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Hudbay Minerals' (HBM) CEO Alan Hair on Q3 2017 Results - Earnings Call Transcript

Nov. 2, 2017 4:45 PM ET
by: SA Transcripts

Q3: 10-08-17 Earnings Summary

Press Release *Slides* *News*

EPS of $0.17 beats by $0.01 | Revenue of $370.35M (+ 18.9% Y/Y) beats by $4.61M

Hudbay Minerals Inc. (NYSE:HBM)

Q3 2017 Results Earnings Conference Call

November 2, 2017, 10:00 AM ET

Executives

Carla Nawrocki - Director, Investor Relations

Alan Hair - President and Chief Executive Officer

David Bryson - Senior Vice President and Chief Financial Officer

Cashel Meagher - Senior Vice President and Chief Operating Officer

Analysts

Orest Wowkodaw - Scotiabank

Matt Murphy - Macquarie Capital Markets Canada Ltd.

Brett Levy - Deutsche Bank

Greg Barnes - TD Securities

Stefan Ioannou - Cormark

John Tumazos - John Tumazos Very Independent Research

Alex Terentiew - BMO Capital Markets

Anita Soni - Credit Suisse

George Topping - Industrial Alliance Securities

Pierre Vaillancourt - Haywood Securities

Jacques Wortman - Eight Capital

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Hudbay Minerals Inc. Q3 2017 conference call. At this point, all participants are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. [Operator Instructions]

I would like to remind everyone that this conference call is being recorded today Thursday, November 2, 2017 at 10 AM Eastern Time.

I will now turn the conference over to Ms. Carla Nawrocki. Please go ahead, Ms. Nawrocki.

Carla Nawrocki

Thank you, operator. Good morning and welcome to Hudbay's 2017 third quarter results conference call. Hudbay's financial results were issued yesterday and are available on our website at www.hudbay.com.

Corresponding PowerPoint presentation is also available and we encourage you to refer to it during this call.

Our presenter today is Alan Hair, Hudbay's President and Chief Executive Officer. Accompanying Alan for the Q&A portion of this call will be David Bryson, our Senior Vice President and Chief Financial Officer; Cashel Meagher, our Senior Vice President, Chief Operating Officer; Javier Del Rio, our Vice President of South America Business Unit; and Andre Lauzon, our Vice President of Manitoba Business Unit.

Please note that comments made on today's call may contain forward-looking information and this information may, by its nature, subject to risks and uncertainties and, as such, actual results may differ materially from the views expressed today.

For further information on these risks and uncertainties, please consult the company's relevant filings on SEDAR and EDGAR. These documents are also available on our website.

As a reminder, all amounts discussed on today's call are in US dollars unless otherwise now.

And now, I'll pass the call over to Alan.

Alan Hair

Thanks, Carla. Good morning, everyone. We continue to generate growing positive free cash flow during the third quarter as we delivered on our operational targets, while realizing higher metal prices.

Our strong cash flow generation helped to significantly reduce our debt balances this quarter. We also applied part of the proceeds from the equity offering in late September to fast track debt production and have fully repaid the remaining cash borrowings under our senior secured credit facilities.

Net debt declined by $300 million from the end of the second quarter to $650 million. With our reduction of debt over the last several quarters, we are now well-positioned to fund the development of our growth pipeline.

Our total liquidity, including cash and available credit facilities, was approximately $750 million, up from approximately $500 million at the end of last quarter.

Our Peru operations remain on track to meet production and cost guidance for the year. Our Manitoba operations are on track to meet production guidance for 2017, with moderately higher operating cost and guidance, which I will speak to later in the call.

And finally, progress continues to be made at Rosemont with the draft mine plan of operations and outstanding Section 404 water permit.

Taking a closer look at the third quarter results, consolidated zinc production increased by 5% in the second quarter of 2017, while consolidated copper production was essentially unchanged.

Consolidated cash cost, net of byproducts, increased by $0.01 in the second quarter of 2017 to $0.86 per pound of copper.

Consolidated all-in sustained cash cost net of byproducts was $1.64 per pound of copper, which was higher than the second quarter, mainly due to planned higher sustaining capital expenditures in Peru during the dry season.

Net profits and earnings per share in the third quarter were $41 million and $0.17 respectively compared to a net profit and profit per share of $26 million and $0.11 respectively in the second quarter of 2017.

Operating cash flow before change in non-cash working capital increased by 24% to $154 million, up from $124 million in the second quarter.

The increase in net profit and operating cash flow is the result of growth in sales volumes of zinc and gold and higher realized copper and zinc prices.

Cash and cash equivalents increased by $176 million in the third quarter to $329 million, primarily as a result of operating cash flow generation and the equity issuance, offset by debt repayments and capital investments. As a result, our total available liquidity increased to $750 million as I mentioned earlier.

[indiscernible] Constancia mine for just approximately 31,000 tons of copper during the third quarter, which was higher than the second quarter, primarily due to improved mill throughput.

Ore mined at Constancia during the third quarter increased compared to the second quarter as we continue to increase stockpiles to improve our ability to blend ore at the processing plants.

Milled copper grades in the third quarter were lower than the second quarter as expected as Constancia entered low-grade phases of the mine plan, but remained higher than the expected grades as outlined in our recent technical report for Constancia.

Recoveries of copper, gold and silver in the third quarter improved compared to the second quarter of 2017.

Improvements in process recoveries continue to be implemented and evaluated in conjunction with the continued positive grade reconciliations.

Our 5,000 meter drill program is underway to twin some of the original diamond drill holes in the deposit in order to get a better understanding of the nature of the positive grade reconciliation. The drill program is two-thirds complete and is scheduled to conclude in the coming weeks. We expect to provide clarity on the positive grade reconciliation by early next year.

Combined mine, mill and G&A unit operating costs decreased in the third quarter compared to the second quarter as a result of increased throughput and lower operating costs.

Constancia's cast cost, net of byproduct credits, was $1.19, down from $1.24 per pound in the second quarter, reflecting lower unit operating costs and higher copper production.

Sustaining cash costs, net of byproduct credits, was $1.80 per pound, a slight decrease from the second quarter of 2017.

Constancia's production and combined unit operating costs are expected to be within guidance range for 2017.

The Manitoba operations produced approximately 36,600 tons of zinc, 9,500 tons of copper, and 28,500 ounces of gold equivalent precious metals during the third quarter.

Production of zinc and precious metals was higher than the second quarter as the result of higher grades at 777 as well as higher ore outputs at Lalor.

Production of copper decreased compared to the second quarter because of lower production at 777.

777's production and costs were affected by plugged paste backfill line at the start of the quarter that has since been restored. The lack of paste backfill reduced the number of production stops in the quarter and 777 costs were affected by cleaning and redrilling of backfill holes and the cost of cemented rock fills to mitigate the lack of paste.

The impact to production rates is expected to continue into the fourth quarter of 2017 due to the reduced availability of mineable stopes, with the mine expected to return to normal production rates and expected unit costs towards the end of the year.

We expect to maintain mill throughput at Flin Flon with stockpiled ore from Lalor in the fourth quarter. And accordingly, we continue to expect Manitoba contained metal production to fall within guidance.

We'll likely see some modestly higher cost of sales in the fourth quarter, though, as higher cost 777 ore [indiscernible] is milled.

Manitoba combined mine, mill and G&A unit operating costs in the third quarter were higher than the second quarter, mainly due to the higher 777 costs.

As we noted last quarter, the strong ramp-up of ore production from the Lalor mine in the first half of 2017 resulted in the accumulation of an ore stockpile as Lalor's production exceeded the Stall concentrator’s current milling capacity.

Given the spare capacity at the Flin Flon concentrator, we continue to truck some of the stockpiled ore to Flin Flon for processing in the third quarter and plan to do so for the remainder of the year.

We are working toward reducing the stockpile to our normal levels, which is approximately 70,000 tons lower than the stockpile we had in surface as at September 30, 2017.

This excess tonnage at surface contributed to the increase in our combine mine, mill and G&A unit operating cost for the quarter as that metric is expressed as total cost during the period irrespective of inventory changes, divided by the tons of ore milled.

We expect to reduce stockpile to normal levels by the second half of 2018, which will reduce future unit costs. Future unit costs will, however, be affected by higher Reed mine unit cost, given that we have ceased the capitalization of development costs and additional costs will be incurred to continue trucking Lalor ore to the Flin Flon mill.

As a result, Manitoba combined unit operating costs for the full year are expected to be in line with year-to-date actual costs of approximately CAD 115 per ton.

Manitoba cash cost, net of byproduct credits, in the third quarter of 2017 was negative

$0.20 per pound of copper as a result of significantly increased byproduct credits for all metals.

Sustaining cash cost, net of byproduct credits, in the third quarter 2017 was $0.59 per pound of copper for the same reason.

We continue to sell excess zinc concentrate inventory during the quarter, which is expected to continue as long as concentrate production exceeds zinc plant processing capacity.

We're making progress in our evaluation of how to best optimize Lalor and are available – sorry, we are making progress in our evaluation of how to best optimize Lalor and our available processing capacity and will be in a position to provide further details early next year.

We continue to focus on maximizing ore production from Lalor and believe that processing Lalor base metal ore at both Stall and Flin Flon will generate the highest returns.

As a result, we are not likely to expand the Stall concentrators processing capacity at this time.

In addition, we're advancing our assessment of how to maximize value from the gold zone mineralization at Lalor. As part of that, we have planned to take a sample of gold zone material to the Flin Flon concentrator for processing this month.

Evaluating the potential gold recoveries at the Flin Flon mill versus assessing the economics of refurbishing the New Britannia Gold Mill. We expect to be in a better position to provide guidance on our Lalor forecast and strategy in early 2018.

As we approach the end of the year and looking forward to 2018, we will continue to focus on generating positive free cash flow. We've allocated to debt reduction a substantial part of the more than $250 million of free cash flow generated so far this year.

From a growth perspective, we remain committed to advancing the existing opportunities in our pipeline, such as the inclusion of the Pampacancha deposit into the Constancia mine plan, the ramp up of production at Lalor and the continued advancement of permitting activities at Rosemont.

We also remain committed to evaluating exploration and acquisition opportunities in the countries where we operate, providing [ph] long-term organic growth potential in our pipeline.

With that, we're pleased to take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. We'll take our first question from Orest Wowkodaw. Please go ahead.

Orest Wowkodaw

Hi. Good morning. I have a couple of questions on Constancia, if I may. Just curious, you've had a really strong year-to-date performance there. Are you anticipating giving a great decline in Q4. Just curious, based on the guidance, the high end of your guidance at 150,000 tons would imply a pretty significant drop off in production in Q4. Curious if you're just being conservative or we should anticipate a meaningful drop off?

Cashel Meagher

Hi, Orest. Cashel here. No, we don't anticipate a drop-off in grades. We will probably be at the high end of guidance [indiscernible].

Orest Wowkodaw

And then, on the positive grade reconciliation there, I realize you're only two-thirds complete the drilling, but can you give us a sense on what you're seeing to date in terms of confirming the positive grade?

Alan Hair

As you know, sort of the assay process is underway and we're getting – it's trickling back in. So, it's not till the whole drill program is complete that we have a good view of what the twinning the holes might yield. So, all our evidence remains the same as before, in that we continue to outperform our models, our short-term mining models and our long-term mining models as the grades – we know there is a grade bias. And when we're done this drilling, we will be hopefully in a position to quantify it.

Orest Wowkodaw

Okay. But you're still seeing it on the hypogene as well?

Alan Hair

Yes. I think I've put some color to that before. We see a greater amount in the supergene [indiscernible] and less so in the hypogene. But all over, yes. In all types. But the quantity is greater in the supergene.

Orest Wowkodaw

Thanks very much.

Operator

We'll go next to Matt Murphy.

Matt Murphy

Good morning. Alan, I was wondering – you talked about being well-positioned to fund growth. I was wondering if you could just expand upon how you're thinking about growth. Obviously, Rosemont is becoming a little bit more real as time passes. And if we assume you get permitting there, how are you thinking about financing that? And you've also been investing in some more early-stage opportunities. So, just some color around how you're thinking about that.

Alan Hair

Well, there's a number of different aspects, as I think you're well aware. So, we've got this brownfield organic growth opportunities in both Manitoba and Peru. We continue to continue to work on how best to optimize Lalor and all our Manitoba processing assets as a whole. And once we work through that, there would likely be a capital requirement there.

We've obviously got the development of Pampacancha. And we are, as we've indicated progressively, allocating more funding towards exploration and the acquisition of early stage opportunities because we see that essential to grow our pipeline in the longer-term.

In terms of Rosemont and our financing strategy, maybe, David, I'd throw that one over to you.

David Bryson

Yes. We're feeling very well positioned now. Obviously, we have an underlying business. It's capable of generating substantial amount of cash flow over what would be Rosemont's likely construction period. That supplemented by the proceeds from the equity offering that we completed in September.

So, as we look ahead to potential sanctioning of Rosemont, there are a couple of other tools that we would look at for risk mitigation and that's really what our focus is, is ensuring that once we sanction Rosemont, we have risk mitigation in place, so that if we see a drop off in copper, zinc prices, that we'll have the wherewithal to complete Rosemont without having to scramble in a weak metal price environment. And so, additional tools that we might consider could include some modest additional debt, modest potential hedging of copper and zinc and it's going to be dependent on circumstances and where we find ourselves at the time that we want to go to the board for sanctioning of Rosemont.

Matt Murphy

Okay. And do you have any idea, just ballpark, about how much you might hedge?

David Bryson

I think it really depends on the circumstances, Matt. I think if we see continued improvement in the base metal prices, then that might make hedging more interesting. But the improvement in the metal prices would in turn reduce the need for hedging because we don't want to do more than what's necessary to risk management criteria. And so, hedging in that case is a bit of a necessary evil. But what we're trying to do is to put in place a prudent financing plan for Rosemont that retains as much upside as practical for shareholders. And that's why we're trying to take a balanced approach. We've done some equity. That's complete. And now we can look at whether it makes sense to do either or both of some additional – lot of term debt or hedging.

Matt Murphy

Okay, thanks for that.

Operator

Our next question comes from Brett Levy. Please go ahead.

Brett Levy

Hey, guys. Do you guys have any sort of thoughts in terms of like long-term ratings targets? Do you aim to be BB? Do you aspire to be investment grade? Obviously, the ramp up of Constancia and copper prices and zinc prices and all those other good things present opportunities. But is there a leverage level that sort of you want to get to?

David Bryson

Hey, Brett. It's David. I think we're not uncomfortable with the ratings where they are today. I think that with the development of Rosemont, with the platform that we'll have post-Rosemont, we would certainly expect to see improved ratings come out of that, given the leverage levels that we'd envisioned over the next several years. But we're not targeting a particular ratings level, certainly not investment-grade, in order to get to an investment-grade rating from where we are today. It's just given the way that the rating agencies treat mining companies. It's just completely impractical off the platform that we have and the strategy of pursuing growth through development of new mines. So, we'd be happy if the ratings reflected the improved credit metrics that we'll have as we bring on new production, but not targeting any predefined level.

Brett Levy

All right. Thanks very much, guys.

Operator

We'll go next to Greg Barnes.

Greg Barnes

Thank you. Cashel, the copper recoveries picked up a bit in Q3. I know you're working on the mill to get some improvements. How much progress are you making and what are you doing?

Cashel Meagher

Hi, Greg. So, we have two specific projects that are going to take a considerable time to work out, but some of them are yielding results, as you see now. And those are specifically testing and changing of some reagents, specific reagents.

But what we have identified, there are two fractions. They're end members, as most concentrators will run into, of ultra-find and the coarse fraction. We see a lot of opportunity in recovering and targeting those areas.

So, there are two specific projects. And we are driving them forward. They might require a capital solution in the future. But for the meantime, we continue to monitor it. We've put in place this past – starting this quarter, new monitoring devices for fragmentation, for onstream analyzing. And we're collecting that data. So, we believe we will be able to continue to improve the recovery by recovering more from those two size fractions.

So, the coarse is over the 150 μm and the fine is under 30, 20 μm. And we believe there's a sufficient amount of copper in those areas that we will be able to improve recovery.

Greg Barnes

[indiscernible] specific targets, Cashel.

Cashel Meagher

I think that, optimistically, we're targeting to get up another three points. So, it might take a few years to get there because, like I said, it might require some modification in capital to the mill itself.

Greg Barnes

Okay. So, that would be about 83%, 84%? Total cost of recovery.

Cashel Meagher

Yeah. I think we'd be targeting mid-80s.

Greg Barnes

Okay. Just to follow up on – yes?

Cashel Meagher

Sorry. This is in conjunction with, of course, the – with the increase in grade that we are likely to see with the twinning of the holes.

Greg Barnes

Just final thoughts on the 404. Can you, David Bryson or Alan, some sense of where you are in that process to get the 404 – what needs to happen over the next several months to get there?

Alan Hair

I think we'll go back, Greg, to what we've always said. We respect the fact that this is a scientific and technical process and that good science will prevail. We been proven correct in that respect, so much as the Forest Service have granted the final record decision. And we're currently working closely with both the Forest Service to complete mine plan of operations that comes the final record decision and with the Army Corps to get the 404 permit.

And I think I'd characterize it as we're very pleased with the progress and the process to date. We do strong engagement with the regulators and are looking to have a good product in both the 404 and mine plan of operations when they're complete.

So, we remain very positive, but the processes are [indiscernible].

Greg Barnes

It’s around specific stage gates that you need to get through that you can outline for us.

Alan Hair

It doesn't seem to work that way in the US.

Greg Barnes

Okay. I'll leave it there.

Operator

We'll go next to Stefan Ioannou. Please go ahead.

Stefan Ioannou

Great. Thanks, guys. It was good to see the true up at Constancia is well this quarter. Just wondering, over the next couple of quarters, are there any major sort of scheduled maintenance campaign that we should sort of keep an eye out? Or is sort of the running north of sort of nameplate capacity on a throughput basis really something you see a sustainable going forward here?

Alan Hair

Yeah. The guys in Constancia have certainly done a great job to mill availability. But we do have a scheduled maintenance outage for five days in the month of November.

Stefan Ioannou

Okay. Okay, great. Just at Pampacancha, just – I guess just no news is good news. I guess it's fair to assume everything there is sort of on schedule. But is there any sort of – just in terms of color of sort of any critical past items, like what would you sort of say is the main thing that's the focus there right now?

Alan Hair

So, we continue to negotiate with the community, much like how we were successful in Constancia on the previous negotiation. What we're needing to do is get access to certain pieces of land to maintain our schedule as outlined in the 43-101. And so, that's underway, where we're negotiating with specific landholders for the early works required for water management and drilling of wells and holes.

So, our outlook remains unchanged on Pampacancha.

Stefan Ioannou

Okay, great. Thanks very much, guys.

Operator

We'll go next to John Tumazos.

John Tumazos

Thank you very much. Should we interpret from the equity offering that more project should be in the offing beyond Rosemont, such as the two JVs with Amarc Investment and Mason Resources or other new things, so that we could look to a higher growth rate from Hudbay?

Alan Hair

John, I would say that the examples you mentioned are very early stage opportunities. We see that it's important that we do fill our pipeline with earlier stage opportunities, but they are really in terms of resulting – well, A, they have to be successful, but the timelines are a family long-dated before any of them would be something that would be requiring additional capital, if at all.

John Tumazos

Those particular projects may not be advanced, but there's other games in town. For example, Imperial Metals needs to refinance and they have got a nice property at Red Chris. Should we think of Hudbay as being on the warpath, looking for new asset?

Alan Hair

I don't think we're exactly on the warpath. I think we've been fairly clear in the past that we take a very measured view at looking at opportunities out there. We will look at opportunities in all aspects of the development stage, from early-stage assets to operating assets, but they have to be something that meets our criteria, both geographically in terms of investment countries in the Americas and we're looking for low-cost long-lived assets to make sure we can survive what is inevitably a cyclical business. So, we take a very measured view. And really, we've tended to believe that late-stage development assets and operating assets of late have been more than fully valued. And that's why our focus is really switching more towards earlier stage assets where we can believe we'll ultimately realize more shareholder value.

Cashel Meagher

Just to supplement that, John, by – our focus is developing Rosemont. We have significant growth in our pipeline with Rosemont at hand. So, we certainly do not feel any pressure to be sort of aggressively acquiring assets, whether development or operating, but we think that we're well-positioned to be involved in any opportunities that arise as long as they fit our strategic criteria.

Operator

We'll go next to Alex Terentiew. Please go ahead.

Alex Terentiew

Hey, good morning, guys. I just want to go to Manitoba. Alan, I apologize, I missed them in your comments. You are a little bit quick for me when you were referring to the outlook there. But you commented that you're not likely to expand Stall concentrator capacity at this time. So, maybe can you guide me a little bit as to what the plan is? I know you may come out with some sort of update on the Gold Zone next year and I think you said something about this year. So, Stall is running at 3,000, 3,200 tons a day. Lalor, I think you're 3,700, 3,800. Should we expect Lalor, in this case, to kind of stay here or they're still hitting that 4,500 ton a day target that you previously talked about. Is that still on track?

Alan Hair

Absolutely, Alex. What we've been very clear about is we're looking to expand the ore output from Lalor. That expansion will take us up to 4,500 tons per day by middle of next year. We are blessed with more than enough processing capacity in Manitoba. And what we have to do is optimize the Manitoba business as a whole to provide the maximum return. And that's what we're currently doing.

Alex Terentiew

Okay. And then, so you made some comment as well – and, again, I apologize, I missed it. But the Gold Zone, that incremental, that looks – was I right in hearing that you're kind of suggesting that that is probably going to be put on hold and that would go to Flin Flon mill as well or am I incorrect there?

Alan Hair

Well, I think we indicated that going to take a test batch of gold ore from Lalor to put through the Flin Flon concentrator. And again, what we're trying to do here is, looking at Manitoba Business Unit as a whole, there's a number of variables and still a number of unknowns and we're trying to solve that particular equation to make sure that we maximize value for the Manitoba Business Unit and don't shut off any future optionality. We don't want to do something that we'd regret in the future. So, we will provide a bit more guidance on where we see the business as a whole going, Manitoba, in early 2018.

Alex Terentiew

Okay, great. Then just follow-up then. Sticking with Manitoba, I think in March or April, when the last tech report on Lalor was filed, you guys talk about milling costs at Stall being about $22 this year, going to around $20 for the next few years. But this year, they've been higher. Is this because of the inventory buildup you guys have been talking about or is there something else that I'm not capturing there?

David Bryson

Alex, it's David. The main factor with Stall's year-to-date costs were the temporary crushing that we had to put in place in Q1 when we had the outage on the primary crusher. And so, that's the principal factor.

Alex Terentiew

Okay. So, I think in this quarter, you're still around $26, $27. Is that more in line with the typical costs you could expect going forward or do you see some improvement possible?

David Bryson

We're also doing some work with Stall on maintenance. And just, we're trying to make sure that we can do the work to [indiscernible] operate reliably, and that's also been a factor in the costs so far this year.

Alex Terentiew

All right, great. Thank you.

Operator

We'll go next to Anita Soni.

Anita Soni

Good morning, guys. So, my question for starts is Constancia. I'm just noticing the ore mined versus the mill on the copper grade. There's a differential [indiscernible] to 4%. And I'm just wondering what that is. So, 0.52%, that's mined; and 0.49, that one is the head grade into the mill.

Cashel Meagher

I think what you're seeing there, Anita, is we've been building a stockpile at Constancia. And that's partly just to give us some flexibility around the ore feed that we truck to the mill. And so, you'll have quarter to quarter variations depending on what we're sending straight to the mill and what's coming off of stockpile or going to stockpile.

Anita Soni

All right. So, what's the grade of that stockpile right now?

Cashel Meagher

I don't think it's significantly different than the mine grades that we've been experiencing.

Anita Soni

And then, if we move to the unit costs in Manitoba, I'm just wondering, as we go into 2018, there has been an uptick in the unit costs from Q2 to Q3 and Q1 as well. Is that kind of the go-forward costs in 2018? Or do you expect that to reverse to your original guidance in 2017?

Cashel Meagher

We'll provide guidance on 2018 costs. Typically, we do that in mid-January. Our focus is, I think as Alan mentioned, on maximizing our production. We've got a pretty favorable zinc price environment. We've had a recovery in copper prices. And so, our focus is on maximizing throughput from Lalor and from the other two mines. We're prepared to incur additional trucking costs, and sort of where necessary, some of the underground costs, such as cemented rock fill.

So, we're working through the budget process right now. Why I wouldn't expect to see a significant drop off in Manitoba cost, while we're focused on production.

Anita Soni

All right. I think I was reading that Reed is scheduled for closure in Q3 2018. Is that still the plan? Are you looking to extend the mine life there?

Alan Hair

That's still the plan.

Cashel Meagher

We don't see significant exploration potential there.

Anita Soni

All right. So, then, presumably, the capacity that Reed or the ore that Reed was providing should be made up by Lalor and 777. Is that what the plan is in the plan?

Cashel Meagher

Well, Reed's closure provides the opportunity for additional capacity at Flin Flon, which is why you are seeing us focus more towards utilizing that capacity rather than sort of investing capital in creating capacity that we might not need.

Anita Soni

All right. Thank you very much.

Operator

We'll go next to George Topping.

George Topping

At Constancia, the better results to date, can you just flesh out where you expect throughput and grade in 2018 relative to the technical report?

Cashel Meagher

George, Cashel here. I think, as David said, we're going to provide some guidance early January. We've sort of had a consistent bias in grade versus what the technical report had. We believe that would somewhat persist going forward. So, the mine plan is in line with the technical report. It's just – we do see a persistence in this positive bias reconciliation. And throughput wise, what we've been experiencing this last quarter, we expect to be able to continue to achieve in the quarters coming.

George Topping

Good. And then, just lastly, is on the lawsuit. Can you give us the latest details on where that is, any thoughts on time lines and main sticking points? Maybe for Alan.

Alan Hair

Which particular lawsuit, George?

George Topping

Just give us the top three.

Alan Hair

If you're talking about the Rosemont permitting process then, there has some litigation been initiated against the Forest Service over the biological opinion, but that's – we are now 12 years into the permitting process and it's been a very robust process. And so, as we've always said all along, we think the good signs should prevail, given the amount of effort that's been put in to permitting Rosemont to make it truly a 21st-century mine.

George Topping

Is there any dates for preliminary hearings?

Alan Hair

Nothing set up right now, I don't believe. This is just ordinary course for permitting in the

US, George. It will go on and that's just something that was always anticipated.

George Topping

Yeah. All right. Good stuff. Thanks, Alan.

Operator

We'll go next to Pierre Vaillancourt.

George Topping

Hi. Just wondering, could you provide a little more detail on Pampacancha with respect to the milestones that lead up to production? I know you're talking to landholders. Just walk me through the process and the steps from there.

Cashel Meagher

Pierre, Cashel here. So, obviously, a haul road. We are developing a haul road across our land and then crossing on to the community land, which we're going to purchase.

The next step is establishing the water management structures to the perimeter of the pit, so that we can have non-contact watershed. And also to understand some of the hydrological features within the pit, we need to drill some holes, so that when we'd start mining, we can do some dewatering. And then, we'll get to the stripping and we're scheduled to mine, by the end of 2018, 4 million tons of ore. So, that's basically the process. So, the one step in there, of course, is the community agreements and our community relations department continues to interact, talk, meet and present our options, and we continue to go back and forth on the scope and capacity of what that compensation would be for the utilization of that land over the next four or five years.

George Topping

So, when do you plan on wrapping up the community agreements? That's the biggest risk to the timeline?

Cashel Meagher

So, as I sort of stated earlier, we're having to go and we've been given permission by the community to go and negotiate to the individual landholders in the meantime to continue on, such that the schedule for Pampacancha isn't interfered with. So, the land required for the haul road, the land required for perimeter ditching, the land required for pads that we will be drilling.

So, right now, we're in that discussion. When the whole thing will be wrapped up with a bow and done, I don't know when that date will be. When does it become critical? Well, we managed to be able to utilize this other methodology with success at Constancia and maintain schedule and production and we remain encouraged that we'll do the same here.

George Topping

So, it sounds like you can work around some of these – the holdouts to stay on schedule then?

Cashel Meagher

There's no holdouts. So, what it is, is two-thirds of the community needs to vote for the divestment of community land. There are no holdouts. There is no relocation of people. It's a farming and informal mining area. So, it's about negotiating the whole package with the community. But, in the meantime, they are allowing us access for what we feel are the important preproduction construction requirements.

George Topping

Okay, thanks.

Operator

We'll go next to Jacques Wortman. Please go ahead.

Jacques Wortman

Hi, good morning. Apologies if I'm retreading on old ground. But for the excess of zinc concentrate from the Flin Flon mill that you're selling into the market, what TCU level is applicable to those sales? Is it spot? Just trying to make sure I caught my net smelter calculation right.

Alan Hair

I think those sales are going out at 2017 benchmark levels, Jacques. I'd have to get back to you on exactly where it is, but generally in line with market terms.

Jacques Wortman

Okay, thanks very much.

Operator

[Operator Instructions]. We have a follow-up from Orest Wowkodaw. Please go ahead.

Orest Wowkodaw

Hi, thanks for taking the follow-up. Just back on Manitoba, obviously, costs have been higher this year than originally anticipated. And I think I heard Alan say earlier that costs might come in around $115 million for the year. Should we assume those costs are roughly going to run at similar levels moving forward, just as you're trying to maximizing tons?

David Bryson

Again, Orest, we'll provide guidance next year once we're through the budgeting process. But I think – yes, we'll continue to have somewhat elevated costs as we focus on utilizing the processing capacity that we've got. We think that that's the better NPV alternative for Manitoba and that's what's driving us on all of this decision-making, is how do we maximize NPV from our assets and how do we think about those CapEx, OpEx tradeoffs.

Orest Wowkodaw

But is it fair to say that, at least in the first half of 2018, there is nothing that would change the current equation?

David Bryson

Well, there is a few different moving parts. We'll have on the sort of combined unit costs, as we bring some of the ore stockpile into the formula. That will help to bring it back down somewhat, but we're going to continue to have Reed costs that are elevated because we're no longer capitalizing the underground development as we're in the last year of mining at Reed. And 777 should improve once we get to Q1, once we get past some of the paste issues that affected us in Q3 and will continue to affect us in Q4. But Lalor is continuing to ramp up and focus on ramping up. And until we get the paste plant completed, that'll keep Lalor's operating cost a little bit elevated.

Orest Wowkodaw

Thank you very much.

Operator

There's no further questions. I'd like to turn the call back to Carla Nawrocki for any additional or closing remarks.

Carla Nawrocki

Thank you, operator. Thank you, everyone, for participating. Please feel free to reach out to our investor relations team if you have any further questions.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

Comments (0)