

# Paladin Energy: Financial Report for the Three Months Ended 30 September 2014

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PERTH, WESTERN AUSTRALIA--(Marketwired - Nov 13, 2014) - [Paladin Energy Ltd.](#) ("Paladin" or "the Company") (**TSX:PDN**)(**ASX:PDN**) announces the release of its consolidated Financial Report for the three months ended 30 September 2014. The Financial Report is appended to this News Release.

## HIGHLIGHTS

### OPERATIONS

- Langer Heinrich Mine (LHM) produced 1.027Mlb U<sub>3</sub>O<sub>8</sub> for the three months ended 30 September 2014 as signalled 16 September, 23% below the previous quarter's production largely because of planned maintenance delays, exacerbated by issues associated with unforeseen processing circuit scaling.
- LHM production, post quarter end, is back on track.
- C1 cost of production<sup>(1)</sup>:
  - LHM C1 cost of production for the quarter increased by 13% from US\$31.2/lb in the June 2014 quarter to US\$35.1/lb in the September 2014 quarter due to lower production mentioned above.
- FY2015 production guidance of 5.4 - 5.8Mlb U<sub>3</sub>O<sub>8</sub> remains.
- Paladin continues to move closer to deleveraging the balance sheet.

### SALES AND REVENUE

- Sales revenue of US\$39.0M for the quarter, selling 1.250Mlb U<sub>3</sub>O<sub>8</sub>.
- The average realised uranium sales price for the three months ended 30 September 2014 was US\$31.16/lb U<sub>3</sub>O<sub>8</sub> compared to the average UxC spot price for the quarter of US\$31.17/lb U<sub>3</sub>O<sub>8</sub>.
- Uranium deliveries scheduled for the December quarter total 1.91Mlb with a higher expected average sales price over the September quarter average
- Uranium spot price increased significantly (up 50% in 6 months post April 2014), reflecting tightness in product available in the spot market influenced largely by widespread production cutbacks in FY2014.
- Japan clears final hurdle for nuclear restart.

### CORPORATE

- Sale of a 25% interest in the Langer Heinrich uranium mining operation in Namibia to CNNC Uranium Holding Limited, a wholly owned subsidiary of China National Nuclear Corporation, for consideration of US\$190M completed.
- Existing US\$110M project finance facility and US\$20M working capital facility refinanced into a new US\$70M syndicated loan facility.

- **Future cost optimisation focus continues for both production and corporate costs.**

*(<sup>1</sup>) C1 cost of production = cost of production excluding product distribution costs, sales royalties and depreciation and amortisation before adjustment for impairment. C1 cost, which is non-IFRS information, is a widely used 'industry standard' term.*

## **Results**

*(References below to 2014 and 2013 are to the equivalent three months ended 30 September 2014 and 2013 respectively).*

- **Safety and Sustainability:**

- The Company incurred three lost time injuries (LTIs) during the quarter, two at LHM and one at Kayelekera Mine (KM).
- The Company's 12 month moving average Lost Time Injury Frequency Rate (LTIFR) increased to 4.07 from 3.1 last quarter.
- Following a review of existing practices, LHM conducted in-house training during the quarter in formal risk assessments, permit to work, working from heights, Level 1 isolations and general inductions. This training will assist our personnel in identifying and controlling hazards within the work place and providing knowledge on general work place hazards.

- **Production:**

- LHM produced 1.027Mlb U<sub>3</sub>O<sub>8</sub> for the three months ended 30 September 2014, 23% below the previous quarter's production largely because of planned maintenance delays, which were exacerbated by issues associated with unforeseen processing circuit scaling.

● **Langer Heinrich Mine (LHM):**

- As signalled on 16 September 2014, production for the September 2014 quarter of 1.027Mlb (466t) U<sub>3</sub>O<sub>8</sub> was 23% below the previous quarter's production largely because of planned maintenance delays, exacerbated by issues associated with unforeseen processing circuit scaling.
  - Overall recovery: 83% (FY2014: 87%).
  - Feed grades: 786ppm U<sub>3</sub>O<sub>8</sub> (FY2014: 783ppm).
  - Completed resin replacement for both NIMCIX circuits.
  - Scaling issues now fully resolved.
- LHM production, post quarter end, is back on track.
- LHM C1 cost of production has increased by 13% from US\$31.2/lb in the June 2014 quarter to US\$35.1/lb in the September 2014 quarter due to lower production discussed above.
- The process optimisation strategy will continue to focus on the better utilisation of existing equipment and unit operating costs. In addition, specific focus has been directed towards operator training and supervision as well as further integration of process control.
- Optimisation strategies will produce improved operating performance that will be reflected in FY2015 C1 costs.
- The resin replacement was undertaken, as planned, during the annual scrubber reline, flash/splash annual maintenance and inspection stoppage. By the end of the quarter, resin had been replaced in both NIMCIX systems and they were each operating, as anticipated, above budget efficiency and uranium transfer levels. This was the first resin replacement undertaken for either NIMCIX systems since they were commissioned in 2012 and resin replacement scheduled in the next financial year is expected to have immaterial impact on production with the optimised procedures now established for this change out.

● **Cost Reduction Initiatives:**

- A nano-filtration circuit, similar in principle to the very successful acid recovery plant at KM, is under construction at LHM. This plant is the first phase in a range of innovations and optimisations aimed at achieving a substantial reduction in IX and leach reagent consumptions as well as increased overall recovery. The plant in question is designed to recycle up to 30% of the sodium bicarbonate needed for the operation of the plant, and, in so doing, will also reduce total sodium hydroxide consumption by up to 30%. These two reagents alone represent a significant proportion (circa 50%) of process operating costs. Construction is now well advanced and the Bicarbonate Recovery Plant (BRP) is scheduled for commissioning in the March quarter 2015.
- Further cost savings and optimisation initiatives are being implemented to reduce corporate costs over FY2015.
- Target for LHM is C1 cost below US\$26/lb by the end of FY2015 and US\$22/lb in FY2017 (in FY2014 terms) focusing primarily on reagent recycling, increased recovery overall and plant utilisation improvement.

● **Kayelekera Mine (KM):**

- KM did not operate during the quarter as production was suspended during the June 2014 quarter following the earlier decision to place the mine on care and maintenance.
- KM orderly transition from production to care and maintenance was successfully completed.
- Focus is now on optimising care and maintenance and planning rapid restart to exploit an upswing in the uranium price.
- Further manning reduction was successfully completed.
- Plant modifications for future water treatment were completed and successfully trialled.
- Positive response was received from the Government of Malawi regarding plans for Kayelekera exploration and for future grid power supply development.

● **Profit and Loss:**

- Total sales volume for the quarter: 1.250Mlb U<sub>3</sub>O<sub>8</sub>.
- Sales revenue decreased 43% from US\$69.2M in 2013 to US\$39.0M in 2014, as a result of a 25% decrease in both realised sales price and sales volume. The average realised uranium sales price for the three months ended 30 September 2014 was US\$31.16/lb U<sub>3</sub>O<sub>8</sub> (2013: US\$41.4/lb U<sub>3</sub>O<sub>8</sub>), compared to the average UxC spot price for the quarter of US\$31.17/lb U<sub>3</sub>O<sub>8</sub>.
- Gross Profit of US\$1.4M in 2014 is a turnaround from a gross loss in 2013 due to there being no impairment of inventory, stores and consumables in 2014 (2013: US\$12.0M impairment of KM inventory, stores and consumables). In addition, the gross loss in 2013 included a gross loss before impairments from KM of US\$5.4M.
- Net loss before tax attributable to members of the Group of US\$23.8M was recorded for the quarter.

● **Cash Flow:**

- Cash outflow from operating activities was US\$9.5M for the quarter, after net interest payments of US\$0.2M and exploration expenditure of US\$0.4M.
- Cash outflow from investing activities totalled US\$7.1M:
  - plant and equipment acquisitions of US\$5.5M, including at LHM, the nano-filtration equipment, spiral heat exchangers and purolite resin; and,
  - capitalised exploration expenditure of US\$1.6M.
- Cash inflow from financing activities of US\$137.9M is mainly attributable to:
  - the final proceeds from the sale of a 25% interest in LHM of US\$170M received during the quarter, which has been partially offset by a US\$30.8M repayment of the LHM project finance facility and US\$1.3M in syndicated loan facility establishment costs.

● **Cash Position:**

- Cash of US\$209.5M at 30 September 2014.
- Settlement of the sale of a 25% interest in the Langer Heinrich mining operation for consideration of US\$190M was completed in the quarter. A US\$20M deposit was received in April 2014 with the balance of US\$170M received on 23 July 2014.
- US\$30.8M repayment of the existing LHM US\$110.0M project finance facility as part of refinancing into a new US\$70M syndicated loan facility.

● **Exploration and Development:**

- Aurora - Michelin Uranium Project, Canada - The summer exploration programme was completed by mid-October 2014. The concentrated exploration effort included a combination of geological mapping and prospecting, trenching, soil and biogeochemical surveys, systematic radon analysis in soil and water as well as a heli-borne frequency domain EM survey.
- Work concentrated mainly along the previously identified, prospective Michelin Rainbow Trend within a 5km radius of the Michelin deposit. Early results defined a new target for future testing at the Kojak prospect 3.5km northeast of Michelin. Here a 30m long, and up to 8m-wide, radiometric anomaly of 20-50 times background was identified in strongly altered rhyolite. This new target is situated within an area generally blanketed by glacial till and the anomaly could extend further beneath this cover material. At Melody Hill, 10km north of Michelin, a strong east-west trending magnetic anomaly under glacial till cover has emerged as the possible source for three, previously identified, radioactive boulder trains containing over 800 radiometrically significant boulders, with 19 previously returning grades >1% U<sub>3</sub>O<sub>8</sub>.
- All results from the summer programme will be collated and evaluated over the coming months, with new targets expected to emerge as more results become available.

● **Production Guidance**

- FY2015 production guidance for LHM of 5.4-5.8Mlb U<sub>3</sub>O<sub>8</sub> remains.

● **Sales Volumes**

- Uranium sales volumes are expected to fluctuate quarter-on-quarter due to the uneven timing of contractual commitments and resultant delivery scheduling by customers. Now that production has reached design levels, sales, production volumes and inventories are expected to be comparable on an annualised basis.

● **Langer Heinrich Minority Interest Sale**

- On 23 July 2014, the Company completed the settlement of the sale of a 25% interest in LHM to CNNC Overseas Uranium Holding Limited, a wholly owned subsidiary of CNNC, the leading Chinese nuclear utility, for consideration of US\$190M.
- An offtake component of the agreement will allow CNNC to purchase its pro-rata share of product based on the prevailing market spot price at the time of sale. There is also an opportunity for Paladin to benefit by securing additional long term offtake arrangements with CNNC, at arm's length market rates, from Paladin's share of LHM production.
- Proceeds from the sale will be utilised to repay debt across the Company.
- With this major initiative to joint venture a minority equity stake in Langer Heinrich now completed, the door is open to pursue other opportunities, utilising the unique platform Paladin has developed in the global uranium mining industry, to further consolidate and strengthen its balance sheet. This will, in turn, also prepare the Company for growth into a major Tier 1 uranium producer.

● **Successful Refinancing of Langer Heinrich Facilities**

- On 23 July 2014, the Company refinanced the existing US\$110M project finance facility and US\$20M working capital facility into a new US\$70M syndicated loan facility. Proceeds were utilised to repay US\$30.8M of the existing facility, taking the outstanding balance to US\$70M.
- This new facility will provide significant cash flow benefits and further strengthens Paladin's financial position. The annual principal repayments will be reduced by US\$32M over the first 3.5 years of the facility (2014 to 2017 calendar years), from US\$18.3M per annum to US\$9.1M per annum, with the first repayment of US\$4.55M not due until December 2014.

● **Capital Management**

Paladin continues to move closer to deleveraging the balance sheet. The alternatives being considered look to capitalise on Paladin's unique position in the global uranium market as a platform to growth, whilst

ensuring the maximisation of shareholder value.

### ● Uranium Outlook

Uranium spot price recovery in recent months from a low of US\$28/lb to US\$42/lb indicates both a tightness in supply and the effects of possible realignment of some supply sources due to negative geopolitical developments. With China as the nuclear growth leader, confirming its strong commitment in the build up of its reactor fleet over the next 30 years combined with supply shortfalls identified in the mid-term, uranium is set for a long period of price strength.

Primary product available for the spot market has declined appreciably essentially due to production cutbacks that occurred during FY2014, which are all now affecting supply into the spot market for FY2015 and beyond. Amongst those factors contributing to production cutbacks and availability of product in the spot market are: Paladin placing KM on care and maintenance; Paladin's sale of a minority equity stake in Langer Heinrich with its associated off-take arrangement; the sole uranium producer in Uzbekistan (Navoi) realigning previous spot market material into multi-year sales agreements with two major utility buyers, and US ISR producers and Rossing restricting production only to what they need to deliver into long term contracts. Consequently some 10Mlb to 12Mlb of annual production is removed from the market, thus creating a supply squeeze in the prompt spot market.

Also in Japan authorities have cleared the final hurdle for restart of the Sendai 1 & 2 reactors paving the way for a revival of the stalled Japanese nuclear industry. Start-up of the Sendai 1 & 2 reactors will signify confidence in follow-on approvals on those applications accounting for 18 additional reactors located across 12 sites in Japan.

*The documents comprising the Financial Report for the three months ended 30 September 2014, including the Management Discussion and Analysis, Financial Statements and Certifications are available here and will be filed with the Company's other documents on Sedar ([sedar.com](http://sedar.com)) and on the Company's website ([paladinenergy.com.au](http://paladinenergy.com.au)).*

### **Generally Accepted Accounting Practice**

*The news release includes non-GAAP performance measures: C1 cost of production, non-cash costs as well as other income and expenses. The Company believes that, in addition to the conventional measures prepared in accordance with GAAP, the Company and certain investors use this information to evaluate the Company's performance and ability to generate cash flow. The additional information provided herein should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.*

### **Declaration**

*The information in this announcement that relates to minerals exploration and mineral resources is based on information compiled by David Princep BSc, FAusIMM (CP) who has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mr Princep is a full-time employee of [Paladin Energy Ltd](http://Paladin Energy Ltd). Mr. Princep consents to the inclusion of the information in this announcement in the form and context in which it appears.*

### **Conference Call**

Conference Call and Investor Update is scheduled for 06:30 Perth & Hong Kong, Friday 14 November 2014, 17:30 Toronto and 22:30 London, Thursday 13 November 2014. Details are included in a separate news release dated 11 November 2014.

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