



Andean Precious Metals Corp. Fourth Quarter Results Conference Call Transcript

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Speakers: **Alberto Morales**
Executive Chairman, Chief Executive Officer

Juan Carlos Sandoval
Chief Financial Officer

Segun Odunuga
Executive Vice President, Finance

Trish Moran
Vice President, Investor Relations

Operator:

Good morning. Welcome to Andean Precious Metals conference call to discuss the Company's financial and operating results for the 3 and 12 months ended December 31, 2023. As a reminder, this call is being recorded.

Your host for today is Trish Moran, Andean's Vice President of Investor Relations. Ms. Moran, please go ahead.

Trish Moran:

Thank you. Good morning, everyone.

Before we get started, I would like to point out that during today's call, we may make forward-looking statements as defined under Canadian securities law. I ask that you view our slide presentation for cautionary language regarding forward-looking statements and the risk factors pertaining to these statements.

Our press release, MD&A and financial statements are available both on SEDAR+ and on our corporate website, andeanpm.com.

With us on today's call is Alberto Morales, Andean's Executive Chairman and CEO, Juan Carlos Sandoval, our Chief Financial Officer, and Segun Odunuga, our EVP Finance. Following Management's formal remarks, we will then open the call to questions.

Now over to Alberto.

Alberto Morales:

Thank you, Trish, and welcome everyone.

2023 was a year of change and transformation at Andean. Our new leadership team has significantly advanced the Company's corporate strategy and took meaningful steps to reposition and grow Andean into a mid-tier producer focused on the Americas. During 2023 at San Bartolomé, we strengthened our focus on maximizing cash flow, we successfully transitioned our operating model to focus solely on processing, signing on several large contracts for profitable third-party material, and advancing the tailings silver recovery project. I am pleased to say that San Bartolomé ended the year on a positive note, meeting its 2023 revised production guidance. Throughout the year, the facility did not report any lost time incidents or negative environmental issues, and last spring became both RMI and ISO certified.

2023 was also the year of our first acquisition. In late November, we acquired Golden Queen, a fully permitted gold and silver producing mine located in the mining-friendly region of Kern County, California. In just a little over one year since we assumed the leadership of Andean, we have built a well-funded and sustainable platform for

growth, M&A and value creation in some of the world's leading mining jurisdictions, including the United States. Building on this foundation and looking at the year ahead, we are poised to materially increase our gold and silver production and hence cash flow generation, complete our silver tailings recovery project at San Bartolomé, and achieve operations production and exploration milestones.

On the corporate side, we have added Marcos Holanda as our Chief Operating Officer, further strengthening our management team. Marcos has 35 years of experience as a mine engineer and operations leader in the Americas and Africa, and he's a great addition to the Andean team.

As we have discussed, we are no longer mining our high cost, low grade pallacos in Bolivia. Instead, we are focused on processing better grade third party material, much of which is secured in larger volumes and under longer term contracts. Over the course of 2023, we signed agreements for about one million tonnes of higher margin third party material that will help increase profitability and drive cash flow going forward. These contracts include a significant amount of materials from Bolivian deposits such as Paca, Alta Vista, and Tollojchi. We will also be adding our silver tailings to the mix once the FDF project is complete. Right now, we are targeting completion at the end of April. FDF is expected to represent about 16% of San Bartolomé's silver production in 2024.

We recently put out a NI 43-101 technical report prepared by SRK Consulting. It puts reserves on the books and extends the operating life of San Bartolomé by 4.6 years. The report considers only our larger volume, longer term contracts of the Company's purchases and our FDF materials. It excludes materials purchased from small independent third-party miners. We will continue to seek new sources of high margin and higher-grade contracts during the course of 2024 and beyond.

As our growth strategy in Bolivia, the country has an exceptional mineral endowment that remains unexplored. Bolivia has attracted a wide variety of mining and resource companies and it relies heavily on mining's positive economic impact and capacity to generate foreign revenue. We know the country well and believe that it remains a jurisdiction in which we can do business and create value for our stakeholders. Going forward, we see strong potential for further growth at San Bartolomé.

As mentioned upfront, we made our first acquisition in 2023. The Golden Queen acquisition ticked a lot of boxes for us. It offers a fully permitted open pit heap leach operation in a tier 1 jurisdiction. The acquisition advances our goal of becoming a mid-tier producer in the Americas, and it removes the risk of being a single asset, a single metal producer and in a single jurisdiction. Most importantly, Golden Queen and its Soledad Mountain mine come with the opportunity to enable our team to do what we do best, which is to create value from an undervalued asset.

In January, we released a new technical report and updated the mineral resource and mineral reserve estimate for Soledad Mountain that fully met our base case expectations. Now our priorities are focused on the opportunities ahead, namely optimizing the mine plan, improving ore control, ore recovery and production, and increasing cash flows and cost per ounce. We are also defining and prioritizing exploration targets to help realize the potential upside at Soledad Mountain and add to the operation's life of mine.

As you know, we had a fire at the secondary crusher in mid-December. Following this incident, Golden Queen's operations were reduced for a period of approximately five weeks, after which we resumed full operation. As a result, there was minimal impact on our full year 2024 production forecast. We would like to recognize our team, suppliers, contractors and first responders for their exceptional efforts to return Golden Queen to regular operations and full production after the fire. We appreciate your around-the-clock efforts and are truly grateful that everyone remained safe. Thank you all.

Following the Golden Queen acquisition, Andean is a very different company than it was just 12 months ago. We have developed a strong platform to support our five-year vision of becoming mid-tier precious metal producer in the Americas. We have years of available reserves, as well as a diversified asset base of gold and silver production that is expected to drive growth and cash flow and profitability going forward. Our production is expected to more than double in 2024 and, if metal prices stay at current levels, revenue will grow significantly as well. Further, our operational expertise enables us to identify and act on future opportunities for growth through acquisitions. In short, we are in a strong position to grow both organically and through M&A.

With that, I will hand over the reins to Juan Carlos, who will review our financials in more detail.

Juan Carlos Sandoval

Thank you, Alberto. To better understand our fourth quarter and full year 2023, let's look at the impact of Golden Queen's acquisition on our financial statements.

Going to Slide 13. With Golden Queen we acquired net assets with a preliminary fair value of \$53.5 million. For accounting purposes, the aggregate purchase consideration for the acquired assets net of the liabilities is \$17 million. This includes an initial cash payment of \$5 million plus \$2.8 million in net working capital adjustments, and two deferred payments of \$5 million each, the present value of which is \$9.2 million. Market conditions were in our favour during acquisition negotiations. The result is that we recognized a bargain purchase gain of \$36.5 million mainly due to the difference between the fair value and the consideration paid as it relates to mineral property plant and equipment and inventories net of the associated deferred tax liabilities.

As you review our financial statements, please note that the preliminary fair value of the assets and liabilities are included in our year-end balance sheet. The \$36.5 million purchase gain has been recognized in our P&L; however, I should highlight that we have one year from today to finalize the acquisition accounting.

Moving to Slide 14, our year-end P&L also includes the impact of Golden Queen for the stop period from November 24, the acquisition date, to December 31, 2023, during which Golden Queen contributed \$13.3 million in revenue and \$0.4 million in pre-tax income in 2023. It should be noted that had the acquisition been completed on January 1, 2023, Golden Queen's full year contribution to revenue would have been \$91.3 million. This would have increased our consolidated 2023 revenue to \$216.7 million.

This brings us to Slide 15 to discuss our consolidated operating and financial performance. Operationally, the fourth quarter was the strongest quarter of the year for San Bartolomé, propelling full year production to 4.7 million ounces of silver equivalent. Together with Golden Queen's contribution of close to half a million silver equivalent ounces, our consolidated full year production was approximately 5.2 million ounces. Our average realized silver price per ounce in 2023 was \$24.14, outperforming the average market spot price by 4%. The result was a 16% increase in full year 2023 revenue compared to the previous year, and a 46% increase in consolidated gross operating income.

G&A was down nearly 10% year-over-year despite incurring one-time acquisition costs of \$4.6 million relating to external legal, financial and advisory fees, as well as due diligence costs. As discussed, we recognized a \$36.5 million purchase gain on the Golden Queen acquisition which bolstered our bottom line to \$38.5 million compared with \$10 million loss in 2022. Adjusted EBITDA, which excludes the purchase gain, increased to \$20 million, up from \$3.5 million in the previous year. Overall, 2023 showed improvement, a trend we believe will continue in 2024.

Moving onto our capital structure on Slide 16. As at December 31, 2023, even with the acquisition of Golden Queen which doubled the size of our Company, we had liquid assets of nearly \$73 million, including \$65 million in cash, a negative net debt, and \$100 million of working capital. To provide further financial flexibility at the end of February, we obtained a \$25 million secured line of credit. Our mandate is and will continue to be maintain our balance sheet to support future growth.

Turning now to our 2024 guidance on Slide 17. Please note that as we go through this section, the numbers I provide for production cost and CapEx should be considered estimates plus or minus 5%. On a silver equivalent basis, our 2024 consolidated production is expected to double versus 2023. San Bartolomé's contribution to 2024 production is anticipated to be 5 million ounces. Most of the material to be processed will come from third party purchased material, however we will also start blending our tailings material once the FDF project is completed in

Q2. We are estimating an average head grade of 144 grams per tonne and a calculated recovery rate of 78%, the same as last year.

At Golden Queen, despite the impact of December's fire on the first quarter, the 2024 production outlook is for 60,000 ounces of gold equivalent. This equates to about 5.4 million silver equivalent ounces. To achieve 60,000 ounces, total mine tonnage is estimated to be in the range of 26.8 million tons, including 3.9 million tons of ore to be stacked at the leach pad. The resulting strip ratio is 5.9 to 1.

Our cost guidance is outlined on Slide 18. With the change in San Bartolomé's business model and the focus on cash flow, we are adopting two new cost metrics. The first is a cash gross operating margin which in 2024 is expected to be 3.88% per silver equivalent ounce compared to 2.71% in 2023. The second new metric is gross margin ratio, anticipated to be 19.5% in 2024 compared to 12.4% in 2023. For Golden Queen, our 2024 outlook is for operating cash cost per gold equivalent ounce produced of \$1,500, and ASIC of \$1,750 per gold equivalent ounce sold.

Finally turning to our CapEx guidance on Slide 19, CapEx which is expected to be in the range of \$24 million will be financed from cash on hand, cash flow from operations, and third-party financing. Much of the CapEx spend is at Golden Queen. Since making the acquisition and becoming more familiar with the asset, we have pinpointed significant opportunities to grow production, create efficiencies, and reduce long term cost and extend the mine life. The money we are spending is to ensure that we maximize the value of Golden Queen. It includes \$9.5 million in growth capital for the procurement of six new haul trucks. These trucks are being financed under a five-year arrangement, and the cost benefit derived from the efficiencies and optimization far outweigh the cost to finance. Our CapEx at Golden Queen also includes \$8.3 million of sustaining capital related to the major overhaul, maintenance and rebuild of equipment. Lastly, there is also \$1 million earmarked for exploration. Approximately \$2.7 million included in the San Bartolomé 2024 sustaining CapEx relates to the continued expansion of the tailings dam to the south and to the north to accommodate future storage.

Now back to you, Alberto.

Alberto Morales:

Thank you, Juan Carlos.

2023 was both a productive and transformational year for Andean. Looking ahead to 2024, we have many key catalysts, milestones and opportunities on the horizon: at San Bartolomé, we will be working towards signing additional agreements to process high margin third party ore and completing our FDF silver recovery project; at Golden Queen, to materially increase our annual gold production and leverage our experience and expertise to optimize operations and production, improve margin, cash flow and costs. We also look forward to announcing

drill and exploration results while identifying promising targets for follow-up and further discovery; and finally, we will continue to focus on growth and M&A prospects.

Our board and management team are firm believers in the Andean story and therefore, as of Monday, we have purchased almost 8.5 million of our shares through our initial and current NCIB programs.

This concludes our remarks. We will now open the lines for questions. Operator . . .

Operator:

Thank you. We will now begin the question-and-answer session.

To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We'll pause for a moment as callers join the queue.

The first question comes from Eleanor Magdzinski of SCP Resource Finance. Please go ahead.

Eleanor Magdzinski:

Good morning. Can you all hear me okay?

Alberto Morales:

Yes, can you speak a little louder, please?

Eleanor Magdzinski:

Yes, I'll just switch off my headset - I find that's probably a bit better.

Alberto Morales:

Yes, we can hear you better. Yes.

Eleanor Magdzinski:

Okay, wonderful. I have a couple of questions.

First of all, congratulations on a great quarter, and—yes, and really showcasing the quality of your assets here. The first question I had has to do with the guidance for San Bartolomé of U.S. 3.88% an ounce for the operating margin. I know this is a new metric, as per the more recent discussion, but I was just wondering, is this considered basically the cash flow cost before CapEx and tax, or how was this—I guess, how was this metric determined, basically?

Segun Odunuga:

Thank you, Eleanor. As we mentioned, this is a new metric for us. This does not include any taxes or any CapEx. This is purely from taking the revenue less the cost of sales and adding the business unit general and admin cost, that's all.

Eleanor Magdzinski:

Oh, okay. Okay, perfect. Then the second question I had has to do with the Soledad guidance. Just wondering what the implied silver grade is within the 0.85 gram per tonne gold equivalent head grade on both the milled and for mined.

Segun Odunuga:

For the silver grade, it's close to about 11 grams per tonne for the silver grade at Soledad.

Eleanor Magdzinski:

Okay, and that's for both mined and milled?

Segun Odunuga:

No, no, no - it's different. The two—as you know, as San Bart has is significant silver production, we hit our silver production on operations, and the grade average is about—depending on the kind of material that we purchase from the third-party, we see it as high as 354 grams per tonne to as low as 160 to 180 grams per ton.

Eleanor Magdzinski:

Okay, but for the Golden Queen asset itself, I just noticed in the more recent report, there was a—the gold ounces—or sorry, the gold grade and then the gold head grade reported, but not for silver. I was just wondering, we had about 9 grams per tonne for gold, but I was just wondering what the mined and milled gold grades were for Golden Queen.

Segun Odunuga:

Yes, just to clarify something for you, Soledad gold mine is purely gold operations. Silver is just a by-product. We are forecasting less than a million ounces of silver for this year, so it's very, very minor in our operations at Golden Queen.

Eleanor Magdzinski:

Yes, for sure. Yes, I was just—we had just modeled it based on the study, so I just wanted to see. We'll have to just kind of re-jig our model. We had put in around 9 grams...

Segun Odunuga:

Yes, okay. We will get back to you on the silver grade per ton—grams per tonne that you are asking for. We will provide that to you shortly.

Eleanor Magdzinski:

Okay, great. Thank you, I really appreciate that.

I have—I'm aware I'm hogging the line here, but I just have one more question related to that. For the recoveries for Golden Queen, what were they around for this past quarter? I don't think I saw that.

Segun Odunuga:

It's roughly about 68% recovery.

Eleanor Magdzinski:

Wonderful, and I'll see if I have—oh, I actually had one last one. I was just curious on the royalties, the royalty split between payments, I guess between the two assets. I know it's a pretty granular detail, but I was just curious if you kind of had that top of mind, by any chance.

Juan Carlos Sandoval:

Yes, it's mostly related to Golden Queen, and it's between 2.5% and 2.8%, more or less.

Eleanor Magdzinski:

Okay, but for the total royalty payment in the last quarter, do you have the breakdown of what the cost would have been per each asset?

Juan Carlos Sandoval:

We can get that to you. Right now, we don't have the breakdown by asset, but we can certainly get that for you.

Eleanor Magdzinski:

Okay, great. I think those are all of my questions. Sorry for really getting into the nitty-gritty here on that. I really appreciate the feedback, and thanks again. Great job again on a great quarter.

Alberto Morales:

Thank you, Eleanor. Any further questions?

Operator:

Once again, if you have a question, please press star, then one.

As there are no further questions, this concludes the question-and-answer session and today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.