacted by a non-cash charge of \$2.1 million for stock-based compensation related to the Company's annual stock option grant, an unrealized foreign exchange loss of \$2.0 million and a \$1.1 million non-cash loss on the deemed extinguishment of long-term debt arising from long-term debt restructuring. As a result, net earnings were \$2.0 million, down from \$6.2 million in Q1.
- Cash flow from operations before changes in non-cash working capital of \$6.6 million, up from \$6.0 million in Q1.
- Gross revenues of \$39.1 million, up from \$37.6 million in Q1.
- Non-GAAP Adjusted EBITDA(1) of \$11.4 million, up from \$9.0 million in Q1.
- Working capital of \$24.4 million at June 30, 2010, up from \$18.2 million at March 31, 2010.

During Q2, the Company restructured its long-term debt facility with Credit Suisse. As part of the restructuring, the facility was expanded and drawn to \$36 million from \$30 million and repayment terms were extended to 48 months from 36 months. The fixed interest rate was lowered from 6.97% to 6.62%. Principal repayments began in July 2010 and will continue monthly until June 2014, unless repaid earlier. As a result, the Company's annual interest and debt expenses have been reduced.

Costs

- Unit operating costs of \$64/tonne milled, down from \$77/tonne milled in Q1.
- Total cash cost per payable pound of zinc(1) of \$0.05/lb down from \$0.36/lb in Q1.

Operations

- Processed 165,244 tonnes of ore (average throughput 1,816 tonnes per day "tpd" or 21% above the design throughput of 1,500 tpd) grading 8.7% zinc, 0.9% copper, 222 g/t silver and 2.7 g/t gold.
- Produced 25,342 tonnes of zinc concentrate and 9,011 tonnes of copper concentrate, containing an estimated 26.3 million pounds of zinc, 2.3 million pounds of copper, 595,309 ounces of silver and 6,722 ounces of gold from the G-9 mine.
- Recovered 82% zinc, 68% copper, 53% silver and 41% gold from ore into zinc and copper concentrates.
- Sold approximately 25,388 tonnes of zinc concentrate grading 48% zinc and 10,433 tonnes of copper concentrate grading 11.4% copper. Payable metals contained in concentrate were 22.3 million pounds of zinc, 2.4 million pounds of copper, 478,825 ounces of silver and 4,243 ounces of gold.

Metal Prices

- Realized sales prices for zinc and copper were of \$0.89/lb and \$3.11/lb, respectively, down from Q1 realized prices of \$0.99/lb zinc and \$3.23/lb copper.

The net effect of the 10% decline in zinc price and the 4% decline in copper price was estimated to be \$2.5 million in cash flow from operations before changes in non-cash working capital.

Expansion Project

In November 2009, Company's Board of Directors approved a project to expand the existing operations from 1,500 tpd to 2,000 tpd. Axxent Engineering was engaged to provide engineering, procurement and construction management services for the mill portion of the project and key pieces of equipment were procured, including additional regrind mills and rougher flotation cells.

The mill portion of the expansion was suspended during the period as it is apparent that the mill is capable of processing greater than 2,000 tpd without any additional equipment installation. The capital budget allocated to the mill has been re-allocated to the mining operations to improve ore output from the mine. A review of the mill capacity has concluded that the mill is likely capable of producing at a steady-state operation of 2,300 tpd without any significant additional capital expenditures.

Outlook

At year-end 2009, the Company announced its objective to be operating at 1,500 tpd for the first six months of 2010 and then increase to 2,000 tpd by July 1, 2010. During the first half of 2010, throughput actually averaged 1,750 tpd and, as such, the Company is well ahead of its objectives as of July 1, 2010. However, management now believes that it is appropriate to express caution regarding whether the mining operations will be able to deliver the planned quantity of ore on a regular basis until underground development and capital projects are completed in the latter half of 2010. Accordingly, the Company is reducing throughput rates to 1,500 tpd during the third quarter of 2010 at which time ramp-up to 2,000 tpd will be further evaluated.

Management Changes

The Company is pleased to announce the hiring of Mr. Kerry Barker as the new General Manager of G-9. Kerry is a Geological and Mining Engineer with over 15 years of worldwide industry experience. Kerry obtained his B.Sc. in Geological Engineering, his B.Sc in Mining Engineering and his Masters of Science in Mining Engineering from the University of Utah in Salt Lake City. He was most recently Mining Manager of the Palmarejo Operations for [Coeur d'Alene Mines](#) in Mexico. He was also previously Operations Manager at [Freeport-McMoRan Copper & Gold](#).

Kevin Weston, Chief Operating Officer, has resigned and, effective August 17, will be leaving the organization.

"Kevin has made a significant contribution to the Company over the last year, particularly in the areas of safety and mill performance. We thank him for his contributions and wish him the best in his future endeavors. Farallon is a different Company today from when Kevin joined us a year ago," said Dick

Whittington. "Kerry is a tremendous addition and offers a wealth of knowledge and experience to the Farallon senior management team, particularly in the area of underground mining. The Company looks forward to supporting Kerry as he brings steady state operations to G-9."

Gold Project Development

During the period, the Company announced the initiation of a formal engineering study on the original deposits at Campo Morado - El Largo, Reforma, Naranjo and El Rey. It is the Company's intention to present the results of this work as a Pre-Feasibility Study ("PFS") by July 1, 2011. Since the announcement of the scope of work on July 6, the Company has engaged Melis Engineering to perform metallurgical test work, Stephen Godden as a primary mining consultant and AMC Consultants to deliver the PFS, including signing off on Mineral Reserves. Knight Piesold Consulting of Vancouver, BC will address the environmental aspects of the study including tailings, waste rock and water management. The project manager for the PFS will be Dr. David Stone, P.Eng., of Hunter Dickinson Services Inc.

Dick Whittington said "The completion of a PFS on the historical deposits at Campo Morado is the first step in unlocking shareholder value from the nearly 1 million ounce of contained gold and 60 million ounce of contained silver in these resources(2) with the objective of having a second mine in operation at Campo Morado by July 1, 2013."

Exploration

The Company issued an update on exploration activities in a separate news release dated August 10, 2010.

Conference Call

Farallon will hold a conference call tomorrow, Thursday August 12, at 8:00 am Pacific time (11:00 am Eastern) to discuss these results. The call can be accessed at (647) 427-7450 or toll-free at (888) 231-8191. A live webcast will also be available at www.farallonmining.com.

Tables of Production and Summary Financial Statements

Production	Q2 2010	Q1 2010	YTD 2010
Metals (contained in concentrate)			
Zinc (000's Pounds)	26,272	24,950	51,222
Copper (000's pounds)	2,261	2,139	4,400
Silver (ounces)	595,309	420,911	1,016,220
Gold (ounces)	6,722	4,322	11,044
Ore Mined (tonnes)	155,043	154,580	309,623
Ore Processed (tonnes)	165,244	152,178	317,422
tonnes per day	1,816	1,691	1,754
Zinc grade (%)	8.7	9.1	8.9
Copper grade (%)	0.9	1.1	1.0
Silver grade (%)	222	174	199
Gold grade (%)	2.7	2.5	2.6
Concentrate			
Zinc (DMT)	25,342	23,365	48,707
Zinc (%)	47.0	48.4	47.7
Silver (g/t)	312	290	302
Gold (g/t)	2.7	2.3	2.5
Copper (DMT)	9,011	6,952	15,963
Copper (%)	11.4	14.0	12.5
Silver (g/t)	1,175	909	1,059
Gold (g/t)	15.5	11.6	13.8
Recovery	Q2 2010	Q1 2010	YTD 2010

Zinc (%)	82	82	82
Copper (%)	68	59	63
Silver (%)	53	49	51
Gold (%)	41	39	40

Costs	Q2 2010	Q1 2010	YTD 2010
Site Costs (US\$/t milled)	\$64.34	\$76.74	\$70.29
Total Cash Costs (US\$/payable lb zinc)(1)	\$0.05	\$0.36	\$0.21

Summary of Consolidated Balance Sheets (USD '000s)

	30-Jun-10	31-Mar-10	31-Dec-09
Assets			
Cash and equivalents	28,540	20,900	21,574
Other Current Assets	16,580	19,680	17,744
Current Assets	45,120	40,580	39,318
Property, Plant and Equipment	124,596	125,832	127,530
TOTAL ASSETS	169,716	166,412	166,848
Liabilities and Shareholders' Equity			
Accounts payable and accrued liabilities	11,622	14,564	15,428
Other Current Liabilities	9,059	7,778	9,007
Current liabilities	20,681	22,342	24,435
Long term debt (Credit Suisse)	27,000	21,900	24,319
Silver Wheaton deferred revenue	67,682	72,037	74,499
Site closure and reclamation obligation	604	583	561
Long term liabilities	115,967	116,862	123,814
Shareholders' equity	53,749	49,550	43,034
TOTAL LIABILITIES & EQUITY	169,716	166,412	166,848

Working Capital	24,439	18,238	14,883
Summary of Consolidated Statements of Operations and Comprehensive Loss (USD '000s)			

	Q2 2010	Q1 2010	Q4 2009
Gross Sales Revenue	39,053	37,595	32,343
Cost of Sales	(24,116)	(25,457)	(25,142)
Depreciation, depletion, amortization and accretion	(3,607)	(3,018)	(3,244)
Earnings (loss) from operations	11,330	9,120	3,957
Exploration	1,063	1,443	599
Office Costs	2,467	1,675	2,058
Other Expenses (income)	5,817	(241)	1,182
Expenses (income)	9,347	2,877	3,839
Current income tax (recovery) expense	17	41	74
Net Earnings (loss)	1,966	6,202	44
Net Earnings (loss)	1,966	6,202	44
Depreciation, depletion and amortization	3,586	2,996	3,262
Accretion of reclamation obligation	21	22	(18)
Interest Expense	610	605	569
Loss on extinguishment of long-term debt	1,133		
Interest Income	(11)	(14)	(8)
Current income tax (recovery) expense	17	41	74
Standard EBITDA	7,322	9,852	3,923
Unrealized foreign exchange (gain) loss	2,021	(1,100)	258
Stock based compensation	2,064	268	363
Non-GAAP Adjusted EBITDA	11,407	9,020	4,544

Summary of Consolidated Statement of Cash Flows (USD 000's)

	Q2 2010	Q1 2010	Q4 2009
Earnings (loss) for the period	1,966	6,202	44
Amortization of Deferred Revenue	(4,355)	(2,462)	(2,304)
Items not involving cash	8,988	2,267	4,511
Cash Flow from Operations before changes in non-cash working capital	6,599	6,007	2,251
Changes in non-cash working capital	852	(6,529)	2,156
Cash Flow from (used in) Operations	7,451	(522)	4,407
Investing Activity - Additions to Property Plant Equipment	(2,350)	(1,298)	(1,919)
Financing Activity	4,560	46	9,894
Foreign Exchange Gain (loss)	(2,021)	1,100	(1,854)
Increase (Decrease) in cash and equivalents	7,640	(674)	10,528
Cash and equivalents, beginning of period	20,900	21,574	11,046
Cash and equivalents, end of period	28,540	20,900	21,574

[Farallon](#) operates the G-9 zinc mine on its Campo Morado Property in Guerrero State, Mexico. G-9 is a 1,500 tonnes per day, underground zinc mine with important by-product credits of copper, gold, and silver. G-9 has total cash costs(1) amongst the lowest of zinc producers worldwide. The Company is targeting to produce at an annualized production rate of 120 million pounds of zinc and 15 million pounds of copper per year.

ON BEHALF OF THE BOARD OF DIRECTORS

J.R.H. (Dick) Whittington
President & CEO

Notes:

(1) Total Cash Costs and Adjusted EBITDA are Non-GAAP Financial Measures. Please read page 8 of the Company's MD&A for further information.

(2) Indicated resources of 11.209 million tonnes grading 4.66% Zn, 0.67% Cu, 1.44 % Pb, 2.67 g/t Au and 165 g/t Ag at a \$90 GMV/t cutoff using metal prices of US\$0.51/lb for Zn; \$1.00/lb for Cu; US\$0.25/lb for Pb; US\$375/oz for Au and US\$5.50/oz for Ag. Further information is included in the Company's June 29, 2010 news release.

No regulatory authority has approved or disapproved the information contained in this news release

Forward Looking Information

This news release includes certain statements that may be deemed "forward-looking statements." All statements in this release, other than statements of historical facts, that address future production, reserve or resource potential, continuity of mineralization, exploration drilling, operational activities, production rates, costs to completion and events or developments that the Company expects, or is targeting, are forward-looking statements. Although the Company believes that the expectations expressed in such forward looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward looking statements and may require achievement of a number of operational, technical, economic, financial and legal

objectives. The likelihood of continued future mining at Campo Morado is subject to a large number of risks, including obtaining lower than expected grades and quantities of mineralization and resources, lower than expected mill recovery rates and mining rates, changes in and the effect of government policies with respect to mineral exploration and exploitation, the possibility of local disputes including blockades of the company's property and/or labor disputes, the possibility of adverse developments in the financial markets generally, fluctuations in the prices of zinc, gold, silver, copper and lead, obtaining additional mining and construction permits, preparation of all necessary engineering for ongoing underground and processing facilities as well as receipt of additional financing to fund mine construction, development and operation, if needed. Such funding may not be available to the Company on acceptable terms or on any terms at all. For more information on the Company and the risk factors inherent in its business, investors should review the Company's Annual Information Form at www.sedar.com.

Information Concerning Estimates of Indicated Resources

This news release uses the term "indicated resources". Farallon advises investors that although these terms are recognized and required by Canadian regulations (under National Instrument 43-101 Standards of Disclosure for Mineral Projects), the U.S. Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of the mineral deposits in this category will ever be converted into reserves.

For further information:

on Farallon, please visit the Company's website at www.farallonmining.com or contact Neil MacRae, Investor Relations Manager, at (604) 638-2160 or within North America at 1-877-688-2050

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