

Third Quarter 2021 Financial Results Conference Call Transcript

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Speakers: **Robert Henderson**
President & Chief Executive Officer

Sandra Daycock
Chief Financial Officer

Fernando Cornejo
Chief Operating Officer

Fiona Grant Leydier
Vice President, Investor Relations



Operator:

Welcome to the Great Panther Mining Third Quarter 2021 Financial Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

I would now like to turn the conference over to Fiona Grant Leydier, Vice President, Investor Relations. Please go ahead.

Fiona Grant Leydier:

Thank you, Operator. Good morning everyone. I'm Fiona Grant Leydier. Thank you for participating in our call today.

Before we begin, please note that we will be making forward-looking statements during the presentation. You should be cautioned that actual results and future events may differ from those noted today. The commentary also refers to various non-GAAP measures, definitions and reconciliations that are included in the Company's MD&A for the three and nine months ended September 30, 2021. All dollar amounts expressed in this presentation and the associated financial statements and MD&A are in U.S. dollars, unless otherwise noted.

For reference, during the call, AISC refers to all-in sustaining costs. Detailed cautionary statements can be found at the end of the presentation.

For today's call, please refer to the Q3 2021 financial results news release issued yesterday and the accompanying financial statements and MD&A, which were posted on our website and have been filed on SEDAR and EDGAR.

This conference call is being recorded and will be available for replay later today. Replay information and the presentation slides accompanying this conference call and webcast will be available on our website.

On the call this morning, we have Rob Henderson, President and CEO; Sandra Daycock, Chief Financial Officer; and Fernando Cornejo, Chief Operating Officer.

Robert Henderson:

Thank you, Fiona, and thank you everyone for dialing in today.

On today's call we will walk you through our third quarter production and financial results, as well as spend some time discussing our plan to address the challenges we have in our operations. We'll provide some revised 2021 guidance and some preliminary forward-looking guidance for 2022 to give you a clear picture of the company's outlook.

Our Tucano Gold Mine in Brazil has optionality that affords us the opportunity to shift gears and source production from multiple other open pits plus high-grade underground reserves. The high geological prospectivity of the region also underpins the long-term value of Tucano as we continue to invest in the



regional exploration targets. The land package and the potential for a second or even third mine is where the long-term value exists for Great Panther and shareholders.

Q3 was undoubtedly a challenging quarter. At Tucano, poor mine fleet availability related to maintenance and supply issues led to lower tonnage being mined, and a delay in the completion of the Urucum Central South or UCS pit pushback activities.

In Mexico, the implementation of new labour laws lead to temporary staff shortages resulting in delays in tonnage mined. In addition, production at the GMC mine was primarily from historically mined areas and actual tonnages available were lower than estimated. As a result, our consolidated metal production was 22,444 gold equivalent ounces, which included 18,423 ounces of gold and 280,245 ounces of silver.

As we reported in the second quarter, the UCS pushback activities were expected to continue into the third quarter. Therefore, lower grade ore was mined from the Urucum North pit and it was supplemented by stockpile, resulting in lower average grades in the mill. This resulted in an increase in our unit costs.

Lower metal sales volumes and lower prices for all metals resulted in revenue of \$38.4 million, a mine operating loss of \$7.1 million, and a net loss of \$18 million. We ended the quarter with \$35.9 million in cash and cash equivalents.

Turning our focus now to events subsequent to quarter end, we made the difficult decision to put the Guanajuato Mine and the Cata processing plant on care and maintenance at the end of November. This course of action was necessary given the uncertainty related to the permitting required to expand the tailings storage facilities at our Cata plant. We intend to operate the higher-grade San Ignacio Mine and we're exploring alternative arrangements for the mine, including third-party processing of ore.

In mid-October, following a review of ongoing monitoring of the UCS pits, we were advised by Tucano's geotechnical committee that additional remediation work would be required to improve safety factors. We've decided to postpone this work to mid-2022, so that this remediation can be done more effectively following the rainy season, and now turn our attention to optimize the mine plan to manage cash flow and safeguard strong production for next year.

Limited mining of ore has been authorized in the southern portion of the UCS pits, so we will continue mining there until the end of this year. It's important to note that UCS is just one of many pits at Tucano. The contained ounces are relatively low and it is not the driver of future of growth for the mine. We have a total of eight pits at Tucano including TAP AB, which accounts for the majority of our current reserves. We're doing the work to adapt the mine plan, looking at how much we'll be able to mine from UCS, how soon we can deploy the fleet to TAP AB, and how to make the best use of our resources to optimize production next year. Initial engineering designs indicates that our production will be weighted to the back half of 2022; the first half will see production continue from Urucum North and TAP C, while we invest in the stripping of TAP AB. We're looking at how that stripping can be accelerated to bring TAP AB onstream sooner.



In the first half of 2022, we plan to complete the work necessary to accelerate our plans to bring the Urucum North underground project into production, where we have roughly 288,000 ounces of reserves. With approval expected in Q2, production could come onstream as early as Q4 next year. We also plan to continue investing to secure future production from Tucano through continued regional exploration. Our Tucano exploration budget for 2022 is planned to be roughly in the same order of magnitude as it was this year; however, we'll be undertaking the majority of this work in the second half of 2022 when we expect stronger operating cash flow.

I'll now pass it over to Fernando Cornejo, our Chief Operating Officer, to discuss results from our operations.

Fernando Cornejo:

Thank you, Rob, and good morning everyone.

Focusing first on Tucano, gold production for the quarter was 16,325 ounces compared to the 31,803 ounces in Q3 2020. Average gold recovery was 88.8% as a consequence of lower gold rates at 0.64 grams per tonne. The decrease in production was mostly related to low ounces mined in Urucum Central South pit, which was affected by low fleet availability, geotechnical restrictions due to wall movement, and higher-than-anticipated rain levels. Low fleet availability also affected mining rates in other pits, such as TAP AB and Urucum North.

During the quarter, lower grade ore from the stockpiles supplemented fresh ore from the Urucum Central South and Urucum North pits. Despite the high plant throughput, lower feed grades and lower metal recoveries resulted in an increased AISC with an average of \$2,051 per ounce, compared with the \$1,061 per ounce in Q3 2020. As Rob mentioned earlier, the Tucano Geotechnical Committee advised that an additional pushback will be required to improve safety factors in the north central portion of the pit. At the same time, the committee, after a site visit and evaluation of the overall situation from the ground, authorized the Company to continue mining in the southern portion of the pit, which remains stable as per radar monitoring.

The Company has decided to defer additional pushback activities until mid-2022, right after the rainy season, this to ensure safe conditions for our workers, and also to ramp down mining activities in the southern portion of the pit by the end of December. As a reference, the rainy season in that part of Brazil typically runs from January for about six months. The geotechnical analysis and modelling is still ongoing; therefore, we do not know yet the size of this pushback. More information will be provided once we know more.

On the exploration front, we saw some very promising results in Q3. We completed a total of 15,000 metres of drilling, both in the open pits and the underground. The underground drilling program, which started in late 2020, continued throughout Q3. We are fast-tracking studies for this development to support a start-up decision in late 2022. The project is envisioned as a 40,000 ounce to 50,000 ounce per year underground mine. We plan to extract ore from below the current Urucum North open pit.

Moving onto TAP C, the resource replacement and expansion drilling conducted in this pit has demonstrated continuity of mineralization.



In regards to the regional exploration of our nearly 2,000 square kilometre land package, this year, we have started with an extensive soil sampling campaign and a mapping program over high potential exploration corridors, which were defined last year. As results are received, drill targets are being defined within these corridors. The regional exploration program focuses on the identification and fast-tracking of gold targets within a 20-kilometre radius of the mine that could be exploited by open pit methods and processed by the Tucano plant.

The Mutum Trend is the first of eight high priority exploration targets being evaluated with multi-element soil geochemistry. Q3 exploration results have shown that Mutum has a continuous 3.8-kilometre long elevated gold trend. Drill testing is planned to commence this month and continue into 2022.

At Guanajuato Complex in Mexico, a total of 278,000 silver equivalent ounces were produced, with silver recoveries averaging 87.1% and average silver grades of around 240 grams per tonne. Gold recoveries were 86.4% and average gold grades were 1.64 grams per tonne. Production was decreased by around 17% due to lower throughput and lower silver grades. The lower throughput was mainly related to the implementation of new labour laws in Mexico, which led to labour shortages at the mine. This was also paired with lower-than-estimated production from historically mined areas. As a result of this lower production, the AISC was \$46.90 per ounce of silver compared to the \$18.80 in Q3 2020. As Rob noted earlier, the Company has made difficult decision to put the Guanajuato Mine and the Cata processing plant on care and maintenance at the end of this month.

At Topia, total production was 242,000 silver equivalent ounces, a decrease of 37%, mostly related to lower throughput and lower grades in gold, lead and zinc. The lower throughput was related to the implementation of new labour laws in Mexico, very similar to GMC. The average grades in Q3 were around 373 grams per tonne silver, 0.64 grams per tonne gold, along with byproducts of lead and zinc. Metal recoveries were 93.7% silver, 72.2% for gold.

At Coricancha, in Peru, a 5,000-metre drill program commenced in July focusing on the Escondida, Wellington and Constancia veins. The drilling program was completed in late October with finalized rates to be received by the end of this year.

I will now turn the call to Sandra Daycock, the CFO, to discuss our financial results.

Sandra Daycock:

Thank you, Fernando.

In the third quarter, revenue was \$38.4 million, a decrease of 50% over Q3 2020 due to lower metal sales volumes and lower metals prices of \$1,780 per ounce for gold and \$22.79 per ounce for silver. The mine operating loss before non-cash items was \$7.1 million versus mine operating earnings of \$31.9 million in Q3 2020.

Consolidated AISC per gold ounce sold, excluding corporate G&A, was \$2,247 compared with \$1,023, primarily due to lower production attributed to lower grades and recoveries, which resulted in an increase in cost per gold ounce sold.



As of July 1st, 2021, the Company ceased the capitalization of mining costs for the Urucum open pits as all mining costs, including the pushback, will be expensed for the remainder of the pit life. Please note that this will result in higher cash costs reported for those pits going forward.

The net loss in Q3 2021 was \$18 million compared with net income of \$18.6 million in Q3 2020.

Adjusted EBITDA was negative \$8.8 million compared with \$34.9 million, and cash flow from operating activities before changes in non-cash working capital was negative \$8.7 million compared with \$26.2 million in Q3 2020. This decrease is due primarily to lower gold ounces sold, lower realized gold and silver prices, and higher cash costs stemming from the factors described previously.

We ended the quarter with cash and cash equivalents of \$35.9 million, net working capital of \$3.8 million, and \$33.7 million of current borrowings. We secured new 18-month credit facilities with Asahi and Samsung and re-established a \$25 million at-the-market facility to underpin the Company's working capital position and to execute on growth objectives.

Due to the Q3 production disruptions in Tucano, we have revised our 2021 production guidance for Tucano to between 74,000 and 84,000 gold ounces and consolidated production guidance to a range of 94,000 to 109,000 gold equivalent ounces. Please note that there was an inconsistency in the text of our news release that stated Tucano guidance as ranging from 70,000 to 80,000 gold ounces, although the table provided contains the correct information, as does the Company's MD&A.

Consolidated AISC guidance for 2021 has been increased to a range of \$1,950 to \$2,050 per gold ounce sold.

Looking forward to next year, our preliminary mine plans for 2022 include production of up to 100,000 ounces from Tucano, approximately 75% of which would be delivered in the second half of the year when the TAP AB pit accelerates mining of ore.

As we head into 2022, we are cognizant of the need to judiciously manage capital and we are reviewing a number of potential avenues to set ourselves up for growth in the new year. We have necessary development costs in the first half of the year that will underpin strong cash flow in the second half and we are managing capital accordingly. We are also executing on global cost-cutting initiatives, managing controllable costs and prioritizing capital programs. Overall, we expect production to be healthy in 2022.

Thank you. That's all we have for formal remarks. I will now turn it back to the Operator for Q&A.

Operator:

The first question comes from Jake Sekelsky with Alliance Global Partners. Please go ahead.

Jake Sekelsky:

Hey Rob and team, thanks for taking my questions.

Rob Henderson:

Hello Jake.



Jake Sekelsky:

Just starting with UCS, I mean I know you talked about deferring some of the pushback activities to the middle of next year. Are you able to provide any additional colour on the number of ounces remaining there? I guess I'm just wondering if there's been any thought given to fully transitioning away from UCS all together and moving on to the other pits?

Rob Henderson:

Certainly. In our 43-101 we don't give a detailed breakout, but we do give some analysis of what the pits look like. There's probably about six months of production left in UCS, so in the order of 50,000 ounces. UCS, it's high grade. We are mining it right now, but it's not the future of Tucano. TAP AB has over 100,000 ounces for instance, so we do need to move on from UCS and start extracting the gold from the multiple other pits that are available to us.

Jake Sekelsky:

Okay, that's helpful. Then in that vein, with TAP AB, I mean obviously, it's going to count for the majority of production in the second half of next year. It might be a bit early but do you guys have any indications on sort of the development and stripping costs that we might see there? In the first half next year.

Rob Henderson:

Yes. We're still doing our budgets, but Fernando, maybe you can give a bit more colour on the nature of TAP AB and its stripping requirements.

Fernando Cornejo:

Absolutely. TAP AB is conventionally known as cheaper mining, because it's soft material, easy mining, almost free digging. It's much, much closer to the plant, the crushing portion of the plant. So in terms of costs, we're anticipating that AB will be much cheaper than obviously Urucum, which is located 6.5 kilometres away from the plant.

Jake Sekelsky:

Okay, that's helpful. Just lastly, on the underground scenario, and you may have hit on this; if I missed it I apologize. Should we still expect a formal study there over the next quarter or so? Because I know you guys mentioned you might make a development decision later in the year on that front.

Robert Henderson:

Yes. We're doing work on that study as we speak. We're continuing to drill down to extend it and to confirm the continuity of the higher-grade portion. Yes, we would look at getting that result out in the middle of next year. We would then go to the Board for approval to spend the capital, which is in the order of \$10 million to \$15 million. The mineralization, it's vertical banded iron stone formation that continues just right on from the bottom of the Urucum North pit, so we'd be into the mineralization pretty quickly. If we get a Q2 decision, we could see gold coming into the plant as early as the end of next year.

Jake Sekelsky:

Got it. That's all on my end. Thanks again.



Robert Henderson:

Thank you, Jake.

Operator:

The next question comes from Heiko Ihle with H.C. Wainwright. Please go ahead.

Heiko Ihle:

Hey there, thanks for taking my questions.

Robert Henderson:

Good morning, Heiko.

Heiko Ihle:

Good morning. With the tailings dam permit at Guanajuato, can you maybe provide some colour about the terms, trucking distances, and just more clarity with the associated costs for the alternative arrangements that you're currently looking into?

Rob Henderson:

Yes. As you know, our tailings facility is reaching capacity, so without a permit for our mill we're looking at our two neighbouring mines to see if they have capacity and they indicated they have. The San Ignacio Mine is right next door to the Bolanitos mine, trucking distance is very short. On the other side of town, the El Cubo mine, trucking distance is in the order of 15 kilometres. It's something that we're doing right now; we're trucking our San Ignacio ore to the Cata plant. It's an established process. We are pretty confident that San Ignacio has good grades and we can come to some agreements with our neighbouring mines for a ore processing agreement.

Heiko Ihle:

Okay. Then just thinking out loud here, your outlook for the second half of next year, Tucano is actually pretty good—again for the second half, though below what we have the mine modelled previously for the full year given the issues that you're faced in the first half of the year. Building on all that, extrapolating out the 75% of the 100,000 ounces to the second half, you're looking an average of 37,500 per quarter and we're back on track, at least for our model, with stripping. All that said, two questions. Should we model out the second half 2022 and just sort of keep that figure constant going forward thereafter? Also—I assume the answer is yes but I just want to double check—given that TAP AB, is that a gradual ramp up or should we expect Q1 and Q2 to be more or less the same before it jumps up as this is all done?

Rob Henderson:

All very good questions. TAP AB, it's a pretty big pit. It's been previously mined. We're currently doing a pushback on the next phase right now, so we do get a steady release of gold and that release does occur in Q1 and Q2. We do get some production from TAP AB, but it accelerates in Q3 and carries on into Q4 and, indeed, on to 2023. We do see that Tucano is a 100,000-ounce-a-year open pit producer. That's what we're looking at next year and that's what we're looking at in 2023. But yes, we've got to get into TAP AB and remove a bunch of that soft waste material before we get into the richer ore benches, which releases the gold into the mill.



TAP AB is a steady ramp up into Q3 and then it's sustained into 2023.

Heiko Ihle:

Perfect. Thank you.

Operator:

The next question comes from Joseph Reagor with Roth Capital Partners. Please go ahead.

Joseph Reagor:

Hey guys, thanks for taking the questions. Following a bit on one of Heiko's questions, GMC, what can we expect on a throughput basis from San Ignacio if you do sign one of these offtake agreements or toll-milling agreements?

Robert Henderson:

Obviously it's going to be contingent on what the neighbouring mills can receive. I think right now the San Ignacio Mine is the main contributor to our production at GMC, so we would expect that to continue. The Cata Mine has not provided much ore to the mill in this last year. GMC's production this year has predominantly been from San Ignacio. That level, we would hope to continue that next year, obviously dependent on the ability of the ore processing agreement; that's still TBD.

Joseph Reagor:

Okay, fair enough. Then just kind of following on a bit of the other guys' questions on Tucano, we're just trying to model this out from a cash flow standpoint. Do you think you're going to need some form of additional capital in order to fund everything given the low production rates in the first half of the next year? Would your preference be another forward gold sale? Some kind of debt facility? Or equity, if you had to do something?

Robert Henderson:

I think our balance sheet right now, we've got \$36 million in cash, \$44 million in debt. Sandra is obviously looking at some financing alternatives for us, so maybe she can give some more colour on that.

Sandra Daycock:

Sure. I'd say yes. We have cash on hand, as mentioned. We recently re-established our \$25 million ATM facility, which we can look to use to supplement our working capital needs. We are looking at all options. We haven't made a decision at this point on any future financing, so we don't have a preference—to answer your question—but we do have a number of opportunities we're exploring.

Joseph Reagor:

Okay. Then maybe bigger picture, Rob, the thought with Tucano is that there's a lot of potential, not only in the existing pits and the underground, but also in the region. Is there any opportunity to bring in a neighbouring project to kind of accelerate your movement away from UCS?

Robert Henderson:

Our tenement at Tucano is big; it's 90 kilometres by 30 kilometres so it's a massive, massive area. To the south of us, we do have an iron ore mine that's getting—looking at being reactivated. The old iron ore



mine might come on to production again in a few years. But I think our attention right now is to drill the greenstone anomalies that we have in the region. We've identified three or four very high prospective targets. We've done over 500 kilometre of soil sampling. We've identified Mutum as the highest priority project and we're drilling that as we speak, and we have two others to the north of the mine which are all within trucking distance of the mill. The thinking is that this district does have additional potential, and we do need to get into the region.

The underground, of course, is also a high priority. Underground, we've got the identified underground at Urucum North and we're pushing hard on that one, but again, this is a banded iron formation, vertical, and there are underground opportunities below all of our pits, so we've got to examine those as well.

Joseph Reagor:

Okay, fair enough. I'll turn it over.

Operator:

The next question comes from Matthew O'Keefe with Cantor Fitzgerald. Please go ahead.

Matthew O'Keefe:

Thanks, Operator. Thanks for taking my call. Just a question here going back to Tucano. I understand you source from several pits. How much now is coming from various pits, and TAP AB seems to be kind of on deck to be the big provider next year. What's the cost of the pushback there, and what kind of grades are you expecting to get out of TAP AB?

Robert Henderson:

Yes, TAP AB is kind of our second highest grade. The highest grade we have right now is Urucum Central South. TAP AB is the next highest and it runs at around about 1.7 gram per tonne.

In terms of quantity of material, Fernando, you've got some colour on that?

Fernando Cornejo:

Yes, absolutely. For next year, we're anticipating around 8 million to 9 million tonnes coming from AB1 as we start drilling into ore. This is why it's taking around four to five months to get that stripping done.

Matthew O'Keefe:

Okay. What's the cost of the stripping there? You mentioned it was pretty soft material.

Fernando Cornejo:

It's softer material, so with the rates we manage right now it's probably below 10 reais per tonne.

Matthew O'Keefe:

Okay, but I don't know how many tonnes you're going to move. I'm just kind of trying to understand what kind of money has to be invested here or capitalized here to get into it.

Fernando Cornejo:

That's what I said between 8 million to 9 million tonnes that we need to strip or we can probably...



Matthew O'Keefe:

Okay. I see. I see.

Fernando Cornejo:

Apologies.

Matthew O'Keefe:

No, that's fine. That was me. Okay, great.

That's not your sole source of ore, right? It sounds like you're still taking some from UCS and from other pits but the majority is ...

Fernando Cornejo:

We're scheduling ore coming from Urucum North still. We have TAP C going live in Q1/Q2. We are basically moving ourselves to start with the stripping in Urucum Central South by late June next year. In parallel, we will do stripping on AB1.

Matthew O'Keefe:

Okay. Okay. When I look at the guidance for next year for Tucano, obviously, like you say, it's heavily weighted to the second half. Does that suggest that we're looking at similar to lower grades being produced in the first half than we saw this—I think it was 0.64 this quarter, 0.64 grams per tonne to the mill, I think. Are we're going to be seeing similar to lower grades in the first half? Does that also suggest your stockpile is largely done?

Fernando Cornejo:

Lower grades will continue in Q1. As we move into Q2, they are going to start improving because of TAP C and some initial ore coming from AB1 and Urucum North. In terms of the stockpiles, yes, we're starting to run a little bit lower on those, but this portion of the Central South that we're still mining, which is the southern portion of the pit, is going to help us to preserve some stockpile for Q1 and Q2.

Matthew O'Keefe:

Okay. Okay, thanks. Then just if I can ask one more question—thanks for your patience. On the exploration front, there's been a lot of drilling, a lot going on. There's several pits here that we've been mining over the year. When do we expect a resource update? I forget when you normally do that, but when should we expect a resource update, and what kind of granularity will we see in it? Will we get kind of update pit-by-pit, or sort of just a global type number?

Robert Henderson:

The update is probably going to happen early next year. The update will be very similar to the one we released a year ago, so it does give details for all the pits.

Matthew O'Keefe:

Oh, great.

Robert Henderson:



It's gives all the analysis there. It'll be an update of what we currently have right now. Yes, it's probably going to come out in early next year.

Matthew O'Keefe:

Right, but it should include some of the results from the extensive drilling you've done this year too, correct?

Robert Henderson:

Absolutely, yes.

Matthew O'Keefe:

Okay. That's great. That's it for me. I'll leave it there. Thanks.

Robert Henderson:

Thank you.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Rob Henderson for any closing remarks.

Robert Henderson:

Thank you, Operator. We know it's been a difficult year and we're fortunate to be able to adapt to resequencing of the Tucano mine design in order to tap into gold production from our numerous other pits and our underground opportunities. We are expecting a good year in 2022 from a total production perspective, production that will be back-end weighted, and therefore we have to be prudent about our capital spending to navigate through the first half of the year. We are doing just that through a number of initiatives, and that's preserving capital, efficiently deploying resources, and securing financing.

I am a gold bull and I believe in the strength of the gold price moving forward. It's why I joined Great Panther and why I believe we have a solid future. We're fully leveraged to the gold price, which, given inflationary pressures across the globe, should result in value creation for all stakeholders.

We have a large land package with district sale potential, a differentiating factor that offers us significant upside, and we have the team to execute on our growth objectives with acquisitions as an integral part of our strategy to grow into an intermediate gold producer.

On part of everyone here at Great Panther, we thank you for your support and look forward to sharing our progress with you in the next quarter. Thank you for your time today.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.