MFC Industrial Ltd. Reports Second Quarter and Six Months Results for 2015

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NEW YORK, Aug. 14, 2015 /PRNewswire/ -- MFC Industrial Ltd. ("MFC" or the "Company") (NYSE: MIL) announces its results for the three and six months ended June 30, 2015 and provides an update on its recent corporate developments. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). *(All references to dollar amounts are in United States dollars unless otherwise stated.)*

Our gross revenues for the first half of 2015 increased 12.9% to $709.6 million from $628.7 million in the same period of 2014, primarily as a result of the consolidation of two acquisitions in the second quarter of 2014, partially offset by a decrease in average natural gas prices and the impact of the stronger United States dollar against the Euro and Canadian dollar. Our net income increased in the first half of the year to $13.3 million from $12.9 million in the first six months of 2014.

While costs of sales and services increased to $649.8 million during the six months ended June 30, 2015 from $554.8 million for the same period of 2014, gross margin declined to 7.7% compared to 11.0% in the prior year period. Again, this was a result of the consolidation of two acquisitions in the second quarter of 2014 with margin profiles below our corporate average, as well as lower average natural gas prices and less income from our iron ore interest.

Selling, general and administrative expenses ("SG&A") decreased to $36.5 million for the six months ended June 30, 2015 from $44.0 million for the same period in 2014, primarily due to the stronger United States dollar versus the Euro and Canadian dollar, partially offset by investments into new markets and geographies. The majority of our SG&A is incurred in Euro and Canadian dollars, and a weakening of these currencies results in a decline when denominated in US dollars. As a percentage of gross revenues, selling, general and administrative expenses were 5.1% in the first six months of 2015, compared to 7.0% in same period of 2014.

For the first half of 2015, our Operating EBITDA decreased by 16.0% to $33.2 million from $39.5 million for the same period of 2014.

Operating EBITDA is defined as earnings before interest, taxes, depreciation, depletion, amortization and impairment. Operating EBITDA is a non-IFRS financial measure and should not be considered in isolation or as a substitute for performance measures under IFRS. Management uses Operating EBITDA as a measure of the Company's operating results and considers it to be a meaningful supplement to net income as a performance measure, primarily because we incur significant depreciation and depletion from time to time.

The following table reconciles our net income to Operating EBITDA for each of the six months ended June 30, 2015 and 2014:

OPERATING EBITDA (in US $ thousands)	6/30/15	6/30/14
Net Income (1)	13,759	13,483
Income Taxes (Recovery) Expense	(252)	5,857
Finance Costs	9,054	8,777
Depreciation, Depletion and Amortization	10,676	11,402
Operating EBITDA (2)	33,237	39,519

Notes:	(1) Includes net income attributable to non-controlling interests.
	(2) There were no impairments in the first six months of 2015 and 2014.

Our income attributable to shareholders increased 3.0% to $13.3 million, or $0.21 per share on a basic and diluted basis, in the first half of 2015, compared to $12.9 million, or $0.21 per share on a basic and diluted basis, in the same period of 2014.

These results are unacceptable, and we are working diligently to execute our strategy, which we believe will return MFC back to greater profitability growth.

Results by Operating Segment

Our income by operating segment for each of the six months ended June 30, 2015 and 2014 are broken out in the table below. We report in three segments: Global Supply Chain; Trade Finance and Services; and Other.

REVENUES BY SEGMENT (in US $ thousands)	6/30/15	6/30/14
Global Supply Chain	693,479	605,542
Trade Finance and Services	2,558	9,377
All Other	13,561	13,792
Gross Revenues	709,598	628,711

INCOME (LOSS) BY SEGMENT (in US $ thousands)	6/30/15	6/30/14
Global Supply Chain	8,856	13,287
Trade Finance and Services	5,306	11,221
All Other	-655	-5,168
Income Before Taxes	13,507	19,340
Income Tax Recovery (Expense)	383	-5,275
Resource Property Revenue Tax Expense	-131	-582
Net Income Attributable to Non-Controlling Interests	-495	-604
Net Income Attributable to Our Shareholders	13,264	12,879
Earnings Per Share, Basic and Diluted	0.21	0.21

Revenues by Geography and Product

Our revenue by geography and product for each of the six months ended June 30, 2015 and 2014 are broken out in the tables below:

GLOBAL SUPPLY CHAIN REVENUES	6/30/15	6/30/14
Wood Products	21%	28%
Steel Products	17%	14%
Minerals, Chemicals and Alloys	40%	31%
Metals	14%	10%
Energy	4%	11%
Other	4%	6%

GROSS REVENUES BY GEOGRAPHY	6/30/15	6/30/14
European Union (excluding Germany)	33%	22%
Germany	34%	38%
Americas	19%	32%
Asia	9%	4%
Europe, Non-European Union	2%	2%
Africa	3%	2%

Balance Sheet

Cash and cash equivalents were $250.1 million on June 30, 2015, compared to $297.3 million as of December 31, 2014. The decrease in cash was primarily the result of a reduction of short-term borrowings and debt.

On June 30, 2015, our trade receivables were $131.0 million and our inventories were $194.0 million, compared to trade receivables of $161.7 million and inventories of $212.6 million as of December 31, 2014.

TRADE RECEIVABLES AND INVENTORIES (in US $ thousands)	6/30/15	12/31/14
Trade Receivables	130,975	161,674
Inventories	194,003	212,577

More than 50% of our inventories have been contracted at fixed prices, while the remainder is comprised of the raw materials, work-in-progress and finished goods at our production facilities, strategic inventories (such as consignment positions) and goods in transit.

Assets held for sale, consisting of certain natural gas assets and an investment property, were $119.3 million on June 30, 2015, compared to $131.1 million on December 31, 2014. The decrease in assets held for sale was a result of the negative impact of the higher United States dollar against the Euro and the Canadian dollar. Liabilities relating to assets held for sale (decommissioning obligations) were $12.5 million on June 30, 2015, compared to $15.3 million as at December 31, 2014.

Our short-term bank borrowings decreased to $133.4 million on June 30, 2015 from $161.3 million on December 31, 2014. Total long-term debt decreased to $270.2 million on June 30, 2015 from $313.1 million on December 31, 2014, primarily as a result of repayments and the negative impact of the higher United States dollar against the Euro.

The following table highlights selected key numbers and ratios as of June 30, 2015 and December 31, 2014:

FINANCIAL POSITION (in US $ thousands)	6/30/15	12/31/14
Cash and Cash Equivalents	250,077	297,294
Securities	192	250
Trade Receivables	130,975	161,674
Inventories	194,003	212,577
Current Assets	745,289	864,804
Current Liabilities	283,278	379,944
Working Capital	462,011	484,860
Current Ratio[1]	2.63	2.28
Total Assets	1,272,110	1,458,684
Total Liabilities	605,163	787,248
Shareholders' Equity	666,379	670,388
Equity Per Common Share	10.55	10.63

Note: (1) The current ratio is calculated as current assets divided by current liabilities.

Our objectives when managing capital are to continue to match the duration of our assets and liabilities to the extent possible and to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk. We set the amount of capital in proportion to risk.

We actively manage our capital structure and make adjustments to it in accordance to changes in economic conditions.

We maintain various kinds of credit lines and facilities with banks. Most of these facilities are short-term and are used for our day-to-day business and trade financing activities in our global supply chain business. The amounts drawn under such facilities fluctuate with the type and level of transactions being undertaken.

As at June 30, 2015, we had credit facilities aggregating approximately $649.4 million, approximately the same on a constant currency basis since December 31, 2104. These credit facilities are comprised of: (1) unsecured revolving credit facilities aggregating $329.7 million from banks; (2) revolving credit facilities aggregating $76.3 million from banks for structured solutions; (3) a non-recourse factoring arrangement with a bank for up to a credit limit of $184.5 million for our supply chain business; and (4) foreign exchange credit facilities of $58.9 million with banks. All of these facilities are either renewable on a yearly basis or usable until further notice.

Iron Ore and Natural Gas

While market conditions are difficult and commodity prices have declined, one of our greatest challenges is that we have a significant percentage of our equity allocated to assets that are simply not contributing to our results. Specifically, our interest in iron ore and our natural gas production and processing subsidiaries are both utilizing significant capital without providing the income for us to generate sufficient returns. We are diligently working to rationalize these assets in a responsible and timely manner.

Iron Ore Interest:

We indirectly derive royalty revenue from a mining lease based on the production of iron ore from the Wabush Ore Mine (the "Mine") in Labrador, Canada. The Mine has operated since 1966, historically producing up to six million tonnes of iron ore concentrates and/or pellets per year.

The Mine is owned by Cliffs Natural Resources Inc. ("Cliffs"). In the first half of 2015, Cliffs announced that it had closed all of their Canadian operations, and subsequently commenced proceedings under the Companies' Creditors Arrangement Act (Canada) ("CCAA") with respect to its Canadian operations. CCAA allows financially troubled corporations the opportunity to restructure their affairs.

When we are able to terminate the lease, **we intend to re-take the Mine and exercise our contractual right to acquire the Mine infrastructure and all of the related property.** Our rights may be delayed due to the CCAA filing.

IRON ORE INTEREST (in US $ thousands)	6/30/15
Interest in Resource Properties	160,964
Deferred Tax Asset	-40,165
Net Equity Allocated to the Mine	120,799

While iron ore prices have declined, it is very important that we do not have any debt on this property. This enables us to take a long-term and unencumbered view to evaluate and exploit this asset.

We believe that the Mine presents an interesting long-term opportunity and we will continue to be responsible stewards of our capital when pursuing this project.

Natural Gas Production and Processing Subsidiary:

We are active in the energy sector through the development, production and processing of natural gas and natural gas liquids at our subsidiary, MFC Energy, in Alberta, Canada.

In late March, we announced a plan to rationalize our energy assets and return certain net proceeds to shareholders and redeploy certain net proceeds in our trade finance business.

MFC ENERGY (in US $ thousands)	6/30/15
Property, Plant and Equipment	54,738
Interest in Resource Properties	132,843
Hydrocarbon Probable Reserves	40,600
Hydrocarbon Unproved Lands	19,968
Gross Assets of MFC Energy	248,149
Long-Term Debt	-68,053
Decommissioning Obligations	-76,791
Net Long-Term Assets of MFC Energy	103,305
Assets Held for Sale	91,199
Liabilities Related to Assets Held for Sale	-12,502
Net Assets Held for Sale of MFC Energy	78,697

While this plan is still ongoing, we have no specified timeline and will make responsible long-term business decisions in the interim period.

We are continuing to preserve our long-term natural gas reserves and ensure that we do not deplete our resources at uneconomic prices. We initiated a program to curtail production at certain of our wells that has focused on our properties in central Alberta that produce a higher mix of natural gas liquids. We are focused on these properties because, while we are able to effectively hedge natural gas, we are not able to effectively hedge natural gas liquids. When production at such wells becomes economical, we will resume operations.

We believe that this program is the prudent action in this environment, as it will ensure that our natural gas remains in the ground, while maintaining the flexibility to monetize our reserves when attractive pricing resumes. **Importantly, this preserves the long-term asset value of these properties.**

Additionally, we have been hedging our natural gas production with Canadian dollar denominated futures based on Alberta market prices. These hedges protect against further price declines, and our intention is to continue this program and hedge additional volumes to preserve our assets and maximize value over the long-term. We currently have approximately fifteen months of natural gas production hedged with durations from September 2015 to March 2017.

Update on Agreement to Acquire a Western European Bank

In June, we announced that we had entered into an agreement to acquire a licensed bank in Western Europe, subject to customary closing conditions, such as the receipt of the regulatory approvals. **This will be a major part of our future.** An in-house bank will enable us to grow the supply chain and structured finance solutions we currently offer to our customers and suppliers. The Company currently expects such regulatory approval process to be completed before year-end.

Alongside this new direction to focus on trade and structured finance, in July 2015 we announced that Peter Kellogg and William Horn III stepped down as directors of MFC. We would like to thank Mr. Kellogg and Mr. Horn for their guidance and contributions. They left the Company with their ideas on corporate governance firmly in place. We are now actively in discussions with a number of potential directors with experience and expertise in export credit, trade finance and banking.

Share Price Development

On August 7 2015, MFC shares closed at $3.41, down 52% since the beginning of the year. Not only have the industries in which we participate underperformed the market, but MIL shares have underperformed those industries.

While our focus is on long-term value creation, we are disappointed with this recent performance on both a comparative and absolute basis.

To put this in another perspective, MFC's shareholders' equity is $666 million, or $10.55 per share, and before including our interest in an iron ore mine and our natural gas assets, is approximately $364 million, or $5.76 per share. Without considering two of our most significant assets, our common shares trade at 0.59x book value, which consists mainly of working capital.

MFC INDUSTRIAL LTD. AS OF JUNE 30, 2015	SHAREHOLDERS' EQUITY	EQUITY PER SHARE	SHARE PRICE (08/07)	PRICE / EQUITY (%)
(in US$ thousands, other than per share amounts, share price and percentages)				
Working Capital (1)	400,616	6.34		
Long-Term Debt	(171,961)	(2.72)		
Other Long-Term Assets	157,873	2.50		
Other Long-Term Liabilities	(22,950)	(0.36)		
Sub-total	**363,578**	**5.76**	**3.41**	**0.59**
Net Assets Held for Sale, MFC Energy	78,697	1.25		
Net Long-Term Assets, MFC Energy	103,305	1.64		
The Mine	120,799	1.91		
Total	**666,379**	**10.55**	**3.41**	**0.32**

Note: (1) Not including Net Assets Held for Sale, MFC Energy

We remain confident in our strategy to rationalize certain assets and leverage our global supply platform with the addition of regulated trade finance products and services. We believe this will benefit all of our stakeholders, and over time, our common share price will converge with its intrinsic value.

Comments

Gerardo Cortina, President and CEO of the Company, commented: "Our corporate priority is simply to do good business, ethically. We adhere to prudent and disciplined policies and practices to provide certainty for our banking partners, our customers and suppliers. Our employees are our greatest assets, and we encourage their entrepreneurialism and advancement through training and experience."

Mr. Cortina concluded, "As we move forward, our goal is to become a premiere regulated trade finance institution. With the acquisition of a European bank, we will be able to offer our customers and suppliers a wider range of structured finance solutions including factoring, inventory financing, forfaiting, marketing and other types of risk management and financing solutions."

Shareholders are encouraged to read our entire unaudited financial statements and management's discussion and analysis for the three months ended June 30, 2015, filed with the U.S. Securities and Exchange Commission on Form 6-K and Canadian securities regulators today, for a greater understanding of the Company.

Conference call

Today at 10:00 a.m. EDT, a conference call will be held to review MFC's announcement and results. This call will be broadcast live over the Internet at www.mfcindustrial.com. Those without internet access or unable to pre-register may in by calling: USA toll free 1 (866) 777 2509 or international dial in 1 (412) 317 5413. An online archive will be available immediately following the call and will continue for seven days. You may also listen to the audio replay by phone by dialing: 1 (877) 344 7529, using conference number 10070875 and international callers dial: 1 (412) 317 0088.

About MFC Industrial Ltd.

MFC is a global integrated trade finance and supply chain company, which is an end-to-end solutions provider for industrial companies around the world. MFC is focused on providing supply chain services and customized structured financial solutions to industrial customers and suppliers. We do business internationally in multiple geographic areas and specialize in a wide range of industrial products that include alloys, metals, minerals, chemicals and wood products.

Disclaimer for Forward-Looking Information

Investors are cautioned that MFC has not completed any technical reports, including reserves or resource estimates under Canadian National Instrument 43-101 with respect to the Wabush mine. No final production decision has been made and any decision will be based on studies demonstrating economic and technical viability.

This document contains statements which are, or may be deemed to be, "forward-looking statements" which are prospective in nature, including, without limitation, statements regarding our future plans, our planned expansion projects, implementation of current strategies, our plan to monetize certain oil and gas assets, our plans regarding our interest in the Wabush mine and proposed acquisition of a bank. Forward-looking statements are not based on historical facts, but *rather on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "forecasts", "projects", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, revenues, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause our actual results, revenues, performance or achievements to differ materially from our expectations include, among other things: (i) periodic fluctuations in financial results as a result of the nature of our business; (ii) commodities price volatility; (iii) economic and market conditions; (iv) competition in our business segments; (v) decisions and activities of operators of our resource interests, including the operator's decisions with respect to termination of the Mine sub-lease; (vi) the availability of commodities for our commodities and resources operations; (vii) the availability of suitable acquisition or merger or other proprietary investment candidates and the availability of financing necessary to complete such acquisitions or development plans; (viii) our ability to realize the anticipated benefits of our acquisitions; (ix) additional risks and uncertainties resulting from strategic investments, acquisitions or joint ventures; (x) counterparty risks related to our trading activities; (xi) the timing and amounts received as a result of our plan to monetize certain oil and gas assets; (xii) our ability to satisfy conditions to the closing of the bank acquisition; (xiii) potential title and litigation risks inherent with the acquisition of distressed assets; (xiv) the availability of services and supplies; (xv) operating hazards; and (xvi) other factors beyond our control. Such forward-looking statements should therefore be construed in light of such factors. Other than in accordance with its legal or regulatory obligations, the Company is not under any obligation and the Company expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information about these and other assumptions, risks and uncertainties are set out in our Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission and our Management's Discussion and Analysis for the three and six months ended June 30, 2015, filed with the Canadian securities regulators.*

SOURCE MFC Industrial Ltd.