

GAU Earnings Call Transcript

Date: 2025-08-14

Quarter: 2

Operator: Good morning. My name is Jenny, and I will be your conference operator today. At this time, I would like to welcome everyone to the Galiano Gold, Inc. Second Quarter 2025 Financial Results Conference Call. [Operator Instructions] Mr. Matt Badylak, President and CEO of Galiano Gold, you may begin your conference.

Matt Badylak: Thank you, Jenny, and good morning, everyone. We appreciate you taking time to join us on the call today to review Galiano Gold's second quarter 2025 results that we released yesterday after market close. On Slide 2, we'll be making forward-looking statements and referring to non-IFRS measures during the call. Please refer to the cautionary notes and risk disclosures in our most recent MD&A; as well as this slide of the webcast presentation. Yesterday's release details our second quarter 2025 financial and operating results. They should be read in conjunction with our second quarter financial statements and MD&A; available on our website and filed on SEDAR+ and EDGAR. Also, please bear in mind that all dollar amounts mentioned on the conference call today are in U.S. dollars unless otherwise noted. Moving to Slide 4. With me on the call today, I have Michael Cardinaels, our Chief Operating Officer; Matthew Freeman, our Chief Financial Officer; and Chris Pettman, our Vice President, Exploration. For this presentation, I will initially provide a brief overview of the quarter. Michael will give an operations update. Matthew will discuss the financials, and then Chris will review the recent exploration success his team has had at Abore. I'll then provide some closing remarks and open the call for Q&A.; Here on Slide 5, we can see the team commenced building momentum during the quarter towards a stronger second half of the year. I'm pleased to report that we saw a reduction in significant safety incidents during the period with no lost time injuries and no total recordable incidents. Looking at operations, our mining contractor increased ore production from the Abore and Esaase by 5% quarter-on-quarter and the stripping of the Nkran deposit advanced ahead of schedule during the period. On the processing side, progress on the secondary crusher accelerated towards completion during the quarter, and I am pleased to report that the commissioning of the circuit commenced slightly ahead of schedule in late July. Michael will provide more details on this and highlight the production benefits we expect to realize post commissioning and optimization of the circuit. Gold production increased to just over 30,000 ounces in Q2. This is an increase of 46% from Q1 and brings our year-to-date production to just over 51,000 ounces. Moving to our financial performance. We saw a 10% reduction in all-in sustaining cash costs during the quarter, which saw us generate \$36 million in cash flow from operating activities, ending the period with \$115 million in cash and no debt. Matt will provide more details on this shortly. Finally, I will briefly touch on exploration. We saw positive results from our deep step-out drilling program at the Abore deposit with mineralization intercepted in all 4 holes across a 1,200-meter strike length. This included a particularly strong intercept of 36 meters at 2.5 grams per tonne. The program confirmed that the Abore Granite and mineralizing system continues 200 meters below our current mineral reserve pit shell over a significant strike length. Chris will provide more commentary on the program later on the call. Now turning it over to Michael and a discussion on our progress in operations during the quarter. Slide 6, please.

Michael Cardinaels: Thank you, Matt, and good morning, everyone. As Matt just highlighted, we saw positive momentum in the second quarter of the year. We focused on operational safety and rolled out several safety campaigns to increase awareness around key areas that impacted previous quarters,

such as hand injury prevention, fatigue management and energy isolation with our staff and our business partners. I'm happy to report there were no recordable injuries during the quarter, and our lost time injury and total recordable injury frequency rates both improved to 0.42 and 0.97, respectively, per million hours worked. Looking at our mining performance during the quarter. We continued to see strong production performance at the Abore pit with an 18% increase in ore mined versus Q1, extracting 0.8 million tonnes. And Esaase continued steady production, also producing 0.5 million tonnes of ore, which enabled us to execute on our plan to feed a blend of fresh Abore ore and softer Esaase ores. The forecast for the second half of the year continues to be on track to deliver more ore tonnes than the first half of the year. Nkran waste stripping continued and benefited from a full quarter's production, increasing 113% compared to Q1. The mining contractor is also mobilizing additional fleet, and we expect to see further increases in volumes in the second half of the year. On to Slide 7, please. On the processing performance, we also saw some positive momentum in the plant with an increase in the number of tonnes treated on the back of improved plant availability and an increase in overall recovery, which contributed to a quarter-on-quarter increase in gold produced and sold. We sold just over 29,000 ounces and produced just over 30,000 ounces for the quarter. Following the encouraging performance in Q2 and the installation of the secondary crusher, we are maintaining production guidance towards the lower end of the range that was outlined at the start of the year between 130,000 and 150,000 ounces. Another key project completed during Q2 was the installation and commissioning of the new carbon regeneration kiln, which we expect to deliver long-term economic and operational benefits to the milling circuit. On to Slide 8, please. Continuing on with projects, I'd like to give an update on the secondary crusher. As we have previously communicated, the hardness of a bore ore was a limiting factor to our mill throughput and the installation of the secondary crusher is critical in achieving a material feed size that will enable us to process harder ore and reach design throughput of 5.8 million tonnes per annum. I'm extremely happy to report that the crusher was brought online at the end of July, on budget and without incurring any incidents or injuries. We are currently working to optimize the secondary crusher performance and we'll be completing several small upgrade projects during August, but we are very pleased with the initial performance. The delivery of this project marks a significant milestone for the AGM, and we expect to ramp up production in the latter part of the year as planned. And with that, I would like to turn it over to Matt Freeman to discuss the company's financial results. Slide 9, please.

Matthew Freeman: Thanks, Michael. Good morning, everyone. Here on Slide 9, we've outlined some of the key financial metrics for the quarter. We recognized revenues of \$97.3 million in the second quarter at an average realized price of \$3,317 per ounce for the impact of hedges. We earned income from mine operations of \$37.2 million, while net earnings continue to be negatively affected by the fair value adjustments to our hedge book following the run-up in gold prices, we still recorded net income of \$21.6 million or \$0.7 per share. Adjusted EBITDA was just under \$40 million. We generated \$35.8 million of cash flows from operations and ended the period with a strong cash balance of approximately \$115 million, and that included having paid a \$6 million income tax installment to the Ghanaian Revenue Authority. Given these strong cash flows, we intend to allocate additional capital to accelerating the waste strip at Nkran. As Michael noted, we expect to see Nkran mining volumes ramp up in the second half of the year accordingly. As production has increased substantially since Q1, we've also seen a meaningful reduction in ASIC, and we expect this trend to continue as production rises in the second half of the year. We anticipate that ASIC will trend towards the top end of production guidance, as we've mentioned previously, due to the production expectations following a slow startup to the year. We also want to reiterate that there are -- there continue to be factors outside of our control that were not envisaged when we set guidance that have impacted AISC. The effect of higher royalty costs resulting from both high gold prices and the additional 2% growth in sustainability levy that the Ghanaian government levied from April. These are expected to add a further \$100 per ounce to AISC at current spot prices. Furthermore, during the second quarter, there was a sudden and unexpected appreciation of the [indiscernible] against the U.S. dollar, which will add additional pressure to ASIC is sustained over the balance of the year despite our overall cost structure still being predominantly U.S. dollar-based. Moving to Slide 10. Notwithstanding these pressures on reported AISC, we continue to focus on the cost structure of the mine and are pleased to report that fixed operating costs such as

processing and G&A; in aggregate remain consistent with recent quarters. Of note, processing cost per tonne have reduced as throughput has improved quarter-on-quarter, seeing a 10% decline in unit costs since Q1, and we expect further decreases on a unit basis as the full impact of the secondary crusher is realized in the second half of the year. Mining costs at our producing deposits, namely Abore, Esaase, remain consistent on a per tonne mined basis and in line with the fixed unit rates for the mining contract. Although we expect to see mining rates marginally increase as we drive deeper into these deposits where haul distances increase. Nkran mining costs are also subject to a fixed rate mining contract, and we expect to see unit cost decrease as volumes increase over the next 12 months as fixed management costs under this contract are shared over more tonnes. We also remain disciplined with capital allocation, only spending where critical and with clear value with clear line of sight to value creation. We're pleased that the secondary crusher project has come in on budget and the largest project ongoing currently is Raise 8 at the tailings facility, which is expected to be completed in 2026. Overall, costs have been well managed, and we should see improvement in unit rates as the year progresses now that the secondary crusher is online, and we expect to process more tonnes and subsequently produce more ounces. This will generate higher operating margins and cash flows for the business. Slide 11. As our AISC trended down in Q2 as expected, such as the cash margins have improved dramatically with the run-up in gold prices. This has meant that despite investment in development capital for the secondary crushing project and stripping at Nkran and the tax installment, we continue to maintain a very strong balance sheet with approximately \$115 million in cash and no debt. And with that, I'll turn it over to Chris to discuss the exciting drilling results we continue to see at Abore.

Chris Pettman: Thanks, Matt. So Abore was the primary focus of exploration efforts in Q2 and was the sole focus of our near-mine efforts with the commencement of an expanded Phase 2 infill drill program and the completion of the first deep drill test, which I will discuss shortly. While we continue to have success in our near-mine programs, we also continue to advance our regional generator program with work progressing at the [indiscernible] and Sky Gold B targets through the quarter. The IP survey at Sky Gold was completed in June, and initial results suggest a new interpretation of the underlying geology, which will likely lead to new potential drill targets. Q2 prospecting activities along the Nkran [indiscernible] at the [indiscernible] target area, which is located southwest of Nkran returned multiple high-grade quartz vein grab samples within the initial 5-kilometer long gold and soil anomaly, further highlighting the prospectivity of the area. An IP survey is currently underway and will be used for final refinement of drill targets planned for testing in the second half of this year. The Phase 2 infill drilling at Boreé began in early Q2 and is the immediate follow-up to the positive results of the first phase of drilling completed and announced in Q1 of this year. As a reminder, Phase 1 drilling was focused largely on testing for continuations of mineralization immediately below the mineral reserve and resource at the southern end of the deposit and returned significant results, some of the highlights of which are listed at the bottom of this slide. Phase 2 has been expanded to cover approximately 1.5 kilometers of strike length, extending to the northern end of Abore. Next slide, please. This image shows the priority target areas of the Phase 2 infill drilling currently underway on a long section of a bore that shows the existing drilling, including that from Q1 infill Phase 1 holes. Current drilling is focused on testing for the presence of potential north plunging low-angle ore shoots across the entire strike length of the deposit as well as possible south plunging conjugate structures carrying mineralization as well as to determine the potential for open pit reserve and resource expansions. Drilling has progressed under budget and ahead of schedule with the majority of the planned 8,900 meters over 35 holes now complete, and we expect to be in a position to release results in the coming weeks. Slide 14. As discussed in our July press release, the primary objective of the deep drilling completed in Q2 was to test for continuations of the Abore mineralizing system well below the current mineral resource and prove it is carrying grades and width that could support an underground bulk mining operation. In this, we were successful as all 4 drill holes intersected significant widths of mineralized granite with 3 of them returning significant assay results, including, as Matt has already mentioned, 36 meters at 2.5 grams a tonne, but also 16 meters at 3.1 grams per tonne gold and 18 meters at 1.9 grams per tonne. The system remains open in all directions at depth and is the first proof of concept for an eventual transition to an underground mining Abore. Results from this work will be

integrated with the assays being received from the current Phase 2 infill drilling at shallower depths to determine the next steps for further drill testing, which may result in additional open pit expansions. Next slide. This is a plan map showing the wide spacing of the 4 deep drill holes across approximately 1.2 kilometers of the total 1.8 kilometers strike of Abores and demonstrates how we really have only just begun to test the full strike extent of deeper mineralization. Next. Here, we show an image of a long section through a bore with gram meter contours for existing drilling as well as the 4 new deep holes. This provides a visualization of how these holes really were really just our initial probe of the mineralizing system below the mineral resource and how there is significant room for additional growth at depth. The next 2 images I'll show are taken from the July press release. This first image shows hole 350, which intersected 36 meters at 2.49 grams per tonne gold, approximately 90 meters below the mineral reserve at a Boreé main pit. Seeing these widths and grades in our first pass testing of these deeper zones is a major success of the program, and it confirms that the system does carry mineralization that could support a potential bulk underground mining operation. It's also important to note that grades are significantly better than those currently modeled in the bottom of the inferred portion of the mineral resource at this cross-section shows. The final image I'll show today is a cross-section through the northern end of a bore. In this area, our deep test intersected the Abores Granite approximately 200 meters below the current reserve, again, with very good width and grade. This image is one that shows how open the deposit remains for further drill testing and the scale of potential growth that we see at Abores. We see Q2 as another successful one in the exploration space at the AGM as we continue to advance our growth opportunities in both the near mine and regional programs. We are well funded and supported by Matt and the Board and expect to put forward additional drilling at Abores in H2 to build on the continued successes we're seeing there. With that, back to you, Matt.

Matt Badylak: Thank you, Chris. With the team building momentum and the secondary crusher now online, as we previously guided, we anticipate production will be stronger in the second half of the year. Galiano is well positioned as Ghana's largest single asset gold producer with compelling fundamentals across many key areas. We maintain a robust 5-year production outlook with strong financial discipline, including a solid \$115 million cash position while remaining debt-free. Our exploration program at Abores is delivering results, and we continue to advance multiple greenfield exploration targets across our extensive land package. The stripping to access high-grade ore at the Nkran deposit is progressing ahead of schedule and the mill throughput is expected to ramp up to 5.8 million tonnes per annum now that the crusher is commissioned. Operating in Ghana provides us with a safe and stable jurisdiction with a mature regulatory framework under which we can execute our organic growth profile and drive value for our shareholders. I will highlight that our current market valuation is less than 40% of analyst consensus net asset value. With the AGM highly leveraged to gold price, a robust organic growth profile and record high gold prices, the potential for value creation as we continue to build on our current momentum remains high. With that, I'll turn it back to the operator and open up for any questions. Thank you.

Operator: [Operator Instructions] And your first question is from Heiko Ihle from H.C. Wainwright.

Heiko Felix Ihle: So your capitalized development pre-stripping costs at Nkran were \$6.9 million during Q2, just over \$10 million year-to-date. Any idea what we should expect to model out for just pre-stripping for the remainder of the year, just in general?

Matt Badylak: Hi, it's Matt here. Yes, I think assume like [indiscernible] and I have said, we're going to be accelerating in -- can through the second half of the year. It's not going to be too dramatic. Obviously, we have to get mobilized equipment sort of strategically in stage through the balance of the year. So a modest increase in Q3 and then a little bit more gain in Q4 would be the way I'd look at it. So stepping up a bit from the \$6.9 million we had this quarter into next quarter and then a little bit more gain in the following quarter. But you're not -- we're not talking like tripling or anything like that.

Heiko Felix Ihle: Got it. But a trend line would be too conservative. So do take it up a notch. Yes. Okay. Perfect. Yes, because we didn't have it like that before. Okay. Awesome. And then just conceptually, I mean, your balance sheet keeps improving. You're at almost \$150 million -- \$115 million of cash. Gold is \$33 I mean I get that mining has things go wrong all the time, you need a cushion. But I mean, at what point is, for lack of a better word, is it enough? And when can you start distributing some money to

your shareholders? And once that comes, what's your preferred way to do it?

Matt Badylak: Yes. Heiko, thanks for that question. I mean, listen, I think we're very cognizant of the fact that we're building cash at the moment. But we're also -- I'll highlight that we're also in a quite intensive capital allocation period towards Nkran, right? And as we mentioned, we do want to -- and we see a significant value in accelerating that program, cash permitting. And I think that, that in itself is going to yield significant value for our shareholders as we start to release material improvements in grade once we get into the ore from Nkran. So that's really our priority at the moment. Certainly, as we do that and as cash becomes more accessible, we'll have a look at other options in terms of returning value to shareholders. But our primary focus still remains reinvestment of capital into the asset itself, particularly while we're still stripping Nkran.

Heiko Felix Ihle: Right. No, I fully agree that it should be your primary use of cash. I mean you know how we feel about growth of the company.

Operator: And your next question is from Raj Ray from BMO Capital Markets.

Raj Udayan Ray: I've got a couple of questions. First one for Michael. Michael, I don't know if you already spoke to it, my apologies if you did. But you did say that in the presentation that I was looking at with respect to the commissioning of the secondary crusher, there are some modifications required for the downstream equipment. Can you highlight what kind of modifications? And when -- I know you said you're going to get to the steady state, but can we have some idea about timing? Is it towards the end of Q3 that you expect to be at steady state of around that 5.8 MTPA? And then I have a second question on -- it's more for Matt. Matt, are we still expecting the nonsustaining CapEx of \$60 million to \$65 million for the year? And the second part to that is, how should we look at modeling the sustaining part of, call it, the deferred strip for the second half? That's it.

Michael Cardinaels: Thanks, Raj. I'll start here. Some of the upgrade projects that we're looking at are involving primarily the drives for our conveyors. So we're increasing speeds of the overland conveyor to now be able to accelerate the throughput off the back of better production out of the secondary crusher. We're also looking at optimizing the settings on our primary crusher. And we've got a number of options to look at for our vibrating screen, which feeds the secondary crusher. So we're looking at screen aperture sizing to optimize the feed to the secondary as well as total throughput. So we expect that to yield some benefits. We also have to do some modifications to the discharge grade size in the SAG mill. So we expect to have a lot of these modifications completed by the end of Q3.

Matt Badylak: Raj, it's Matt here on the other questions you've got. So from a development capital standpoint, I think the main component of that this year was the Nkran strip and then the secondary crushing upgrades. So obviously, the majority of the secondary crushing upgrades, the costs were incurred in H1. Obviously, there will be some of those will be lagging through into the first part of Q2 -- Q3, sorry. obviously, we've commissioned that now in July. So the lion's share of costs have been spent then. So you can extrapolate a little bit more on the crushing circuit in H2. Nkran, as we mentioned, Heiko on the last question, we're going to see that increase through the balance of the year over and above what we -- the \$7 million roughly that we did in Q3. So you kind of need to extrapolate that through. They're the main pieces. There's some other work on some of the project development costs that we have in terms of looking at sort of village relocations and things, some of the early works on that, that will get picked up, but they're not particularly material in this year. So I'm not sure we'll quite get to the fully guided amount this year. We'll probably be a little bit shy of that, but we kind of maintain that guidance. We see -- a lot of it is going to depend on how quickly we can mobilize equipment in Nkran, how comfortable we are with the acceleration there. So it's a little bit of a soft answer, I know, but they're the main buckets, and we shouldn't expect anything else material.

Raj Udayan Ray: Okay. That's helpful. And then on the sustaining part of the deferred strip.

Matt Badylak: Yes. Again, that's always a tricky one to guide to, as you know, because we're looking at different phases of different pits and the way the accounting works on that. But ostensibly, I'd say that we're getting towards a more steady-state mine plan with respect to Abore. So I think you can probably extrapolate what we've seen in Q2 moving forward for the next little while, the strip rate is starting to come to be more consistent at both Abore and Esaase, though Abore is going to be the focus of the second half of the year. So I think you can kind of intimate that fairly well from what we've seen in the last quarter. That helps.

Operator: There are no further questions at this time. Please proceed with closing remarks.

Matt Badylak: Thank you, Jenny. I appreciate you moderating the call today, and I appreciate everyone dialing in and asking your questions. And I wish you all a good day. Thank you.

Operator: Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect your lines.