GREAT PANTHER
MINING LIMITED

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Year End 2021 Financial Results Conference Call Transcript

Date: **March 3, 2022**

Time: **9:00 AM PT | 12:00 PM PT**

Speakers:

Alan Hair
Chair & Interim Chief Executive Officer

Sandra Daycock
Chief Financial Officer

Fernando Cornejo
Chief Operating Officer

Fiona Grant Leydier
Vice President, Investor Relations

Operator:
Welcome to Great Panther Mining's Year End 2021 Financial Results Conference Call.

As a reminder, all participants are in a listen only mode and the conference is being recorded.

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'll 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 12 months ended December 31, 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 Fiscal Year 2021 financial results news release issued yesterday and the accompanying financial statements and MD&A, which are 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 Alan Hair, Chair & Interim CEO; Sandra Daycock, Chief Financial Officer; and Fernando Cornejo, Chief Operating Officer.

Alan Hair:
Thank you, Fiona.
Thank you, everyone, for dialing in today. I'm pleased to be speaking with you today.

I assumed the role of Chair in December and Interim CEO in late February to lead a strong team that I believe has the bench strength necessary to overcome the challenges of last year and set Great Panther back on the path towards sustainable growth.

The Company has come through a very challenging year. The issues we faced in the UCS pits of the Tucano Gold Mine in 2021 were intensified by contract performance issues. This hampered our ability to fully complete the UCS pushback prior to the rainy season, and resulted in significantly lower production than in 2020.

At Guanajuato Mine Complex, or GMC, in Mexico, we placed the mine complex in care maintenance while awaiting permits to extend the tailings facility, or find other alternatives to maximize the value of GMC. At our Topia mine, a change in labour laws caused low production during the summer months as a result of temporary labour shortages.

I believe that we are well underway to overcome the operational challenges we're faced in Tucano and we have secured a new contractor with a locally sourced fleet, which is already having a positive effect on overall mine performance. For Mexico, we're continuing to look for a long-term solution at the GMC, and have redirected resources in the interim to our Topia Mine to augment production from that site.

Now, our primary focus is to execute and to optimize mine plan for Tucano, return to steady-state production and continue to invest capital into our extensive land tenement package in Brazil.

Low production resulting from the aforementioned operational setbacks in 2021 resulted in a decrease in overall earnings for the year, which we overcame through various measures to preserve liquidity while we invest in the work necessary to set Tucano on the right path.

Revenue for the year was $185.7 million on a consolidated production of 105,000 gold equivalent ounces; 81% of the Company's revenue came from gold and 15% from silver. The remaining 4% of revenues came from lead and zinc at Topia.

Sorry, it’s just a slide switch there.

Consolidated cash cost of $1,440 and consolidated ASIC excluding corporate G&A was $2,029 per ounce gold sold, a result of the investment needed to remediate the UCS pit wall as well as production from UCS pit being suspended, which impeded us from accessing higher grade ore. We ended the year with $47.7 million in cash and cash equivalents and borrowings of $48.9 million. Sandra will go into further detail on these financials later in the call.

Over the course of the year, we had a number of positive developments. We strengthened the Management team with the appointment of a new CFO and CEO, who join me on this call today, and refreshed the Board of Directors to ensure alignment with evolving corporate governance best practices.

Our safety performance improved compared to previous years. Our various safety programs, Beyond Zero, the annual Safety Olympics and the Ken Major Award for Safety Excellence, have positively contributed to our safety culture. These initiatives are designed to empower employees and reward good safe behaviours.

During the year, we maintained robust COVID-19 response plans and protocols, which were managed successfully, minimizing the impact in operations. The exploration team carried out the most significant exploration campaign of our regional tenement package in Brazil in over 30 years, successfully identifying a 16-kilometre gold trend within a 20-kilometre radius of the mine.

What I’m really excited about the results from last year's near mine exploration program. The drill program at the Urucum North Underground project successfully confirmed the continuity of mineralization at depth. We currently have five diamond drill rigs completing an additional 11,000 metres of drilling. This additional information will be used for further engineering studies and a production decision by the fourth quarter.

With that, I will now pass it over to Fernando Cornejo, COO, to discuss results for our operations.

Fernando Cornejo:
Good morning, everyone, and thank you, Alan.

Focusing first on to Tucano. Gold production for the year was 79,248 ounces, compared with 125,417 ounces in 2020. The year-over-year decrease was mainly due to geotechnical issues affecting pit wall instability in the Urucum Central South pit, which contain more than 60% of the ounces scheduled for production in 2021.

The sharp drop in plant feed grades in Brazil reflects the processing of lower grade stockpiles to supplement the high grade ore that was initially planned to come from Urucum Central South. These production issues were amplified by operational challenges related to contractor performance, which caused delays, impeded development, affecting production further.

In Q4, the geotechnical committee determined that additional remediation work will be required to ensure the stability of the wall in the Urucum Central South pit, and this additional pushback has been delayed until mid-2022. To the push for design is currently being fine-tuned by our geotechnical committee and will be complemented by additional field drilling investigation which was suggested by our consultant, SRK Canada.

I'm also pleased to report that we have signed a contract with a new Brazilian mining contractor, Minax, who is currently mobilizing to site. This additional contractor is providing us with a brand new locally manufactured mining fleet, which we expect will improve availability, utilization and productivity in the mine. There will be a transition period while we fully onboard Minax and phase out our current contractor. This transition period should be completed within this year.

Twenty Twenty-one was a significant year for exploration at Tucano. Over 700 kilometres of soil sampling was carried out, as well as magnetic surveys covering the three regional targets, Saraminda, Lona Amarela and Mutum, representing the first major exploration campaign in the region since the ’90s. Along the mine sequence, over 32,000 metres of drilling were completed during the year.

At Urucum North, the planned 8,000 metre drill program was completed, revealing high grade intercepts and demonstrating continuity in the underground zone. A second 11,000 metre drill campaign will be completed by the end of March. This drilling data will be used in technical studies, which will lead to a production decision for the underground project in Q4 and will be followed by portal construction.

At Guanajuato Mine Complex in Mexico, a total of 1,051,336 silver equivalent ounces were produced in 2021 compared with the 1,131,028 ounces and 2020. Recoveries were 86.9% and 86.6% for silver and gold, respectively. And average grades fed to the plant where 117 grams per tonne silver and 1.6 grams per tonne gold.

GMC production was affected by the implementation of new labour laws in Mexico, which led to labour shortage and some stoppages of mining activities throughout the year. Production was also impacted due to mining being scheduled near historically mined areas, which resulted in lower tonnage and lower grades. These issues is combined resulted in a 7% decrease in year-over-year production.

In Q4, the Company decided to place the GMC mine under care and maintenance due to lack of tailings storage capacity. We are in continuous dialogue with SEMARNET in Conagua to obtain the necessary permits to extend our tailings capacity. Replacement in care and maintenance and the lower production lead to an increase ASIC of $37.90 per payable ounce of silver compared with $21.90 in 2020.

At Topia, total production for the year was 1,129,611 silver equivalent ounces compared with the 1,085,985 ounces in 2020. Recoveries were 92.8% and 61.4% for silver and gold, respectively. The average grades feed to the plant were 378 grams per tonne silver and 0.83 grams per tonne gold.

ASICs, or payable silver hours, for 2021 in Topia was $25.20 per ounce, a 28% increase compared to the $19.70 in 2020, largely attributed to the implementation of the new labour laws in Mexico as well as higher mining cost.

At Coricancha in Peru, a new drilling program covering 5,219 metres was completed in 2021. Results indicated the extension of known mineralization in Escondida Bay at high grades, and the results of this drilling will be incorporated into an outdated mind development plan as we evaluate options for this asset.

During the fourth quarter, the Company's operational leadership also changed. We have overhauled the team in all regions, appointing new leaders in Brazil, Mexico, and Peru, which brings a fresh operational perspective on performance. The new operations leadership will be focusing on delivering on guidance and also on cost optimization. This will be accomplished through a systematic renegotiation of all key contracts in our operations, where possible, unlocking further value by creating synergies between our existing operations in Peru and Mexico, as well as an overall review of the current headcount and fixed costs in all regions.
In 2022, consolidated production for the Tucano and Topia mines is expected to be in the range of 100,000 to 119,000 gold equivalent ounces, with the second half expected to account for at least 65% of this guidance.

Our 2022 cash flows will be between $1,200 to $1,300 per ounce and the ASICs will be between $1,600 to $1,700 per ounce, which includes investments in exploration, underground development, and capitalized stripping. The Tucano production plan for this year does not consider any gold ounces coming from the Urucum Central South pit. Mining activities will be executed by two contractors, Minax and U&M. The mine plan for Tucano reflects more stripping in the first half of the year, which will result in higher ASIC costs, but those will be offset by increased production rates in the second half of the year.

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

Sandra Daycock:
Thank you, Fernando.

Consolidated revenue for the year 2021 was $185.7 million compared with $260.8 million in 2020 on consolidated sales of 103,166 gold equivalent ounces versus 148,579 gold equivalent ounces in 2020, a decrease of 31%.

Mine operating earnings before non-cash items totalled $29.8 million versus $124.5 million for the year 2020. The average realized price for gold was essentially flat year over year at $1,784 per ounce in 2021 verses $1,785 per ounce in 2020. The average realized price of silver increased slightly to $24.55 per ounce in 2021 from $21.28 per ounce in 2020.

Consolidated ASIC for gold ounce excluding corporate G&A came in at $2,029 in 2021 per ounce compared with $1,228 in 2020, primarily due to the Company's significant investment in the UCS pushback, which did not yield material gold production in 2021 from that pit. Due to the resulting lower availability of mined ore, the mill feed was supplemented with lower grade stockpile ore that reduced average grades and recoveries, resulting in an increase in cost per gold ounce sold.

Our net loss was $42.2 million dollars compared with net income of $0.3 million in 2020. EBITDA was negative at $5.8 million compared with $51.1 million in 2020. Cash flow from operating activities before changes in non-cash working capital was negative $7.7 million compared with $69 million in 2020.

In 2021, we refinanced our outstanding debt and increased overall debt financing by $15.5 million. In September, we entered a $20 million gold prepayment facility with Asahi and a $5 million lead concentrate prepayment agreement with Samsung, each with an 18-month loan term. Offsetting this, we repaid $10.4 million in a gold prepayment agreement with Samsung and reduced other term loans by $4 million. We also successfully renewed all our unsecured credit facilities in Brazil, and raised an additional net $5.2 million on those facilities.

In addition to debt financing, we re-established our $25 million at the market, or ATM, facility in October 2021. We raised net proceeds of $21.4 million through a bought deal financing in November. We ended the year with cash and cash equivalents of $47.7 million, net working capital of $0.2 million and $48.9 million of current borrowings.

For 2022, my key areas of focus will be cost reduction, control and efficiency at the corporate level and at each of our sites. Our 2022 corporate budget was focused on reducing headcount through attrition and doing more with less, limiting expenditures to mission critical activities.

As Fernando mentioned, at our sites, we made major strides through reducing headcount, limiting capital expenditures and focusing exploration on our highest potential zones. We believe we can run a leaner operation by staying focused and improving collaboration across our global sites, continuing to offer our employees an engaging and rewarding work environment, entrenching are focus on safety, and achieving our growth strategy and production targets.

We expect the sizable stripping program at Tucano in the first half of 2022 to result in additional funding needs, and we're exploring all options to bridge this gap. Investment stripping in our Tap AB and TAP C pit, along with the resumption of UCS pushback, will be critical and setting us on the path to steady state production in the second half of the year and a return to positive cash flow.

Thank you. That's all we have for formal remarks. I will now turn the call back to the Operator for the question-and-answer period.

Operator:
Thank you. The first question comes from Jake Sekelsky with Alliance Global Partners. Please go ahead.

Jake Sekelsky:
Hi, Alan, Sandra and team. Thanks for taking my questions.

Just looking at the Tucano underground scenario. Can you touch on some of the studies and key permits over the next few quarters, and what the timeline looks like for those? I mean, it sounds like you're targeting development for late this year. I'm just trying to get a handle on the specific milestones between now and then.

Alan Hair:
I'll start by answering them. Fernando might add some more colour.

I think the key thing that will influence the timeline currently is the permitting routes. We still need to finalize that with the government. We think that permitting should be minimal, given that it's within the existing operations; but they may want some more extensive work done. So, that remains uncertain.

Then the other workers mainly around the engineering studies, geotechnical studies, hydrological studies that we need to complete just to come up with a with a fully-fledged mine plan and associated economics.

Fernando, is there any other colour you'd provide?

Fernando Cornejo:
No, the comments were well placed, Alan. Certainly, permitting is something that we are already discussing with SEMA, the environmental agency in the State of Amapa. That's where the main effort is going to be to get those licences on time. Thank you.

Jake Sekelsky:
Okay, that makes sense. I know it's kind of hard to peg timelines with permitting, but are you guys hopeful that we'll see or gain some more visibility on that in the second quarter of this year?

Alan Hair:
We hope so. I mean, as it's not unique to this jurisdiction, I mean, coming out of COVID, it's the same challenge in Mexico. There's quite a backlog and just getting through the bureaucracy, which was already extensive is potentially even longer now. So, hopefully, we'll be able to continue to provide clarity, but we are in the hands of those agencies.

Jake Sekelsky:
Got it, okay. Then just switching over to costs in the first half of the year. You mentioned the higher stripping with production more heavily weighted in the second half of the year. I guess, should we expect first half costs to come somewhat in line with what we saw in 2021? Are you able to provide any insight on that?

Alan Hair:
I'll maybe throw that one over to Sandra.

Sandra Daycock:
Yes. I mean, we haven't specifically guided on it. I guess what I can tell you is our mining costs are pretty consistent through the year. So, the difference is really just that the mining costs per tonne are being spent more in the first half of the year on moving waste out for stripping, and then the mining costs in the second half are being devoted to more mining ore. So, if you just assume kind of steady-state costs through your model, you'll arrive at a higher cost per tonne in the first half versus the second.

Jake Sekelsky:
Okay, that's helpful. (Multiple speakers 0:23:17). That makes sense, and that's helpful. Then lastly, just in Mexico, I know you guys are still working towards the tailings permits there. I'm just curious, are you seeing any interest from third parties on the M&A front or on the processing front for Guanajuato 4?

Alan Hair:
Obviously, we're looking at how to maximize the value of all our assets. So, we're continually having conversations, whether it's toll milling arrangements, or things like that. We're also still trying to pursue getting the tailings facility permits, which, again, like Brazil, is heavily backlogged following COVID. So, we're keeping all options open, I think is what I'd say there.

Jake Sekelsky:
Fair enough. Okay. That's all for me. Thanks again.

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

Heiko Ihle:
Hi, thanks for taking my questions. Alan, congratulations on a new appointment. It's nice to be on hold to the Sultans of Swing; when I dialed in, that’s what was playing, so that was fun.

Purely out of curiosity, and I'm not looking for an exact answer, but can you just sort of guide us to how many people are currently doing remediation work on the pit wall of UCS? Maybe just also a hint that a little bit how much all that costs? Again, I'm not looking for a scientific answer, just sort of guidance range.

Alan Hair:
Well, actually, the pushback is delayed until after the rainy season. So, the work we're doing currently is more around just firming up, finalizing the geotechnical understanding.

Again, I don’t know if Fernando has got any more colour he can provide.

Fernando Cornejo:
Yes, that's correct. So, Urucum Central South will restart with the pushback activities in H2. Right now, the flexibility we have is that we not only have U&M; we also have this new contractor, which has new equipment and is also more cost effective. So, we have put options to carry on that stripping as of end of June this year.

Heiko Ihle:
I'm sorry to prod again on this. So, is it fair to say that the actual cash outflows for labour for anything related to UCS is de minimis?

Fernando Cornejo:
The outflows for UCS will come in H2. H1 is mostly related with the stripping on AB1, which is the main pit for 2022 and 2023, also the previous stripping of TAP C, which is a smaller pit that we're also scheduling in Q1 to Q3 this year.

Heiko Ihle:
Got it. Okay. Then completely different question. Inflation. I mean, it's a word that's throughout all the newspapers today. You see it everywhere. Obviously, geopolitical events, recent ones haven't really helped. What are you seeing with inflations? Do you guys have any cost escalation clauses with your various business partners that you might see and that you might get hit by? I mean, my opinion is that longer term, obviously, gold's going to rise quite substantially. This will more than net out. I just wanted to see what you guys had in place for that, please.

Fernando Cornejo:
The remarks done during the call, Heiko, are addressing that. We have suffered increases in most of our contracts because of inflation. In Brazil, was around 10% to 11% increase in some of the key contracts because of the current situation worldwide. This is why we are seeing quite a bit of value on the start-up for renegotiation of the majority of those contracts. That renegotiation, hopefully, will take place over the next two quarters, and the same effects we are seeing also in Mexico. So, it’s a common problem everywhere in the world, but we're having already a plan to address that.

Heiko Ihle:
Right, but there is no maximum like ceiling price essentially built into these contracts. Or is there?

Fernando Cornejo:
No, it's a one-time adjustment per annum, the majority of those.

Heiko Ihle:
But is there a maximum to this one-time adjustment, like a ceiling?

Fernando Cornejo:
In some of them, there is; in some of others, it is open to negotiation.

Heiko Ihle:
Okay. You wouldn't be able to hint at which ones have a ceiling, and what that ceiling might be, would you?

Fernando Cornejo:
I'm afraid not, because that obviously will take away some of the leverage and competition that we can exert from those contracts. So, my apologies for that.

Heiko Ihle:
Okay, yes. No worries. I appreciate it. Thank you guys so much.

Operator:
The next question comes from Joseph Reagor with ROTH Capital Partners. Please go ahead.

Joseph Reagor:
Hi, guys, thanks for taking the questions. A lot of my questions have already been answered. But a couple minor things, I guess.

First one, Topia. With all-in sustaining costs as high as they were in the second half of last year, is there any thought at all that it might be in your best interest to shut the mine down? Are you guys working on some cost saving measures to get those all-in sustaining costs back down to a number that's more in line with current silver prices?

Alan Hair:
Yes, you go ahead, Fernando. You can give more detail.

Fernando Cornejo:
Yes. Hi.

I'm sorry. We have reviewed the strategy in Topia. There was some mistakes made last year on the way in the location of the equipment and the people. We have multiple mines into Topia. So, the plan for this year is targeting newer deposits. We have Rosario, the 1522 Mine in La Prieta, which are higher grades, are semi mechanized, and this is where we're putting the investment for the next 12 months.

If we look at the grades that we had or we saw in 2021 compared to the grades that we're seeing nowadays, it's quite a bit of a difference. So, it's a different strategy, more focused on quality rather than quantity. I think that's creating reasonable results up to this point, which is the first couple of months of the year.

Does that address the question in some regards?

Joseph Reagor:
Yes, that helps. Then at Tucano, given that you can't really start to push back until after the rainy season, how much leeway do you guys feel you have to complete the push back so that you can meet the guide for the second half of the year? What would like a couple of weeks extension of the rainy season do to the plan there? Is there enough built-in leeway, or is it a tight schedule?

Alan Hair:
Just to be clear, the UCS push back will take course through the balance of the year, and we don't expect to see UCS ounces until the following year. So, there's no direct impact to what we've guided on the pushback this year.

Joseph Reagor:
Okay. Maybe a follow-on then. Given that that's the case, can you give us some more colour and why the guide is so back-half loaded?

Alan Hair:
That's as a result of some of the issues that Fernando alluded to of around contracted performance and having to adjust our mine plan quickly. So, with the failure of the UCS pit slope, we didn't have the other areas opened up in time to get the ounces out. So, that's why we're doing a lot of stripping in the first half of the year to access those ounces that we'll realize in the second half of the year.

Joseph Reagor:
Okay. Thanks for clarifying that. One final thing. As you guys internally model out your cash flow over the course of the year, how comfortable are you with your available liquidity options?

Sandy Daycock:
(Multiple speakers 0:32:31). Sorry.
Alan Hair:
Sorry. Go ahead, Sandra.

Sandy Daycock:
Yes, we ended the year with $47.7 million in cash. That was helped by the bought deal financing we did last year. As I mentioned in the call, to complete this pushback in UCS later in second half and pay for some of the heavier stripping costs we're seeing in the first half to get to a stage production, we have determined that we will likely need to secure more financing, and re-evaluating options to do that. We have multiple ways of securing the financing that we've had a track record of doing so far last year.

Joseph Reagor:
Okay, fair enough. I'll turn it over.

Operator:
This concludes the question-and-answer session. I would like to turn the conference back over to Alan Hair for any closing remarks.

Alan Hair:
Thank you, Operator.

We are well into 2022 and are already seeing improvements in our operations thanks to the various initiatives we have discussed in our call today. I believe that we have turned the corner at Tucano and are now focused on executing on the optimized mine plan, which includes investment in advancing the underground project and building on our extensive exploration program of a regional land package. We look forward to sharing your progress with you in forthcoming quarters.

Thank you for your time today.

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