Orosur Mining Inc. - Q3 2018 Results

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Orosur Mining Inc. (“Orosur” or “the Company”) (TSX/AIM: OMI), a South American-focused gold producer, developer and explorer announces its unaudited results for its third quarter ended February 28, 2018 (“Q3 18” or the “Quarter”). All dollar figures are stated in US$’000 unless otherwise noted.

HIGHLIGHTS

- In Colombia, high grade drilling continued at APTA during the Quarter with results from the current diamond drilling campaign including 4.89 g/t Au over 13.9m, 4.86 g/t Au over 25.0m, 9.42 g/t Au over 7.0m, 9.62 g/t Au over 6.0m and 5.28 g/t Au over 12.0m.
- This campaign has already extended the known mineralization at APTA down dip, up dip and along strike with early indications at the present drilling at Charrascala appearing promising.
- In Uruguay, following definition of a weaker mineralized structure at San Gregorio (SG) UG at depth and to the East in Q2 18, the mine plan and sequencing was redesigned with SRK to optimise economics, including the cancellation of development of deeper stopes from the previous mine plan and incorporation of marginal stopes from current levels at SGW into Q3 18.
- As a result, Q3 18 production grades declined and production in the Quarter was 6,859 oz of gold, which is below original expectations, and compares to 7,820 oz in Q3 17.
- In the current quarter, the Company expects an improvement in grades and lower capital expenditure. However, as a result of the lower grades processed in Q2 18 and Q3 18, and with an increased focus on profitability and not purely ounces produced, the Company’s production guidance has been reduced to 27,000 – 30,000 oz Au from 30,000 oz, as well as an increase in the operating cash cost guidance to US$900 - US$1,000/oz from US$800 – US$900/oz.
- Development work in Q3 18 focused on the shift of mining activities from SGW to SG Central and included the completion of a 230m tunnel to provide access to the first planned stope at SGC towards the end of the Quarter. The Company also finalised the pre-stripping of the Sobresaliente open pit which is planned to be mined in Q4 18 as well as finalised the fourth phase of the tailings dam which is planned to provide tailings storage for the next 36 months.
- During the Quarter, and in large part due to the performance of the SG UG, the Company commenced the implementation of a strategic initiative to reduce costs and corporate structure aimed at improving profitability and preserving cash. The Company continuously considers strategic options and is currently in discussions regarding several alternatives to bolster capital resources available for its suite of projects.

COLOMBIA EXPLORATION HIGHLIGHTS

On February 20th and April 4th, the Company reported high grade drilling and assay results from its current step-out drilling campaign at APTA in Colombia from 18 holes drilled to date (MAP_054 to MAP_071) totaling 6,314 metres, including 4.89 g/t Au over 13.9m, 4.86 g/t Au over 25.0m, 9.42 g/t Au over 7.0m, 9.62 g/t Au over 6.0m and 5.28 g/t Au over 12.0m. Recent drilling in this campaign has extended the known mineralization at APTA down dip, up dip and along strike. Mineralization remains open along strike and at depth at APTA. Of the 18 holes drilled to date in this exploration campaign, 6 holes (33%) have intercepted mineralised intervals grading in excess of 10 g/t Au.

Orosur is presently finalising the last phase of this exploration campaign focusing on maiden scout drilling at Charrascala, the highest priority untested target, located 1.5 km to the west of the APTA discovery. Preliminary indications at Charrascala appear positive, with drilling of the first hole having encountered sulphide polymetallic mineralization (pyrite, chalcopyrite and sphalerite) associated with a set of structures with intense silicification. Assay results of the five planned drill holes at Charrascala are expected to be received during May 2018 and announced shortly thereafter.

OPERATIONS IN URUGUAY AND FY18 OUTLOOK

The broader San Gregorio underground mine (SG UG) is a continuation of the San Gregorio open pit deposit at depth. The historic open pit produced approximately 536,000 oz of gold at an average grade of 2.12 g/t Au. Since November 2016, the SG UG West (SGW) has been the primary source of ore feed to the plant. Mining in the SGW sector is forecast to be complete in H2 18 when development and initial production of SG UG Central (SGC) commences. SGC is planned to be the main source of underground ore feed to the plant during the remainder of H2 18 and H1 19. The current mine plan then assumes continuation of ore production shifting from SGC to SG UG East, followed by the Veta A underground project.

To view the full release, showing all maps and figures, please click here.

In Q2 18, a revised block model for SGC was finalized showing that the mineralized structure to be less economically viable at depth and to the East of the sector with reductions in both ore grade and thickness. To date, SG UG has produced 465,943 tonnes at 1.49 g/t Au (approximately 22Koz Au), representing approximately a 30% reduction in grade from historical SG open pit operations, which delivered an average of 2.12 g/t Au.

Following definition of this weaker mineralized structure at SG UG, the Company redesigned the mine plan with SRK Argentina (“SRK”) and changed its sequencing for Q3 18. Development into deeper stopes was removed from the mine plan and marginal stopes from current levels at SGW were incorporated into Q3 18 in order to optimise economics based on development costs already incurred. As a consequence of these initiatives, Q3 18 grades declined and production was approximately 2,000 oz below expectations. In an effort to partially compensate for this production shortfall, additional remnants from open pit reserves were mined during the Quarter.

Primarily as a consequence of these lower grades, Q3 18 production was 6,859 oz of gold, compared to 7,820 oz in Q3 17 with average cash operating costs for the Quarter of $1,065/oz, compared to $858/oz in Q3 17.

During the Quarter, development work focused on the shift of mining activities from SGW to SGC completing a 230m tunnel, which provided access to the first planned stope at SGC towards the end of the Quarter. In addition, the Company finalised the pre-stripping of the Sobresaliente open pit which is planned to be mined in Q4 18 as well as finalised the fourth phase of the tailings dam which will provide tailings storage for the next 36 months, or until March 2021, on the basis of the current mine plan. All-In-Sustaining Costs (“AISC”) were $1,395/oz compared to $1,289/oz in Q2 17, an increase of 8%.

The Company expects in Q4 an improvement in grades and lower capital expenditure. However, with the lower grades processed in Q2 18 and Q3 18 and with an increased focus on profitability and not purely ounces produced, the FY 18 production guidance has been reduced to 27,000 – 30,000 oz Au from 30,000 oz and the Company’s operating cash cost guidance increased to US$900 – US$1,000/oz from US$800 – US$900/oz.

During the Quarter, and in large part due to the performance of the SG UG, the Company commenced the implementation of a strategic initiative to reduce costs in Uruguay and corporate structure aimed at improving profitability and preserving cash. As part of this initiative, during Q3 18, greenfield exploration was suspended and non-essential corporate and support costs have been drastically reduced, with Directors and officers agreeing to reduce their fees and salaries by 20%. Further, the Company plans to discontinue mining from marginal open pits during Q4 18. As a part of this initiative, a reduction of 120 staff members has occurred from November 2017 to the end of March 2018.

The Company is currently accelerating its preparation of Veta A, a new underground project that is 1.2km from the plant. In March 2018, the Company submitted a permit application to DINAMA, the environmental agency in Uruguay. Initial work indicates Veta A is currently the highest-grade source of underground ore available in the San Gregorio mine complex. Veta A was previously mined as an open pit, producing 29,000 oz with an average grade of 3.1 g/t between September 2006 and March 2008. Reserves at the end of May 2017 were 9,440 oz (122,328 tonnes at 2.40 g/t Au) and the Company is targeting a significant increase in reserves after proving the continuity and extension of the ore body over 140 metres from the current defined reserves while it remains still open at depth and along strike.

The Company continuously considers and analyses strategic options and potential partnerships to develop its Uruguayan, Colombian and Chilean assets to create shareholder value and is currently in discussions on several alternatives to bolster capital resources at its suite of projects.

Q3 18 FINANCIAL SUMMARY

- Operating profit was $1,168 compared to an operating profit of $1,848 in Q3 17.
- Loss after tax was $1,976 compared to a profit of $363 in Q3 17. This was mainly due to higher depreciation and the recognition of a provision for staff retrenchments.
- Cash flow from operations before changes in working capital was $(155) compared to $1,674 in Q2 17.
- The Company invested $1,753 in capital expenditures and $1,236 in exploration compared to $3,218 and $449 respectively in Q2 17. The Company significantly increased its exploration as a result of the current drilling campaign in Colombia.
- The Company’s cash balance at February 28, 2018 was $1,392 compared to $3,357 at May 31, 2017. The Company has drawn on the Santander line of credit in the amount of $1,500 during Q3 18.

Operational & Financial Summary[1]		Q3 18	Q3 17	Diff	YTD 18	YTD 17	Diff
Operating Results							
Gold produced	Ounces	6,859	7,820	(961)	22,536	24,623	(2,08
Operating cash cost[3]	US$/oz	1,065	858	207	943	807	136
AISC	US$/oz	1,395	1,289	106	1,416	1,184	232
Average price received	US$/oz	1,288	1,198	90	1,280	1,263	17
Financial Results (unaudited)							
Net profit/(loss) after tax	US$ ‘000	(1,976)	363	(2,339)	(2,518)	4,064	(6,58
Cash flow from operations[2]	US$ ‘000	(155)	1,674	(1,829)	3,459	8,703	(5,24
Cash & Debt Summary (unaudited)		Feb. 28, 2018	Nov 30, 2017	Diff	Feb. 28, 2018	May 31, 2017	Diff
Cash balance	US$ ‘000	1,392	2,064	(672)	1,392	3,357	(1,96
Total debt	US$ ‘000	1,726	1,773	(47)	1,726	403	1,323
Cash net of debt	US$ ‘000	(334)	291	(625)	(334)	2,954	(3,28

[1] Results are based on IFRS and expressed in US dollars
[2] Before non-cash working capital movements
[3] Operating cash cost is total cost discounting royalties and capital tax on production assets.

Ignacio Salazar, CEO of Orosur, said:

“In Uruguay, we are taking drastic measures to restore profitability. As of today, SG Central is now in production, and we are quickly advancing a new higher-grade underground mine at Veta A. The Company is currently contemplating several strategic alternatives to advance its projects and unlock the value of our assets for the benefit of our shareholders.

We are delighted with exploration progress in Colombia. Anzá is located in the most prospective district in Colombia. Our strategy for this drilling campaign is to demonstrate the potential scale of the project and the results to date from APTA together with the quality of the other untested targets in our 200km² property support this approach.”

Qualified Person's Statement
The technical information related to the current assets of Orosur Mining in this presentation has been reviewed by Miguel Fuentealba, a Mining Engineer who is considered to be a Qualified Person under NI 43-101 reporting guidelines. Mr. Fuentealba is a graduate in Mining Engineering from the University of Santiago de Chile and is an AusIMM Member and Qualified Person of Chilean Mining Commission. Mr. Fuentealba has 20 years of professional experience in the field of mining engineering, mine development and management.

About Orosur Mining Inc.

Orosur Mining Inc. (TSX: OMI; AIM: OMI) is a fully integrated gold producer, developer and explorer focused on identifying and advancing gold projects in South America. The Company operates the only producing gold mine in Uruguay (San Gregorio) and has assembled an exploration portfolio of high quality assets in Uruguay, Chile and Colombia.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation ("MAR"). Upon the publication of this announcement via Regulatory Information Service, this inside information is now considered to be in the public domain. If you have any queries on this, then please contact Ignacio Salazar, Chief Executive Officer of the Company (responsible for arranging release of this announcement) on: +1 (778) 373-0100.

Forward Looking Statements
All statements, other than statements of historical fact, contained or incorporated by reference in this news release, including any information as to the future financial or operating performance of the Company, constitute "forward-looking statements" within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario) and the United States Private Securities Litigation Reform Act of 1995 and are based on expectations estimates and projections as of the date of this news release. There can be no assurance that such statements will prove to be accurate. Such statements are subject to significant risks and uncertainties, and actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements include, without limitation success of exploration activities; permitting time lines; the failure of plant; equipment or processes to operate as anticipated; accidents; labour disputes; requirements for additional capital title disputes or claims and limitations on insurance coverage. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events and such forward-looking statements, except to the extent required by applicable law.

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Condensed Interim Consolidated Statements of Financial Position

Thousands of United States Dollars, except where indicated

	As at February 28, 2018 ($)	As at May 31, 2017 ($)
Assets		
Cash	1,392	3,357
Accounts receivable and other assets	1,611	1,519
Inventories	12,722	13,157
Total current assets	15,725	18,033
Accounts receivable and other assets	224	550
Property plant and equipment and development costs	18,201	16,160
Exploration and evaluation costs	22,088	17,677
Deferred income tax assets	3,115	3,115
Restricted cash	231	229
Total non-current assets	43,859	37,731
Total assets	59,584	55,764
Liabilities and Shareholders’ Equity		
Trade payables and other accrued liabilities	16,730	14,518
Current portion of long-term debt	1,606	202
Warrants	577	-
Environmental rehabilitation provision	243	243
Total current liabilities	19,156	14,963
Long-term debt	120	201
Environmental rehabilitation provision	5,348	5,405
Total non-current liabilities	5,468	5,606
Total liabilities	24,624	20,569
Capital stock	63,461	61,162
Contributed surplus	5,886	5,836
Deficit	(33,431)	(30,913)
Currency translation reserve	(956)	(890)
Total shareholders’ equity	34,960	35,195
Total liabilities and shareholders’ equity	59,584	55,764

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Condensed Interim Consolidated Statements of profit/ (loss) and Comprehensive profit/ (loss)

Thousands of United States Dollars, except for loss per share amounts

	Three months ended February 28,		Nine months ended February 28,	
	2018 ($)	2017 ($)	2018 ($)	2017 ($)
Sales	8,555	8,845	29,534	32,268
Cost of sales	(9,234)	(8,376)	(28.714)	(27,186)
Gross profit/(loss)	(679)	469	820	5,082
Corporate and administrative expenses	(382)	(457)	(1,776)	(1,688)
	(597)	(144)	(1,407)	144
	(6)	(6)	(32)	(17)
	(417)	-	(417)	-
	9	(1)	(35)	(101)
	92	471	222	1,328
Net finance cost	(63)	(53)	(209)	(143)
Derivative loss	-	-	(10)	(412)
Net foreign exchange gain/(loss)	67	78	328	(110)
	(1,297)	(112)	(3,336)	(999)
Profit/(loss) before income tax	(1,976)	357	(2,516)	4,083
Recovery (provision) for income taxes	-	6	(2)	(19)
Net profit/(loss) for the period	(1,976)	363	(2,518)	4,064
Other comprehensive profit/(loss)				
Cumulative translation adjustment	70	109	(66)	52
Total comprehensive profit/(loss) for the period	(1,906)	472	(2,584)	4,116
Profit/(loss) per common share:				
Basic	(0.02)	0.00	(0.02)	0.04
Diluted	(0.02)	0.00	(0.02)	0.04

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Condensed Interim Consolidated Statements of Cash Flows

Thousands of United States Dollars, except where indicated

	Nine months ended February 28,	
	2018 ($)	2017 ($)
Net inflow/(outflow) of cash related to the following activities		
Cash flow from operating activities		
Net profit/(loss) for the period	(2,518)	4,064
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	5,911	4,208
Exploration and evaluation expenses written off	32	17
Obsolescence provision	35	101
Fair value of derivatives	(20)	181
Accretion of asset retirement obligation	57	57
Stock based compensation	50	49
Gain on sale of property, plant and equipment	(65)	(187)
Other	(23)	213
Subtotal	3,459	8,703
Changes in working capital:		

Accounts receivable and other assets	234	(259)
Inventories	397	(220)
Trade payables and other accrued liabilities	2,212	395
Net cash generated from operating activities	6,302	8,619
Cash flow from financing activities		
Loan payments	(176)	(191)
Investment in Anillo	69	-
Loans received	1,500	-
Proceeds from private placement	2,894	-
Net cash generated from/(used in) financing activities	4,287	(191)
Cash flow from investing activities		
Purchase of property, plant and equipment and development costs	(7,897)	(8,829)
Environmental tasks	(114)	(152)
Proceeds from the sale of fixed assets	10	240
Exploration and evaluation expenditure assets	(4,553)	(1,607)
Net cash used in investing activities	(12,554)	(10,348)
Increase/(decrease) in cash	(1,965)	(1,920)
Cash at the beginning of period	3,357	4,320
Cash at the end of period	1,392	2,400

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Condensed Interim Consolidated Statements of Changes in Shareholders’ Equity

Thousands of United States Dollars, except where indicated

	Nine months ended February 28,	
	2018 ($)	2017 ($)
Capital stock		
Balance at beginning of period	61,162	60,751
Exercise of stock options	-	326
Grant of shares	-	33
Private placement	2,299	-
Balance at end of period	63,461	61,110
Contributed surplus		
Balance at beginning of period	5,836	5,925
Stock based compensation recognized	50	90
Exercise of stock options	-	(183)
Balance at end of period	5,886	5,832
Deficit		
Balance at beginning of period	(30,913)	(33,497)
Net profit/(loss) for the period	(2,518)	4,064
Balance at end of period	(33,431)	(29,433)
Currency translation reserve	(956)	(932)
Shareholders’ equity at end of period	34,960	36,577

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