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PRESENTATION

Operator

Good morning. My name is Joanna, and I will be your conference operator today. At this time, I would like to welcome everyone to the Largo Resources Fourth Quarter and Full Year 2019 Financial Results Conference call. (Operator Instructions)

Thank you. Mr. Guthrie, you may begin your conference.

Alex Guthrie - Largo Resources Ltd. - Manager of IR & Communications

Thank you, operator, and welcome, everyone, to the Largo Resources Q4 and Full Year 2019 Financial Results Conference call. Today's call is being recorded, and a replay will be available starting tomorrow in the Investor section of our website at largoresources.com. Our Q4 and full year 2019 results press release and annual MD&A and financial statements are also all available on the company's website and on SEDAR.

Some of the information you'll hear during today's discussion will consist of forward-looking statements, including, without limitation, those regarding future business outlook. In addition, non-IFRS financial measures, such as cash operating costs and cash operating costs, including royalties, total cash costs, revenue adjustment payable, revenues per pound sold, vanadium sales per console, revenue adjustment per pound and estimated revenue forecast cash and revenue adjustment payable at April 30, 2020, will also be discussed during this conference call.

Actual results could differ materially from those anticipated, and risk factors that could affect results are detailed in the company's AIF and other public filings, which are available on SEDAR and on the company's website. Further information regarding Largo's use of non-IFRS measures are available in our Q4 and full year 2019 results press release and in the company's MD&A for the year ended December 31, 2019, which are both available on SEDAR and on our website.

Financial results presented today will be in Canadian dollars, except as otherwise noted. Market and industry data contained and incorporated by reference during call concerning economic and industry trends is based on good faith estimates of our management or derived from information provided by industry sources. Largo believes that such market information and industry data is accurate, and the sources from which it has been obtained are reliable. However, we cannot guarantee the accuracy of such information, and we have not independently verified the assumptions upon which projections of future trends are based.



Speaking first today will be Largo's President and Chief Executive Officer, Paulo Misk. Speaking second will be Largo's CFO, Ernest Cleave, who will provide additional detail on Largo's Q4 and full year 2019 financial performance. Following Ernest, Logo's Director of sales and trading, Mr. Paul Vollant, will then provide an update on the vanadium market. Finally, we'll open the call for questions.

I will now turn the call over to Paulo for opening remarks.

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Thank you, Alex, and welcome, everyone, to our quarterly update conference call. Operationally, the company performed extremely well in 2019, achieving the lowest annual cash operating costs, excluding royalties to date of \$2.95 per pound of V2O5 in addition to setting a new year, a new annual V2O5 production record of 10,577 tonnes. The company exceeded its cash cost guidance for 2019 of \$3.30 to \$3.40 per pound of V2O5 by 12% and was able to achieve its 2019 production guidance of 10,500 tonnes of V2O5. I'm very proud of the entire Largo team who have consistently demonstrated the ability to achieve new production records, while maintaining cost discipline.

Although the company achieved its lowest annual operating unit cost since commencement of operation, profitability continued to be impacted as a consequence of lower vanadium prices, but largely to a total remeasurement of trade receivables payables during 2019 of \$137 million -- \$137.3 million as part of the company's offtake agreement. As a result, the company recorded a net loss of USD 36.2 million in 2019. To that point, the company's current offtake agreement expires in over -- just over a month, and I'm very pleasant to report that we are approximately 90% committed on our annual guided sales for 2020.

Our sales and marketing have been working diligently over the last 6 months to secure contracts with customers, and I'm very pleased with the progress our team has made. The company is continuing to monitor the rapidly development impacts of the COVID-19 pandemic, and we'll take all possible actions to help minimize the impact on the company and on its people.

Our stocks are a result of those affected by the virus. To date, there has been no impact in our productions or in our shipments of products out of Maracás. At this time, there has been no significant disruption to the company's supply chain for its production, and the level of critical consumables continue to be at normal levels. Additionally, not a single employee or contractor has tested positive for the virus, and given its relative isolation, we believe that the risk of our operating team in Maracás remains relatively low. Largo continues to monitor and will, if and when required, implement business continuity measures to mitigate and minimize any potential impact of the global pandemic on our operations, supply chain, and commercial and financial activity.

We also remain aware of the evolving measures being imposed by governments globally to reduce the spread and impact that this may have on our guidance. To date, the restrictions imposed by government in Brazil have not impacted our operations, but the potential future impact of these restrictions and other restriction globally in our operations, sales efforts and logistics is unknown, but could be significant. The company continues to follow best practice as provided by the World Health Organization, and will provide additional updates as they are needed.

In January, we released the company's guidance for 2020, which includes production, sales cost and CapEx guidance. On a business-as-usual basis, our annual V2O5 production guidance is in the range 11,750 to 11,250 tonnes, and the company's sales guidance is in the range of 9,500 tonnes to 10,000 tonnes of V2O5. The company's annual cash operating costs, excluding royalties guidance is in the range of \$3.05 and \$3.25 per pound of V2O5 sold. We have also introduced a new cost measure to measure the company's cost performance. Our total cost -- total cost -- cash cost guidance for 2020 is expected to be in the range of \$3.45 to \$3.65 per pound of V2O5 sold. I will let Ernest to provide a breakdown of costs, including the total cost -- cash cost measures later on the call.

Lastly, our sustaining capital expenditure guidance for 2020 is in the range of \$9 million to \$11 million. We have also guided CapEx for the Board, approved the Ferrovandium plant between the range of \$5 million \$7 million, which is not incurred into 2020.

In January, we also launched VPURE and VPURE+, newly developed brands for our industry preferred vanadium products. Largo's vanadium products have an exceptional industry reputation worldwide, and new and existing customers can easily identify our products offerings for purchase in the

market. Additional product and market information can be found at www.largoVPURE.com. We are very confident that we can continue to maximize significant long-term value through our sales and marketing business, which includes a focus on high purity vanadium sales with price premiums.

In our effort to increase sales in the premium yielding high purity markets, the company's Board of Directors has approved the construction of vanadium trioxide, or V₂O₃, processing plant at the Maracas Menshen Mine. In addition to high purity of V₂O₅, V₂O₃ is a product required for aerospace, chemical and the VRFB industries. The company expects the construction of V₂O₃ plants to begin in Q1 2021. Its subsequent ramp up and commissioning of the plant to conclude in Q3 of 2021, with total capital expenditure of approximately USD 10 million to USD 11 million.

Moving on sales. The company's total sales of V₂O₅ in 2019 were 10,160 tonnes, which includes 1,640 tonnes of high purity V₂O₅. Total high purity sales in 2019 increased 14% over the 1,440 tonnes sold in 2018. Total sales of V₂O₅ in Q4 of 2019 were 2,860 tonnes, which includes 480 tonnes of high purity V₂O₅.

I would like to highlight some additional operational achievements made in Q4 and throughout 2019.

Total V₂O₅ production of 3,011 tonnes during Q4 2019 was 16% higher than Q4 2018, and represents a new quarterly production record for the company. Production in December of 2019 also achieved a new monthly record with 1,162 tonnes of V₂O₅ producing, which contribute to the total V₂O₅ production in 2019 of 10,577 tonnes, which was 8% higher than 2018. Q4 2019 production was 2% higher than Q3 2019, primarily due to the successful completion of the expansion in the milling and evaporation areas, which enabled the full plant to achieve its expanded design capacity.

Shifting to Q1 2020. Production in January was 956 tonnes of V₂O₅, with 915 tonnes of V₂O₅ produced in February. Production in January was impacted by shutdowns of the kiln and cooler to fix the refractory and for maintenance to correct the instability of the kiln feed. February, production was also impacted by kiln shutdown to fix the hotspot in the refractory. In April, the company is planning to upgrade to the kiln burner and to make improvements in the cooler, which will require both the kiln and cooler to be shut down for approximately 15 days. The company utilized the downtime to perform field rate improvements on the kiln, which is expected to increase the nameplate capacity -- production capacity to 1,100 tonnes of V₂O₅ per month from 2,000 -- 1,000.

The company estimated production in April 2020 will be approximately 500 tonnes of V₂O₅. The company will also continue to evaluate the economic feasibility of extracting ilmenite concentrate and titanium dioxide from its non-magnetic tailings in Maracás. To date, the company has successfully proven its ability to produce ilmenite concentrate using an ilmenite floatation pilot plant. The company is expected to commence the next phase of testing in April 2020 to further upgrade its ilmenite concentrate to TiO₂ using an additional chemical plant. The company will continue to provide updates as these studies progress.

In summary, operations at Maracás Menshen Mine performed extremely well into 2019, with 4 consecutive quarters of production growth in addition to achieve the lowest annual unit operation -- operating costs since commencement of operations in 2014. I'm very pleased to report the company also achieved a new safety record in 2019, which 238 days, or 1.5 million man hours worked without a Lost Time Injury, surpassing its previous LTI record of 203 days, or 1.3 million man hours worked. Safety remains a top priority at Largo, and we will look forward to updating the market with all of our responsible mining activities with the company's '19 -- 2019 ESG report, which we expect in Q2 2020.

With that, let me turn the call over to Ernest who will provide details on our fourth quarter and the full year 2019 financial performance. Thank you.

Ernest M. Cleave - Largo Resources Ltd. - CFO

Thanks, Paulo, and thanks to everyone for joining the call today. As Paulo previously mentioned, the company recorded a net loss of \$36.2 million in 2019 compared to net income of \$316 million in 2018. This movement was primarily due to a decrease in revenues during the year and was partially offset by a decrease in operating costs of \$11.9 million, a decrease in finance costs of \$21.4 million and an increase in interest income of \$5.7 million.

In Q4 2019, the company recorded a net loss of \$5 million compared to a net income of \$108 million in Q4 2018. Following the \$137.3 million reduction in revenues as a result of the remeasurement of trade receivables or payables under the Glencore contract, the company recognized revenues of \$140 million in 2019 compared with revenues of \$521.4 million in 2018. Revenues per pound sold in 2019 was \$6.25, that's USD 4.70, compared to \$24.33, which is USD 18.68 per pound in 2018.

For Q4 2019, the company recognized revenues of \$34.1 million compared with revenues of \$177.5 million in Q4 2018. Revenues per pound sold in Q4 2019 were \$5.41. That is USD 4.09, compared with \$31.96, that's \$24.19 per pound in Q4 2018.

Vanadium sales from a contract with the customer was \$277.3 million in 2019 compared with \$455.4 million in 2018. Vanadium sales per pound sold in 2019 was \$12.38, that's USD 9.32, compared to \$21.25, again, USD 16.32 per pound in 2018. This decrease was primarily attributable to a decrease in the V2O5 price, with the average price per pound of V2O5 of approximately \$9.36 for 2018 (sic) [2019], compared with approximately USD 18.30 for 2018.

Vanadium sales from a contract with a customer was \$47.6 million in Q4 2019, compared with \$167.6 million in Q4 2018. Vanadium sales per pound sold in Q4 2019 was \$7.54. That is USD 5.70 compared to \$30.17, which is USD 22.84 per pound in Q4 2018. This decrease was also primarily attributable to a decrease in the V2O5 price, with the average price per pound of V2O5 of approximately USD 5.37 for Q4 2019, compared with approximately \$24.53 for 2018.

The company's trade payable balance at December 31, 2019 was \$87.8 million, and the revenue adjustment payable was \$95.7 million. That's equivalent to USD 73.6 million. Assuming V2O5 prices remain the same as of December 31, the company estimated revenue adjustment payable for V2O5 sold through December 31, 2019 is \$96.2 million. That's approximately USD 74 million.

As of March [23], the company estimated revenue adjustment payable for V2O5 sold through February 29, 2019 of approximately \$94.4 million, which is \$72.6 million. In addition, assuming an increase or decrease in the V2O5 price of \$1, after April 1, 2020, the company expects the revenue adjustment payable to impact future periods either positively or negatively by approximately USD 7.4 million, or [10.7 million] using the foreign exchange rate of 1.45.

The company has forecasted its expected cash balance and the estimated revenue adjustment payable as of April 30, 2020 under 3 different vanadium pricing scenarios. Each scenario assumes that the vanadium price applies from January 1 to April 30, 2020, and a constant foreign exchange rate and cash operating cost per tonne produce consistence with our guidance already released.

At a vanadium price of \$5, the company's forecasted cash and the estimated revenue adjustment payable at April 30, 2020 will be \$165.3 million and \$93.3 million, respectively, for a net of CAD 72 million. At a vanadium price of \$6, the company's forecasted cash and estimated revenue adjustment payable at April 30, 2020 is expected to be \$165.5 million and \$84.5 million, for a net of \$81 million. And at a vanadium price of \$7, the company's forecasted cash and estimated revenue adjustment payable at April 30, will be \$165.9 million and \$75.8 million, respectively, for a net of \$90.1 million.

As Paulo mentioned, the company is continuing to monitor the rapidly developing impacts of the COVID-19 pandemic and will take all possible actions to help minimize the impact on the company and its people. Given these uncertainties, the company is actively working to secure credit facilities to provide additional cash resources should the impacts be significant. This month, the company secured a USD 13 million credit facility in Brazil. All amounts drawn under the facility are due to be repaid as a lump sum at maturity in 359 days.

On the cost front, operating costs in 2019 were \$123.8 million compared to \$135.7 million in 2018 and include direct mine and mill costs of \$84.3 million, depreciation and amortization of \$31.7 million and royalties of \$7.9 million. For Q4 2019, operating costs were \$30 million compared to \$37.6 million in Q4 2018 and include direct mill and mine costs of \$20 million, depreciation and amortization of \$8 million and royalties of \$2 million. The decrease in direct mine and mill costs in Q4 2018 is primarily attributable to the recovery of operating cost related tax credits totaling, and these are reais, BRL 12.3 million.



Cash operating costs, excluding royalties in 2019, were \$3.92. That's USD 2.95 per pound compared to \$4.41, which is USD 3.38 in 2018, representing a decrease of 13%. Cash operating costs, excluding royalties in Q4 2019, were \$3.28. That's USD 2.48 per pound compared to \$4.60, which is USD 3.48, in Q4 2018. The decrease seen in Q4 2019 compared with Q4 2018 is largely due to the Q4 production of 3,011 tonnes of V2O5, which is 416 tonnes higher than the 2,595 tonnes produced in Q4 2018, as well as an improvement in the global recovery level and the recovery of tax credits.

As Paulo noted previously, the company has introduced a new non-GAAP cost measure it will use to measure its cost performance in 2020. This decision was taken in light of the anticipated difference between production and sales volumes in 2020. Following the end of the company's offtake agreement on April 30, 2020, the company will incur its own sales and distribution costs, which will be included as a component of operating costs going forward. Costs associated with the offtake agreement were included in the commissions that were previously included in the measurement of revenues.

Total cash costs include direct mine and mill cost, sales and distribution costs, and the company's professional consulting and management fees and other general and administrative expenses. Total cash costs exclude royalties, depreciation and amortization, share-based payments, foreign exchange gains or losses, reclamation costs, exploration and evaluation costs and capital expenditures. These costs are then divided by the pounds of V2O5 sold by the company to arrive at total cash cost.

The company has also adjusted its previously stated cash operating cost, excluding royalties guidance for 2020 as a result of movements in Brazilian foreign exchange rates. The previously stated guidance range for 2020 was USD 3.30 to USD 3.50, and is now \$3.05 to \$3.25.

In addition to the impact on production as a result of kiln upgrades and cooler maintenance in April 2020, the company expects its Q2 2020 financial results to be impacted by lower sales realized in the quarter as a consequence of inventory working capital due to shipping and ferrovanadium conversion lead times.

With that, I will now turn the call over to Paul Vollant, who will provide an update on the vanadium market. Following Paul's update, we will then open the call to questions.

Paul Vollant - Largo Resources Ltd. - Director of Sales & Trading

Thanks, Ernest. And thanks, everyone, for joining the call today.

As Paulo previously mentioned, we are very proud to report that we are approximately 90% committed on our annual guided sales for 2020. The balance of the company's products will be used for additional spot market sales as well as to build strategic inventories. The company's focus will be to continue to maximize sales of its high purity VPURE+ products and further increased our footprint in premium markets such as aerospace, chemical and VRFB electrolyte, including with our future V2O3 production.

On the market side, vanadium prices bottomed in November 2019 at USD 4.73 per pound of V2O5 and increased consistently until the end of February 2020 to approximately USD 6.75 per tonne of V2O5, or more than a 40% increase.

Since early March, the increase uncertainties and potential disruptions, mainly linked to the evolving challenges of the COVID-19 pandemic, have caused prices to soften by approximately 15% to reach USD 4.50 per pound of V2O5 as of March 20, 2020. The short- and long-term COVID-19 impact could have a great influence on the vanadium market, from a supply, demand, price and logistics perspective that are yet unknown to a great extent.

If producing regions are more affected than regions that consume vanadium, it could lead to a shortage and subsequent price rise. If this [opening] is true, we could anticipate an oversupply of vanadium, which could then lead to lower prices. As previously mentioned, the overall market impact remain unknown at the moment. But we continue to monitor the situation diligently and will provide updates as development occurs.



In regard to logistics, we're also taking preemptive measures to lower our exposure to single logistics bottleneck, finding alternative routes and solutions in order to deliver on our commercial commitment should there be a need. So far, our logistics and sales plans have not been altered, but we are doing everything we can to anticipate and mitigate the impact of potential changes.

With that, we will now open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Heiko Ihle of H.C. Wainwright.

Heiko Felix Ihle - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research and Senior Metals & Mining Analyst*

You mentioned earlier on the call that there has been little impact from the virus on your operation's sort of supply chain thus far. I mean, I got to ask you nonetheless. I mean, in the release, you talked about the upgrade to the kiln burner and in the cooler with the aim of increasing the float capacity by, I think, it's 10%. And that it shuts the office down for about 15 days. Just thinking out, if Brazil, for 1 reason or another, bore to the site to go along with some of their peers and shut down operations at the site, is that still a job that can be completed? Or is there lasting issues regarding your timeline? And would that move it longer into Q2?

Ernest M. Cleave - *Largo Resources Ltd. - CFO*

Paulo, did you want to take that question?

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Sorry. It was on mute. Sorry. Heiko, thank you very much for your questions. Our -- we are doing everything that's necessary to keep operating and minimizing every risk to our employees. I can make a list of all the actions we have done, but we -- our plan is to keep operating, doing the essential test that is regarding the production and shipping all the production to all our customers.

What we are -- to the 15-day shutdown we are planning the kiln and cooler is to improve our capacity at the burner and also to improve the cooler system at [cooler]. Those actions, even if you need to postpone it for any reason, the COVID-19, it doesn't impair us to produce 1,100 tonnes per month. An example is December. December, we have produced more than 1,100. So we are working. Even if we need to postpone this, any maintenance or this upgrade, we'll keep working to optimize our production and providing the best production to include month to date.

Heiko, is there any other thing that I missed? Sorry.

Heiko Felix Ihle - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research and Senior Metals & Mining Analyst*

No, this was helpful. I'll build on it a little bit with a follow-up question. This was a little bit more open ended, and I'm aware it may be just a bit too early to even ask this. I mean, the last 30-some days have been just absolutely insane with the market pricing of assets, potential bailouts for every industry that wants to raise their hands. I mean, just in general, we've gone from -- I mean, last time you guys had a conference call, we were in a good market, things were fine. And now, we're in a place where nobody wants to invest in anything, no matter how safe. I mean, everyone's talking about treasury bonds.

So to get to the question, and again, I know this may be a bit early, but what permanent changes do you foresee coming out of all this virus crisis when this is all over? And, obviously, at some point in time, will be over. You hinted at some of the answers earlier on the call in regards to vanadium pricing and bottlenecks on logistics. But even so, can you just provide maybe a little bit more color on permanent changes that you see coming maybe in regards to balance sheet, business continuity and your employees at the mine and the headquarter, please?

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Paul, could you answer that, please?

Paul Volland - *Largo Resources Ltd. - Director of Sales & Trading*

Sorry, on the balance -- the long-term effect on the mine?

Heiko Felix Ihle - *H.C. Wainwright & Co, LLC, Research Division - MD of Equity Research and Senior Metals & Mining Analyst*
(inaudible).

Paul Volland - *Largo Resources Ltd. - Director of Sales & Trading*

Hello?

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*
(inaudible)

Paul Volland - *Largo Resources Ltd. - Director of Sales & Trading*

Yes, from the market perspective, I've -- as I've already mentioned, I think the effect of the COVID-19 is still very, very challenging to assess. In China, for instance, it seems that the effects has been pretty balanced from the supply side and the demand side, both of them reducing by an approximately equal amount. Going forward, as the pandemic continues in Europe, in the U.S. and other places, we're still to see what the exact balance will be on supply and demand. So this is an involving and very fluid situation. We're yet to have a clear picture of it.

Operator

Your next question comes from Carlos De Alba from Morgan Stanley.

Carlos De Alba - *Morgan Stanley, Research Division - Equity Analyst*

So just in terms of the product mix, what can we expect for 2020 given the transition year in terms of how much of your sales, the different products will represent, particularly the purity products that will be important for modeling purposes? And then second, maybe, Paulo, if things get complicated -- more complicated than expected, what -- the company doesn't obviously have any financial debt. But what actions can you take from an operating point of view to minimize the potential impact from a drop in demand that is higher than maybe what the company is expecting right now or that we are seeing today from the COVID-19?

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Thank you very much for your question. Just to -- I'll try to answer the second part of the question, and then I'll let Paul answer about the sales in 2020. But we are 0 debt. We have cash, good position cash. And even it has an impact in demand, we can adjust our production in order to fulfill the needs and adjust our inventories. We are very -- a company with a very small fixed cost compared to ordinary companies. So we are very flexible. We can adjust for the market movements, and we don't expect too much change in the overall situation. Of course, it impacts -- the results of our revenue will be impacted. But we can adjust, and we are prepared to do that if necessary.

And one thing that we could see, in the last 6 months that we have trading and have done agreements with our customers, we have a very good reputation in the market. We are focused on the high purity. We are -- have a very good quality, which allows us to say that the overall demand reduction, if it happens, we will be in a position to sustain our sales in better than average. The reduction will not reflect at Largo as much as reflecting to the whole market.

I will let Paul say about the 2020 sales, but one thing I need to say, we are very happy, and we are very confident and very -- the performance -- with the performance that the sales team has done the last 6 months. The performance were much better than our expectation and was much better than our plans. So Paul Vollant, please give details of about 2020 sales.

Paul Vollant - *Largo Resources Ltd. - Director of Sales & Trading*

Yes. Thank you, Paulo. So as Paulo said, we're very proud about our sales commitment. And as discussed earlier, we committed about 90% of our total annual production budget for 2020. Out of that, approximately 25% would be in high purity product sales, which is a significant increase to what we had before, about 60% increase of high purity product sales. And we expect this proportion to go up even further in the future with increasing relationship with high-purity customers, but also with the introduction of our V2O3 product in a year's time.

The balance of our production will be roughly split 50-50 between direct standard grade V2O5 sales and converted sale of vanadium sales.

Carlos De Alba - *Morgan Stanley, Research Division - Equity Analyst*

Okay. And just -- and maybe, Paulo, could you -- or someone else, could you remind us how much of your cost are fixed versus variables and how much are local currency versus U.S. dollar or other type of currency?

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Yes. Our cost is about 30% based on U.S. dollars and 70% based on the Brazilian currency. As you know, that the -- as the Brazilian currency has been very weak, it has been helping in our costs as well.

Variable and fixed costs, it's depends on the way you look at this -- our cost. But I could say it's about 50% variable, 50% fixed, which if we do some actions, we can reduce the fixed cost much lower than that.

Operator

The next question comes from Lee Cooperman of Omega Family Office.

Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

Yes. Let me first compliment you on the comprehensive amount of material that you present, but give you the opportunity to give us your best guess in all these ranges of outcomes that you've given. So with your permission, I would like to put forth a half dozen questions I think will be of interest to everybody on this call and get your best response.

So question #1 is, what is your anticipated low cash position after paying off Glencore? And how comfortable are you about life after Glencore?

Second, you expect to generate free cash flow in 2020. Since 90% of your production is committed already, are you committed to a price that would give you positive free cash flow in 2020? Okay.

I've heard rumors of disruptions in South Africa. Do you have any insight into that and what effect that might have on our commodity price?

Fourth, what are you currently selling the commodity for?

Fifth, in past conference calls, you've displayed Terry Perles. You have not used them in this recent call. I'm just curious what Terry has to say about vanadium prices since he's considered an expert.

And finally, I believe recently, you had over \$100 million outstanding warrants, exercised between \$0.29 and \$1.15. It seems to me that with our cash position, and I'll be interested in hearing how you answer my question, whether we should not try to be opportunistic and get rid of these warrants for very little money, which will be very accretive to the value of the company that remains.

So these would be my questions. Any help you could give would be much appreciated. And again, you're doing a very fine job.

Paulo Guimarães Misk - Largo Resources Ltd. - President, CEO & Director

Thank you very much, Lee Cooperman. Ernest, would you mind to answer Lee, please?

Ernest M. Cleave - Largo Resources Ltd. - CFO

Sure. I'll try to (inaudible), so if I missed any, I apologize. So I think the first question dealt with the anticipated low cash position. We're -- we've modeled a couple of scenarios. And again, this is not official guidance. This is just coming from sort of between \$5 and \$7, the low cash position was anywhere from about \$37 million to sort of, call it, \$56 million low cash. I know you accrue different points and at lower prices with -- as they're [clearly won], but that's the approximate range.

So if we look at free cash flow, and again, this is just a range and it's an official. This is just coming from me, so don't treat it as official guidance. But using \$5 to \$7 again, and this is free cash flow after absolutely everything, after sustaining CapEx, [our IPB] plant and capitalized stripping, everything else, but we're probably in the range of free cash flow, \$10 million to north of \$50 million, in that range.

Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

Are you talking U.S. dollars, Canadian dollars?

Ernest M. Cleave - Largo Resources Ltd. - CFO

U.S. dollars.



Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

Okay. So could I take the \$50 million -- if I were being optimistic, the \$50 million and add it to \$66 million? Or does the \$66 million include the \$50 million?

Ernest M. Cleave - Largo Resources Ltd. - CFO

So that -- no, you can add, you can add.

Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

Yes, okay. So there's -- it's a conceivable scenario that your low cash position at the end of 2020 might be USD 100 million?

Ernest M. Cleave - Largo Resources Ltd. - CFO

Low cash. (inaudible)

Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

The number would be, at the bottom end would be \$47 million, the high end would be \$116 million.

Ernest M. Cleave - Largo Resources Ltd. - CFO

Yes. No, sorry. So the numbers that I gave on the low cash position, basically, is just cumulative cash all the way through. So I'm saying that sort of \$57 million would be the low cash position. So I'm talking cash generation separately. But obviously, there's a repayment to Glencore that happens in between there as well.

Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

That's my question. What do you think -- I guess, trying to simplify a little bit.

Ernest M. Cleave - Largo Resources Ltd. - CFO

Sure.

Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

What do you think we end the year 2020 after taking care of Glencore, after your operations perform as you expect and added-on to the current cash position? Where do you think you end 2020 with in terms of cash? Is that the USD 57 million?

Ernest M. Cleave - Largo Resources Ltd. - CFO

USD 57 million, yes.



Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

Okay, good. Okay. How do you feel about life after Glencore? I'll repeat the question to make it easy for you. How do you feel about life after Glencore?

Ernest M. Cleave - Largo Resources Ltd. - CFO

Well, we feel great because of the way the sales and marketing team have performed. I think the fact that we're 90% committed is an incredible achievement. I think this was an overhang for the company. People were concerned about it before. They were concerned that we couldn't actually handle it by ourselves. But conversely, the actual opposite is true. We're actually performing really well. So we feel comfortable with it. Do we feel good about the life with COVID, et cetera? That's what creates all the uncertainty. We don't have any special insights, and that also...

Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

I didn't ask about that because I know the answer myself. Okay. What about disruptions in South Africa? Are you hearing anything specific or tangible?

Ernest M. Cleave - Largo Resources Ltd. - CFO

Yes, we're hearing -- and I'll get Paul to jump in on this afterwards, but we're hearing rumors of shutdowns for both [push rock] and (inaudible) and Glencore currently. And I think it's all of April, but, Paul, jump in and correct me. Again, these are market rumors, but that's what I've heard.

Paul Vollant - Largo Resources Ltd. - Director of Sales & Trading

Yes. I support Ernest, and that is what we've heard. But again, I want to stress that these are only rumors. As some people might know, there are also rumors on manganese and chrome shipments and all sorts of commodities coming out of South Africa. Nothing tangible yet. Just expectations that if there is an increased impact of COVID-19 in South Africa on top of the power and logistic issues, that, unfortunately, that country is going through, this could be bad. But again, these are just rumors, and let's see.

Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

Now you've mentioned that you were 90% committed in your 2020 production. Is that in the price range of 5 to 7? Or what kind of prices have you realized on your commitments? Or is that price is still yet to be determined?

Paulo Guimarães Misk - Largo Resources Ltd. - President, CEO & Director

The vast majority of these prices still have to be determined because the vast majority of our contracts are on the formula base, based on the actual published price at the time of delivery.

Leon G. Cooperman - Omega Advisors, Inc. - President, CEO & Chairman

Okay. So you have upside -- you have upside and downside. If production is committed, on the other hand, there could be much higher prices if demand supply tightens up, or it could be lower prices, correct?

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Correct.

Leon G. Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

Okay, good. Okay. What is your reaction to my comment about the warrants? In other words -- let's face it, this company earned USD 300 million 2 years ago. The market cap, exclusive of the warrants, is well under that. You have a strategic resource. We're all very depressed now because of problems going on in the world. The business is worth much more than it's trading for. If we can get rid of these warrants, it's an overhang that would take away value. Are you guys at the mindset, given your low cash position, of trying to clean up some of these warrants?

Ernest M. Cleave - *Largo Resources Ltd. - CFO*

I don't think that the Board has made a decision at this stage or to actually use cash. Until we know how the world is working, we could look to do that. The mechanism is always open, and a lot of the warrant exercise at the beginning of the year were done on a cashless basis, so we would encourage more and more of that. But at this stage, the Board has not discussed using the company's cash to actually buy back warrants...

Leon G. Cooperman - *Omega Advisors, Inc. - President, CEO & Chairman*

I'd recommend you guys consider that a little bit. And lastly, Terry Perles, what is he saying about the vanadium prices? Do you still use him them as a consultant?

Ernest M. Cleave - *Largo Resources Ltd. - CFO*

No.

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Lee, we are not having the consultant of Terry Perles since October last year. We have a lot of operation, but they are not working with us since then.

Let me clarify one point. When we said that 90% of our sales guidance is already committed and make agreements with customers, it doesn't mean that we don't think that you're going to fulfill 100% of that. What we like to have is if it's strategic in terms of sales, is to have 10% of our product, of our sales, being in the spot market. So we expect to reach 100% of our guidance. And if we could increase our production, have it much high -- even higher.

And in terms -- he doesn't have an idea how (inaudible) is our sales. High purity. We are reaching higher premium than the, historically, you could get the previous period. And it -- we are -- increase our sale -- we will increase our sales by 60% in that (inaudible) market. So we expect to have much, much better sales profile in 2020 after May.

Operator

The next question comes from Jim Young of West Family Investments.



James Young - *West Family Investments, Inc. - VP & Investment Analyst*

I've got a couple of questions for you. First is, as you shift your sales from the Glencore contract to the -- to your internal sales force, can you give us a sense as to the cost savings that you expect to realize from this shift?

Ernest M. Cleave - *Largo Resources Ltd. - CFO*

Sorry, Jim, just repeat that again?

James Young - *West Family Investments, Inc. - VP & Investment Analyst*

Yes. The question is, when you shift -- as you move forward in the Glencore contract ends April 30, and you undertake the internal sales effort, can you give us a sense as to how -- like what percentage in cost savings do you expect to realize from moving away from Glencore and doing this internally, if there will be, in fact, a cost savings?

Ernest M. Cleave - *Largo Resources Ltd. - CFO*

There definitely will be cost savings, but I don't know that we should quantify it right now. The challenge with the cost around (inaudible) and the Glencore contract will be those commissions are to date that will be been netted off of inflow revenues. So we precluded from discussing them. So I'm a little bit concerned that we give too much away here if we talk about cost savings. But there will be, quite definitely, cost savings. Maybe we can develop something around an actual metric for people. But there are many percentage points on our actual total sales that would be considered savings.

James Young - *West Family Investments, Inc. - VP & Investment Analyst*

Okay, great. And then secondly, Paulo, you had mentioned that you had some of the plant operations that are being remodified, et cetera, so you'd be able to produce an increase in nameplate capacity from 1,000 to 1,100 tonnes per month. Yet in December, you were able to produce 1,162 tonnes -- in December of 2019. Again, before these modifications were made. So I guess my question is, if you think about the ongoing nameplate capacity at 1,100 tonnes a month, and assuming that the plant is running and it's operating like it could be or the company should be, can you give us a sense as to an actual production, do you think, would be -- would just -- are you looking at like 1,150, 1,200, 1,250, 1,300 tonnes a month? Or can you just give us a sense as to the potential upside that you have above and beyond the nameplate capacity?

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Thank you, James. We are doing our actions to have the capacity -- nameplate capacity for 1,100 tonnes per month. After April, we trust we have -- we'll be more capable to reach that production. And I'd say during that period that we're going to adjust the burn on and the cooler system, we'll have a better improvement in the refractory as well to not having the 2 problems we had in January and February. But of course, we expect to have a hump up period of 4 months to reach the full capacity.

And what I can tell you about what you're going to have is according to our guidance. We expect -- our guidance for our productions in '20 is 12,000 tonnes minus, plus 2%. So that's the -- you can see that even though we're having a lower production in April, which we are expecting 500, we expect to reach annual production for 12,000.

Operator

The next question comes from Gordon Lawson of Paradigm Capital.



Gordon Lawson - *Paradigm Capital Inc., Research Division - Senior Research Associate*

Can you further explain the tax credits related to your operating costs? And with regards to the ferrovanadium plant, are you expecting some sales this year? And what price level are you budgeting?

Ernest M. Cleave - *Largo Resources Ltd. - CFO*

So let me answer the...

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Would you like to explain the tax credit?

Gordon Lawson - *Paradigm Capital Inc., Research Division - Senior Research Associate*

Yes, go ahead, Ernest.

Ernest M. Cleave - *Largo Resources Ltd. - CFO*

The tax credits are, at this point, given that we're not yet selling locally, there are a number of tax credits. Basically, they're even the same as the SBO debt credits that build up that we can't actually recover, but they exist within Brazil market where you can effectively sell these credits. People pay you cents on the dollar for those credits, and then you actually can recover these tax credits. So that's what we did in Q4.

The interesting position for 2020 is that because we're actually selling ourselves in Brazil, we'll actually be able to avail ourselves of all our tax credits. So going forward, we'll actually see those tax credits not to the same magnitude because, obviously, that was accumulated tax credits. But we will see we will see recoveries of tax credits as a normal part of the business, but that's what happened in Q4.

Gordon Lawson - *Paradigm Capital Inc., Research Division - Senior Research Associate*

Okay. And for the ferrovanadium...

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Yes. Now, just to complement a little bit about these tax credits, it's regarding a kind of VAT tax. We don't have these specific tax in Brazil because of the ICMS, but it's a kind of VAT. And as we are 100% exporter today, we cannot recover that tax credit. So as -- we can sell in the market, as Ernest said, but from May 2020 or from July 2020, we are selling much here in Brazil. So we are going to recover that tax credit automatically. We don't need to sell it anymore because all the credit that we are going to generate, we are going to recover with local sales to improve our results month-by-month instead of just when we sell it.

Regarding VRFB plants, we are in the last stage of the engineering detail to concluding all of the plant. We are in process of getting permits, and we didn't -- we didn't start implementations properly. We are doing the procurement and all this preparation. So we expect to have these plants ready by the end of Q1 2021. That's our plan. And it's according to our strategic business plan.

Operator

The next question comes from Brian Nunes of Gramercy.

Brian Nunes - *Gramercy Funds Management LLC - Senior VP & Research Analyst*

I just wanted to follow-up a couple of items. When do you say 90% of sales are committed, are there any contracts that would require you to deliver regardless of, say, worst-case scenario, the mining shutdown or there's a halt in production, and you have contracts where you are required to deliver and that forces a penalty. Do you have anything that -- like that, that would cause a negative cash flow or potentially jeopardize the business where you are forced to make whole by buying in the spot to deliver?

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

Thank you, Brian. We -- with most of our sales committed is from July as we have some time to build VRFB and to destock and also, deliver material, getting the lead time for logistics. But 100% of our sales is there is a force majeure clause which protects Largo from any penalties. We have talked to the lawyers, and it's very clear that everything works going on regarding COVID-19 applied to that loss. So we don't expect to have any problem, but it may have where there is, at least according to our judgment and of what we have been looking at our contract, there is no risk for penalties or other fine.

Would you like to complement Ernest?

Ernest M. Cleave - *Largo Resources Ltd. - CFO*

Yes. Look, at the end of the day, Brian -- there are force majeure clauses on both sides of the equations for much all our contracts there. So we don't -- we're going to have to see how things go on a case-by-case basis, but we are -- at this stage, we're not looking at disruptions, but that could change rapidly.

Brian Nunes - *Gramercy Funds Management LLC - Senior VP & Research Analyst*

Yes, yes. So then going on to my next question, and Paulo hinted at that. If you were given an instruction by the government to down to stop production tomorrow, how much in terms of mining -- let's just say mining now. Your contractor has an issue and you can't mine anymore. How much stockpile do you have in terms of weeks of production? And is there a target that you want to try to get to in the near term to sort of protect against that risk?

Ernest M. Cleave - *Largo Resources Ltd. - CFO*

Paulo, do you want me to go first on that?

Paulo Guimarães Misk - *Largo Resources Ltd. - President, CEO & Director*

I can say about the -- Brian, let me clarify something about in Brazil. All the government instructions from federal or state, even for our student organization, we are trying to keep operating to keep the economy going the minimal task to keep running, to not damage even more the impact of the coronavirus. And we are doing accordingly. Just to let you know, we don't have any positive buyers in the city of Maracás. We are trying to keep Maracás safe. All the actions we have done, we increased -- we are reducing the possibility or the risk to contamination in the cafeteria and the transportation. We doubled the number of buses to not get employees close to each other during this transportation. We are measuring the temperature for each employee when they get to the site and when they go out. And we have no any one problem with this coronavirus or

symptoms or anything like that? And of course, even all the PPEs, putting alcogel everywhere and improving the cleaning procedures. So we are very focused to keep our plant safe. But of course, it's a risk. We know that we cannot control 100% of the consequence.

But looking about the I could give you a number of just ore, we have 20 days of ore available to keep running. And we have our plant that is many intermediate stockpiles, like concentrate, like other stockpiles that we have like V2O5 inside of the -- in the tanks. So if we cannot have any additional material from mining, I think we may have material for keep running for 30 days without any problem.

Brian Nunes - Gramercy Funds Management LLC - Senior VP & Research Analyst

Okay. Yes, that's very helpful. And is that a level that you guys are comfortable with? Or is there a thing that you might want to increase that level? Can you? I don't know if you have the footprint to do it.

Paulo Guimarães Misk - Largo Resources Ltd. - President, CEO & Director

Yes. We are comfortable, and we think it will help a lot to keep running or to establish a production if we have any shutdown.

Brian Nunes - Gramercy Funds Management LLC - Senior VP & Research Analyst

Okay. And then can I just go to the \$13 million facility. That -- have you drawn on it yet? And if not, how long is it committed for?

Ernest M. Cleave - Largo Resources Ltd. - CFO

We've drawn...

Paulo Guimarães Misk - Largo Resources Ltd. - President, CEO & Director

Ernest, answer that, please.

Ernest M. Cleave - Largo Resources Ltd. - CFO

Yes, we've drawn on it already.

Brian Nunes - Gramercy Funds Management LLC - Senior VP & Research Analyst

Okay. And so it's paid back in just under a year? I suppose it was a 1-year facility comp back?

Ernest M. Cleave - Largo Resources Ltd. - CFO

Correct.

Brian Nunes - Gramercy Funds Management LLC - Senior VP & Research Analyst

And then what's the rate on that facility?



Ernest M. Cleave - Largo Resources Ltd. - CFO

It's basically 3.5%.

Brian Nunes - Gramercy Funds Management LLC - Senior VP & Research Analyst

Okay. All right. All right. And do you -- okay. All right. And then can I just go back to one of the things where you talked about the split in sales. Sorry. There was an interference on the call, and I didn't get 20 -- of the 90% committed, 25% of that was in high purity. And then the balance was split equally between direct sales and was it ferrovanadium sales to other balance? I just wanted to confirm that I got the breakdown of that 90%, correct.

Paulo Guimarães Misk - Largo Resources Ltd. - President, CEO & Director

Let's ask Paul what he think.

Paul Vollant - Largo Resources Ltd. - Director of Sales & Trading

About 25% of our committed sales are in high-purity products. And the (inaudible) will be about 50-50 in standard grade V2O5 and Canadian.

Operator

Thank you, ladies and gentlemen. At this time, I will turn the conference back over for closing comments.

Alex Guthrie - Largo Resources Ltd. - Manager of IR & Communications

Thank you, operator. And thanks, everyone, for joining the call today. As we noted, our Q4 and full year 2019 results press release and annual financial statements and MD&A can be found within the Investor Relations section of our website at largoresources.com. That concludes our call today. Have a great day. Thanks.

Paulo Guimarães Misk - Largo Resources Ltd. - President, CEO & Director

Thank you, everyone.

Ernest M. Cleave - Largo Resources Ltd. - CFO

Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating, and we ask that you please disconnect your lines.



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