

North American Palladium Announces Strong Third Quarter Results

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TORONTO, Oct. 30, 2018 - [North American Palladium Ltd.](#) ("NAP" or the "Company") (TSX:PDL)(OTC PINK:PALDF) today announced its third quarter 2018 financial and operational results for the three and nine months ended September 30, 2018.

Q3 2018 Highlights

- Adjusted EBITDA¹ for the third quarter of 2018 was \$38.0 million compared to \$22.0 million for the same period in 2017. Adjusted EBITDA¹ for the nine months ended September 30, 2018 was \$103.6 million compared to \$49.3 million for the same period in 2017.
- Net income for the quarter was \$22.9 million compared to a net income of \$12.2 million for the same period in 2017. Net income for the nine months ended September 30, 2018 was \$41.7 million compared to a net income of \$21.8 million for the same period in 2017.
- Underground production was 565,277 tonnes (6,144 tonnes per day) at an average grade of 3.2 g/t this quarter compared to 500,560 tonnes (5,441 tonnes per day) at an average palladium grade of 3.8 g/t in the third quarter 2017.
- The Company produced 56,852 ounces of payable palladium at an All-Inclusive Sustaining Cost¹ ("AISC") of US\$733 per ounce compared to 53,118 ounces of palladium at an AISC of US\$688 in the third quarter of 2017.
- In October, the Company published a new feasibility study (the "Feasibility Study") prepared in accordance with NI 43-101 that expanded underground operations and added resources and mine life at the Lac des Iles Mine ("LDI").

"We are pleased to report another strong quarter at LDI, with palladium production increasing by 7% over the same period last year based on higher underground and surface ore production. These excellent production results combined with strong palladium prices resulted in an increase in revenue of 48% and adjusted EBITDA of over \$100 million year to date. On September 17th, the Company announced the results of a new Feasibility Study for LDI, which outlined a new plan to extend the mine life, generate increased cash flow by optimizing resources formerly included in the Roby open pit pushback plan and by added reserves that were previously left unmined in the open pit design. This new approach will take full advantage of LDI's large, lower-grade near-surface resources and allow for the mining of more resources at an improved grade than contemplated in the prior 2017 Feasibility Study," stated Jim Gallagher, President and CEO of North American Palladium.

"The Company is in a strong position to capitalize on the robust palladium market while continuing to add resources through mine site and greenfields exploration. Guided by the results of ongoing geophysical surveys, we are increasing investment in surface exploration is supported by the encouraging drilling results reported earlier this year from the Creek Zone and Baker area targets. Adding near-surface resources capable of displacing lower-grade feed from our surface stockpile remains a strategic priority. Palladium prices continue to show strong resilience during this period of financial market volatility, supported by trade and sanction concerns. As we have mentioned before, the primary deficit in the palladium market that has existed for the last few years is predicted to continue well into the future," continued Mr. Gallagher.

Operating Highlights	Three months ended September 30,	
	2018	2017
Ore mined (tonnes) ²		
Underground	565,277	500,560
Surface (stockpile and open pit)	498,169	279,000
Total	1,063,446	779,560
Mined ore grade (Pd g/t)		
Underground	3.2	3.8

Surface	1.1	1.0
Milling		
Tonnes ore milled (dry metric tonnes)	1,028,361	704,2
Palladium recoveries (%)	79.5	82.3
Palladium concentrate grade (g/t)	214	276
Tonnes of concentrate produced (dry metric tonnes)	8,729	6,101
Production cost per tonne ore milled ¹	\$ 46	\$ 56
Payable production		
Palladium – ounces	56,852	53,11
Other results ¹		
Underground cost per tonne ore mined	\$ 37	\$ 40
AISC per ounce of palladium produced, net of by-product revenues (US\$) ¹	\$ 733	\$ 688
Cash cost per ounce of palladium sold, net of by-product revenues (US\$) ¹	\$ 555	\$ 516

Financial Highlights (expressed in millions of Canadian dollars)	Three months ended September 30,	
	2018	2017
Revenue	\$ 93.6	\$ 70.7
Smelting, Refining, and Freight	4.3	3.2
Royalty Expense	4.0	3.4
Net Revenue	85.3	64.1
Operating expenses		
Production Cost		
Mining	28.5	24.2
Milling	12.2	9.5
General and Administration	6.6	5.8
Inventory and Other Cost	(2.3)	0.5
Total Production Costs	45.0	40.0
Depreciation and Amortization	10.9	9.7
Loss on disposal of equipment	0.5	0.1
Total Mining Operating Expenses	56.4	49.8
Income from mining operations	\$ 28.9	\$ 14.3
Net Income	\$ 22.9	\$ 12.2
Net Income per share	\$ 0.39	\$ 0.21
EBITDA ¹	\$ 38.6	\$ 24.9
Capital Investment, Excluding Non-Cash Leases \$	14.3	\$ 15.3

Revenue increased 32% this quarter to \$93.6 million compared to \$70.7 million in the third quarter of 2017. Revenue for the nine months ended September 30, 2018 was \$274.3 million compared to \$185.3 million for the same period in 2017, an increase of 48%. An increase in palladium prices and payable palladium sold contributed to the increase in revenue, which led to higher adjusted EBITDA¹ and net income. Palladium prices averaged US\$952/oz in the third quarter, compared with US\$901/oz during the same period in 2017.

Total production cost this quarter, before inventory and other cost adjustments, was \$47.3 million (\$46 per tonne milled) compared to \$39.5 million (\$56 per tonne milled) in the third quarter of 2017. Cash provided by operations for the quarter, prior to changes in non-cash working capital, was \$38.3 million compared to \$21.3 million for the same period in 2017. The increase this quarter was primarily due to higher revenue resulting from increased palladium prices.

The AISC¹ per ounce of palladium produced was US\$733 per ounce for the quarter, compared to US\$688 per ounce in the third quarter of 2017. The US\$45 increase in the AISC is attributed to an increase in the total tonnes mined, a reduction in the palladium head grade, and a reduction in by-product metal prices in the quarter compared to the same period in 2017.

The Company made investments of \$20.0 million in capital during the quarter, including the addition of finance leases of \$5.8 million, compared to \$18.8 million, including the addition of finance leases of \$3.5 million, for the same period of 2017. Major expenditures during the quarter included the tailings management facility, tailings thickener, underground development and mobile equipment, demonstrating the Company's continued commitment to investing in long-term assets for the LDI mine.

Financial Liquidity

As at September 30, 2018, the Company had cash and cash equivalents of \$20.3 million compared to \$12.9 million as at September 30, 2017. In the quarter, the Company reduced its total debt to \$74.3 million compared to \$105.7 million as at September 30, 2017. As at October 15, 2018 the Company had availability of US\$32.1 million under the Company's credit facility.

Exploration

Exploration expenditures were \$1.9 million for the quarter compared to \$1.3 million for the same period in 2017 reflecting an increase in diamond drilling at LDI. This quarter, a total of 5,239 metres of drilling was completed in 12 underground drill holes. Exploration highlights from the quarter include:

- Drill hole 18-807, targeting a lower extension of the recently recognized B3 Zone, intersected 36.6 metres averaging 4.0 g/t Pd;
- Drill hole 18-809 intersected 15 metres averaging 2.9 g/t Pd in the footwall to the Offset Zone deposit; and
- Drill hole 18-912 intersected 10.1 metres averaging 3.5 g/t Pd and 11 metres averaging 3.1 g/t Pd from the modelled, lower extension of the B2 Zone.

The true thickness of these mineralized intersections is estimated to be >75% of the reported interval length with the exception of drill hole 18-809, which requires more drilling to determine the geometry, continuity and size of this newly discovered footwall mineralization.

In September, the Company launched a new geophysical program. Surface drilling at LDI will be guided by the results of the new program and will include follow-up on the positive results obtained from the Creek Zone announced earlier this year. A comprehensive update on exploration results at LDI will be provided before the end of the year.

Outlook

Underground production and total tonnes milled are above plan for the year to date. Underground ore grade has been slightly behind plan due to higher volumes of low-grade production in the upper part of the mine and slightly lower grade in the sublevel shrinkage mining ("SLS") zone. The SLS ore flow and grade modelling used for the budget last year yielded slightly higher grades than are currently being realized. The current, adjusted model, which was used for the feasibility study, tracks extremely well with actual mined grade.

As a result of lower than budgeted grade, total ounces produced in 2018 will be near the lower end of the 230,000 to 240,000 ounces of payable palladium guidance. AISC, which is impacted by the lower grade and also by lower by-product metal prices of gold, platinum and copper will be nearer US\$700 per ounce, above the US\$640-US\$660 per ounce guidance.

Feasibility Study

Based on the successful transition to SLS in the lower part of the mine, the Company initiated an internal evaluation of similar underground mass mining approaches for all of the near-surface resources as an alternative to a pushback of the existing Roby open pit proposed in the prior 2017 feasibility study. The positive results of this evaluation led to a Feasibility Study with improved margins, cash flows, mine life and net present value relative to the previous study. Additionally, the more selective underground mining method

provides the Company with increased flexibility to deal with any future palladium price volatility.

The Feasibility Study, filed on SEDAR on October 2, 2018, outlines a mine life extended by one year to 2027, with average underground production increasing from 6,000 to more than 12,000 tonnes per day and includes a total of 40.9 million tonnes of underground and surface reserves at an average palladium grade of 2.31 g/t, yielding 2.32 million ounces of payable palladium production. The previously planned pushback of the dormant Roby open pit is now replaced by an expansion of the underground mine using bulk mining methods to extract maximum value from several near-surface resources outside the original mine plan.

Update on Strategic Review Process

As previously announced on February 21, 2018, the board of directors (the "Board") continues to explore opportunities under a strategic review process (the "Process") to maximize shareholder value, including, without limitation, a potential sale of the Company, a secondary sale by Brookfield Capital Partners Ltd. or other strategic transaction. The Board engaged financial and legal advisors to assist in the Process.

To date, the Company has executed confidentiality agreements with several parties who expressed an interest in receiving information about the Company and its business in connection with a possible transaction. There can be no certainty, however, that any potential transaction will emerge from this Process. The Process may result in a variety of outcomes or no outcome at all, and there can be no assurance that the Company will pursue or execute any specific action or transaction. The Company continues to operate in the normal course during the on-going Process.

Collective Bargaining Update

The 3-year collective agreement with the United Steelworkers Local 9422 ("USW"), which represents the production and maintenance workers at the Lac des Iles minesite, expired on May 31, 2018. Since that time, the Company and USW have continued negotiating towards a new collective agreement, while the mine and mill have been operating in the normal course. This process has led to two tentative agreements, supported by the USW's bargaining committee, that were ultimately rejected by the workforce.

The Company and USW met with a provincial Conciliation Officer on October 20 and 21, 2018. No agreement was reached in these meetings and the Conciliation Officer is expected to file a no board report, putting the USW in a legal strike position as of November 15, 2018. The Company and USW have agreed to a mediation process commencing on November 11, 2018. The Company remains open and committed to continuing negotiations to achieve a mutually acceptable agreement.

Shareholder Information

The complete condensed consolidated interim financial statements of the Company for the three and nine months ended September 30, 2018 and the related management's discussion and analysis can be found on NAP's website at www.nap.com, and on SEDAR at www.sedar.com.

The Company invites you to join its webcast and conference call on Wednesday, October 31, 2018 at 8:30 a.m. ET. A recording of the conference call will be available within 24 hours following the call at the Company's website until November 30, 2018.

Conference Call and Webcast Details:

Date: Wednesday, October 31, 2018
Time: 8:30 a.m. ET
Dial In: North America: 1-800-319-4610 International: 1-604-638-5340
Webcast: <http://services.choruscall.ca/links/nap20181031.html>
Replay: North America: 1-855-669-9658

Replay Passcode: 2638

Notes:

¹Non-IFRS measure. Such non-IFRS measures do not have a standardized meaning under the financial reporting framework used to prepare the Company's financial statements and may not be comparable to similar financial measures presented by other issuers. For information regarding how the non-IFRS measure provides useful information and the additional purposes for which management uses the non-IFRS measure, please refer to Non-IFRS Measures in the MD&A.

²The determination of mined tonnes requires reliance upon various estimates, including estimated load factors assigned to trucks and the shaft skips, density factors assigned to the size of ore being mined, the impact of seasonal conditions, and the variability of the moisture content at the time of extraction. All figures are in Canadian dollars except where noted.

The analyses reported in this news release were performed by ALS Global in Vancouver, British Columbia. The Company's rigorous internal quality control and quality assurance protocols are described in detail in the current Technical Report for its Lac des Iles mine (September 2018 – available on SEDAR).

Qualified Person

The technical content of this news release was reviewed and approved by the Company's Vice-President, Exploration, Dr. Dave Peck. Dr. Peck is a Qualified Person under the meaning of National Instrument 43-101 and a registered Professional Geoscientist with the Association of Professional Geoscientists of Ontario, the Association of Professional Engineers and Geoscientists of British Columbia, and the Association of Professional Engineers and Geoscientists of Manitoba.

Cautionary Statement on Forward-Looking Information

Certain information contained in this news release constitutes 'forward-looking statements' and 'forward-looking information' within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. The words 'target', 'plan', 'should', 'could', 'estimate', 'guidance', and similar expressions identify forward-looking statements. Forward-looking statements in this news release include, without limitation: information pertaining to the Process; information pertaining to the Company's strategy, strategic process, plans or future financial or operating performance, such as statements with respect to, long term fundamentals for the business, operating performance expectations, project timelines, tailings management plan, mining method change, production forecasts, operating and capital cost estimates, expected mining and milling rates, cash balances, projected grades, mill recoveries, metal price and foreign exchange rates and other statements that express management's expectations or estimates of future performance. Forward-looking statements involve known and unknown risk factors that may cause the actual results to be materially different from those expressed or implied by the forward-looking statements. Such risks include, but are not limited to: the possibility that metal prices and foreign exchange rates may fluctuate, the risk that the Lac des Iles mine may not perform as planned, that the Company may not be able to meet production forecasts, the possibility that the Company may not be able to generate sufficient cash to service its indebtedness and may be forced to take other actions, inherent risks associated with development, exploration, mining and processing including environmental risks and risks to tailings capacity, employment disruptions, including in connection with collective agreements between the Company and unions and the risks associated with obtaining necessary licenses and permits. For more details on these and other risk factors see the Company's most recent management's discussion and analysis and the Company's annual information form on file with Canadian securities regulatory authorities on SEDAR at www.sedar.com under the heading 'Risk Factors'.

Forward-looking statements are necessarily based upon a number of factors and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The factors and assumptions contained in this news release, which may prove to be incorrect, include, but are not limited to: that the Company will be able to continue normal business operations at its Lac des Iles mine, that metal prices and exchange rates between the Canadian and United States dollar will be consistent with the Company's expectations, that there will be no significant disruptions affecting operations, and that prices for key mining and construction supplies, including labour, will remain consistent with the Company's expectations. The forward-looking statements

are not guarantees of future performance. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except as expressly required by law. Readers are cautioned not to put undue reliance on these forward-looking statements.

About North American Palladium

[North American Palladium Ltd.](#) (TSX: PDL) (OTC PINK: PALDF) is a Canadian company with over 25 years of production at Lac des Iles mine, located northwest of Thunder Bay, Ontario. North American Palladium is the only pure play palladium producer in the world. With over 600 employees, Lac des Iles mine features a unique world class ore body, modern infrastructure, including both an underground mine and an open pit mine, and a world class exploration portfolio.

SOURCE: [North American Palladium Ltd.](#)

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