Second Quarter 2022 Financial Results Conference Call Transcript

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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 the Great Panther Mining's Second Quarter 2022 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, and good morning, everyone. Thank you for participating 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 months ended June 30, 2022.

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 cost.

For today's call, please refer to the second quarter 2022 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.

Please note that following the announcement of the sale of our Mexican asset in accordance with IFRS 5, all results associated with the Company's Mexican subsidiary, MMR, and its operations have been classified as assets held for sale. Therefore, during the call, we will be discussing results from continuing operations only, which relates to the Tucano gold mine.

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 at GreatPanther.com.

On the call this morning we have Alan Hair, Chair and Interim CEO; Sandra Daycock, Chief Financial Officer; and Fernando Cornejo, Chief Operating Officer.

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

This quarter was transformative to Great Panther Mining with the agreement reached to sell the Topia mine and the Guanajuato Mine Complex in Mexico. Both silver mines, they were the assets the Company was originally founded on and had provided numerous years of solid results. With the sale of these assets, however, the Company can now focus its resources primarily on Tucano, as this is where we see the most long-term value creation potential for the Company and its stakeholders.

To that end, we are seeing progress at Tucano, as shown in this quarter's results. During the quarter we saw improving levels of production from Tucano and moved a significant amount of materials to position the mine for the second half of the year. We're starting to ramp up in the TAP AB pit and expect it to be back to a regular rate of production by the fourth quarter.

Regarding the underground, the studies for the Urucum North underground project continue to advance, as does permitting, and we expect to complete an updated resource estimate for the underground by the fourth quarter. We hope to have more to report next quarter.

As with many in the industry, we are seeing inflationary headwinds impact our cost of operations significantly more than anticipated for the year. For that reason, we have had to adjust our 2022 cost guidance, which Sandra will detail later in the call. We continue to look for ways to best manage our liquidity, taking cost improving actions and deferring capital expenses where possible.

Revenue for the quarter was $30 million on production of 16,629 gold ounces. Inflation and necessary spending on capital programs led to cash costs of $1,575 per gold ounce sold and AISC, excluding corporate G&A, of $3,080 per gold ounce sold.

As previously stated, we expect to have high costs in the first half of 2022 due to the heavy stripping required to position Tucano for return to steady-state production in the second half. We expect costs to normalize and cash flows to improve as production increases throughout the second half of the year and into 2023. We ended the quarter with $21.1 million in cash and cash equivalents, and borrowings of $43.4 million. Sandra will go into further detail on these financial results later in the call.

I will now pass the call over to Fernando Cornejo, COO, to discuss results from our operations.

Fernando Cornejo:
Thank you, Alan, and good morning, everyone.

Production from Tucano during the second quarter was in line with expectations. Access stripping continued in preparation for accessing main ore lenses and, therefore, better grades in the second half of 2022.

When looking at the production results this quarter compared to the last quarter, we are starting to see modest improvements in line with our plan to return to a normalized rate of production. Gold production for this quarter was 16,629 ounces compared with 14,037 ounces in the first quarter of this year, which is an increase of 18%, and 20,609 ounces in Q2 2021, a decrease of 39%.

Total mine tonnage increased by 76% compared to Q1 2022 and 36% compared to the same quarter last year. This is a result of having two mining contractors, U&M and MINAX, operating in parallel throughout the different pits. Tucano is in the process of moving into better operational conditions with lower stripping ratios for the year and mining higher volumes of ore for the next several months.

Mine ore tonnage in gold grade during the second quarter were also higher compared to the first quarter of 2022. A total of 291,160 tonnes of mine ore were processed this quarter versus 232,213 tonnes in Q1 2022, an increase of 25%, and 211,913 tonnes in Q2 2021, also a 37% increase.

The plant head grade for the quarter was 0.69 grams per tonne compared to the 0.57 grams per tonne in Q1 2022, an increase of 21%, and 0.81 grams per tonne in Q2 2021, a decrease of 15%.

As Alan mentioned, inflation has had a significant impact on all key consumables and services used in our business, including diesel, cyanide and others. In addition, due to higher-than-normal rainfall levels in Northern Brazil, particularly in the first quarter of this year, it was necessary to fast track the expansion of the Tucano tailings facility, as well as the installation of its operators to manage water levels in our tailings facilities. These two items led to an increase in capital spending and led to a higher than anticipated cost for the quarter.

Cash cost per ounce sold were $1,575 compared with $1,617 in Q2 2021. AISC per gold ounce sold, excluding corporate G&A, was $3,080, mostly due to higher stripping levels and additional capital expenditures explained a few moments ago.

During the quarter, the resource conversion program for the Urucum North underground project was completed and an updated resource estimate is currently being developed by our team in Brazil. In parallel, the Company has started trade up studies for ramp development in mining methods in parallel with engineering and metallurgical project work, while planning activities are underway. The permitting process has also started with the state environmental agency, SEMA. Project development, including the update of mineral resources and reserves, is on track to be completed by the fourth quarter of this year.

Digital target definition, validation and prioritization is currently underway in consultation with GoldSpot Discoveries. This project began in June, and results are expected in early August. Portable drills are being contracted, and a 2,500 to 3,500 metre drill program is expected to begin in August upon completion of the gold spot study.

At Coricancha, we are continuing to evaluate options to optimize the project and will report new developments as they arise.

I will now pass the call over to Sandra Daycock to discuss our financial results in more detail. Thank you.

Sandra Daycock:
Thank you, Fernando.

Revenue for the quarter was $30 million compared with $39 million in the same quarter last year, on gold sales of 16,076 ounces compared with 21,459 ounces in the same period last year. The average realized gold price was $1,865 per ounce versus $1,850 per ounce in Q2 2021 and our mine operating income was $0.1 million compared with the loss of $2.6 million. Our net loss was $12.1 million compared with a net loss of $8.7 million in Q2 ’21 and EBITDA was negative $5 million compared with negative $0.9 million in the same quarter last year.

Net cash flows from operating activities before change in non-cash working capital was negative $8.3 million compared with negative $0.9 million in Q2 2021. We ended the quarter with cash and cash equivalents of $21.1 million compared with $35.2 million for the same period in 2021 and $33.4 million at the end of Q1 2022. We made significant investments in the business in the second quarter, including $15 million in stripping, $7.1 million in capital investments, and $1.8 million in exploration. Further, we repaid $5.5 million in debt on a net basis with borrowings totaling $43.4 million on June 30, 2022.

In addition, during Q2, the Company issued shares for proceeds of $3 million through the ATM facility. Finally, we received $13 million in cash proceeds from Nyrstar in relation to a settlement of Nyrstar’s rights and obligations, including Nyrstar’s indemnity agreement in connection with the Coricancha mine.

As Alan and Fernando both mentioned previously, we have determined that Tucano cost guidance for the year must be adjusted. Cash costs have been revised from $1,200 to $1,300 an ounce sold to a range of $1,400 to $1,500 per gold ounce sold. AISC, excluding corporate G&A, has been revised from a range of $1,600 to $1,700 per gold ounce sold to a range of $2,200 to $2,300 per gold ounce sold. The significant difference between AISC and cash cost reflects investments in stripping, which will yield gold production in 2023, as well as necessary capital expenditures Fernando mentioned earlier on the Tucano tailings facilities.

Tucano forecast production remains within the previously guided range of $85,000 to $100,000 ounces. The Company expects to generate positive cash flows from its mining operations in 2022, prior to capital investments, debt repayment obligations, and exploration and development costs. However, further financing will be required to improve working capital, fund some capital investment and exploration programs for its operating mines, and meet scheduled debt repayment obligations. We are evaluating options to secure new sources of capital to allow us to achieve our longer-term objectives.

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:
We will now begin the question-and-answer session. Our first question comes from Heiko Ihle of H.C. Wainwright. Please go ahead.

Heiko Ihle:
Hi. Thanks for taking my questions. I hope everyone is doing well.

Going through your release, there was a sentence in there that you expect a, and I quote, "return to normalized rate of production in the second half." Can you maybe just provide a bit of a month-to-month overview? I mean, we're now in August, I assume July is obviously done, and you put this out after July was over. Can you just give a little bit of colour of how July went, given that there is no RegFD issues, given that this is a public setting here?

Alan Hair:
Hi, Heiko.

I think, you know, it's fair to say the fact that we've kept our guidance unchanged, I think you can work out that we also mentioned that two thirds of our production will come in the second half of the year. We're seeing a progressive ramp up through Q3, and then I would characterize Q4 as being Tucano's sort of steady state. Hopefully, that helps.

Heiko Ihle:
That's fair. Okay. Just moving on a little bit. Alan, you started to talk this call we're talking a little bit about inflation. I mean, it's a topic that's on everyone's mind. Just open up a newspaper. But just moving on from all that, are you having trouble getting any specific components at site? I mean, it seems like random little spare parts or, like, you know, random odds and ends are hard to show up.

It seems like the important things tend to show up, even at a higher cost. But is there anything that you're not getting to site that you need? Is there any bottlenecks that are starting to develop? Or is it just as long as you pay up, everything comes? Just maybe building on all of that, are you seeing anything get worse in that regard?

Alan Hair:
There were certain issues around some parts associated with our mining contractor mobilizing, but I think that was just also part of the mobilization process. Things like bucket teeth and things like that, but I think we're on top of those now. There have been some delays in MINAX fully mobilizing because of some increment supply delays, but delivery dates are set. There's not really that much of a slippage, maybe about a month.

I don't know if Fernando can add any additional colour.

Fernando Cornejo:
Yes, I mean, the delays we have seen with the contractor in terms of parts and the stock components are just part of the mobilization process. But in terms of key consumables in Tucano, we haven't experienced any delays. Tucano is a consolidated mine operation. It has many years that it has been operating, and the supply chain is quite well structured, so yes. No issues from a production perspective specifically on delivery of those supplies.

Heiko Ihle:
That's encouraging to hear. I appreciate everyone's time. I'll get back in queue. Thank you.

Operator:
The next question is from Jake Sekelsky with Alliance Global Partners. Please go ahead.

Jake Sekelsky:
Hi, guys. Thanks for taking my questions.

Sandra touched on this a bit, but I'm just trying to get a handle on where costs might settle in once steady state is reached later this year. I mean, do you think longer-term AISC of $1,200 an ounce or so, sort of like what we saw in 2020, is achievable? I'm just trying to get a sense of what the thinking is there.

Alan Hair:
Well, you can see the ranges that we've guided to, so that should give you a feel for what our expectations are for the balance of the year. A big component of the cost increase has been fuel. It's increased very significantly in Brazil. I mean, I don't know if you saw today, the crude oil price broke below $90, so obviously it's come off quite significantly from its recent high.

We're hoping that we might in some areas see some mitigation of some of these significant cost increases that we've had to bear this year. But it's obviously very hard to tell. I mean, the world's a very uncertain place right now, so it's really hard to look that far into the future. We just projected for the balance of this year in the revised guidance.

Jake Sekelsky:
Fair enough. Okay. Then just on Urucum North underground. I know originally you guys had plans to potentially start development work there later this year. Is that still the plan, or has that been deferred to the first half of 2023?

Alan Hair:
The first thing that we have to really get an understanding on is what the permitting timeline should be. We think that permitting should be relatively simple, given its within existing operations, but we haven't had that confirmed. The exact timing may have been moved out of our hands in any case. That being said, obviously we're still doing the engineering and the optimization work, so that's underway.

We obviously also had to apply some capital this year to address the tailings and water balance likely had reported by a number of companies. We had an unusually high rainfall the early part of this year and have had to sort of alter our capital plans accordingly, especially as we think that the way the world's going, this higher rainfall may actually be the new normal. I think we'll just have to see how the permitting progresses and where we stand from our ability to fund the project before we commit the dollars. Certainly, wouldn't anticipate commencing construction this year; but hopefully, as you suggested, it would be something that we'd be able to move forward next year.

Jake Sekelsky:
Makes sense. That's all for me. Thanks again.

Alan Hair:
Thank you.

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

Joseph Reagor:
Hi, guys. Thanks for taking the questions. Most of the stuff I wanted to touch on has already been asked.

But any update on the fine related to the fish kill that you guys announced, I guess was it late 2021 or early 2022?

Alan Hair:
No, there has been no update on that.

Joseph Reagor:
Okay, and then I saw the settlement on Coricancha. Is this an indication that you guys might be looking to sell that asset as well?

Alan Hair:
We're certainly, as we've said, assessing all our options, including the potential to restart operations there, but certainly everything is on the table right now in terms of what we do with Coricancha. As we've said previously, our capital allocation priorities are on Tucano.

Joseph Reagor:
Okay, fair enough. Then, if you don't sell Coricancha and you just complete the current asset sale, based on your guy's revised cost estimates, do you feel comfortable you can cover your debt with the return to positive cash flow from Tucano?

Alan Hair:
Yes, I mean, as I say, we should be back to steady state operation by Q4 and our current mine plan shows a healthy 2023. We should be in good shape on that basis. You know, we just had to overcome the real pivot in the mine plan with the slope stability issues at Urucum Central South, but we're now coming out the other side of that and I think we're very close to, as I say, returning to steady state production.

Joseph Reagor:
Okay. All right, thanks. I'll turn it over.

Operator:
The next question is from Elise Mochizuki with Akamai Capital. Please go ahead.

Elise Mochizuki:
Hello. Can you hear me?

Alan Hair:
Yes.

Elise Mochizuki:

Hi. Thanks for taking my question.

Last week in the United States, that court trial for those precious metal traders who were accused of manipulating gold and silver prices drew to a close. What message do you think that mining companies might want to tell potential and current investors?

Alan Hair:
Sorry, could you repeat that?

Elise Mochizuki:
Yes, so last week there was that court trial for those precious metal traders that were accused of manipulating gold and silver prices. What message do you think that mining companies might want to tell potential and current investors?

Alan Hair:
I have to confess, I'm not familiar with what you're referencing, and really, gold—

Elise Mochizuki:
No, that's okay moving on to my next question. It's a macro question about the junior mining industry. It's an interesting time for investors thinking of entering or returning to mining stocks where some investors see buying opportunity at reasonable stock prices. When you are speaking with investors, how are you addressing the risk of inflation, recession, and these other economic challenges?

Alan Hair:
Well, I think we as a company are no different from other mining companies and other industries. I think, as I said earlier, we're trying to navigate our way through uncertain times. By doing that, we're, as I say, being careful with our capital allocation. We are looking to where we can reduce costs and improve efficiencies, all the typical things that any company tries to do through a downturn, especially mining companies that are subject to the metal price cycle impacts. I don't think we're doing anything that we wouldn't be doing in other similar situations that the Company has faced in its history.

Operator:
This concludes the time allocated for a Q&A session today. I'd like to turn the conference back over to Alan Hair for any closing remarks.

Alan Hair:
Thank you, Operator.

This quarter was another challenging one, but we are starting to see improvements and continue to progress in the plan to turn things around at Tucano. We expect to see improving results next quarter and beyond and we look forward to sharing our progress with you.

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.