Q3 2018 Evolution Mining Ltd Mining and Production Update Call - Final

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OPERATOR: Ladies and gentlemen, thank you for standing by, and welcome to the Evolution Mining March 2018 Quarterly Results Teleconference. (Operator Instructions) Please note that conference is being recorded today, Thursday, April 19, 2018.

I would now like to hand over to your host today, Bryan O'Hara, General Manager, Investor Relations. Thank you, sir. Please go ahead.

BRYAN O'HARA, GENERAL MANAGER OF IR, EVOLUTION MINING LIMITED: Thanks, Shawn. Good morning, and welcome to the Evolution Mining March 2018 Quarterly Conference Call. This morning on the call, we have Jake Klein, Executive Chairman; Lawrie Conway, CFO and Finance Director; Bob Fulker, Chief Operating Officer; and Glen Masterman, VP Discovery and Chief Geologist.

The first quarter of 2018 has seen a significant shift away from the low volatility environment the global financial markets have become accustomed to in recent years. And with this changing macro backdrop, there's early evidence of funds flowing back into gold and gold equities as a safe haven asset class. With Evolution's sector-leading cash generation per ounce, a reputation for consistently delivering to guidance and a long mine life from the diversified asset portfolio, we are well placed to benefit from this renewed interest in the gold sector.

From an investor engagement perspective, we've got a busy month coming up, including marketing in Sydney and Melbourne, post these results today, the Macquarie Australia Conference in Sydney in early May, the BMO Conference in Florida starting on May 15, and roadshows through Hong Kong and Singapore also in mid-May.

Thanks, and I'll hand you over to Jake.

JACOB KLEIN, EXECUTIVE CHAIRMAN & CEO, EVOLUTION MINING LIMITED: Thanks, Bryan. Good morning, everyone, and thank you for joining us. We know it's a busy morning. It's very pleasing to be able to deliver another excellent quarterly report. As you can see from this report, our business is in very good shape. Since Evolution was formed in November 2011, we have had a very clear strategy of developing a low-cost profitable dividend-paying globally relevant mid-tier company that will prosper through the cycle. I'm proud that, again, this quarter, we are clearly demonstrating that we are successfully executing this strategy. Notwithstanding this, we know that it is a journey, and we know that we are not there yet, but the signs are positive, and we are definitely headed in the right direction.

Highlights that stand out this quarter are: Our all-in sustaining cost for the March quarter were a record AUD 768 per ounce, or in U.S. dollar terms, $604 an ounce, making us one of the lowest cost gold producers in the world. With the rising global tensions and increasing jurisdictional risk, Australia is undoubtedly a great place to own low-cost ounces. Our EBITDA margin per ounce is a sector-leading 54% per ounce. Very importantly, these high-cost margin, low-cost ounces are being converted to cash in our balance sheet, which increased by $44.5 million after paying a fully franked dividend of $59 million in the quarter. This is our 10th consecutive dividend we have paid and our highest yet.

We continue to believe that we need to work hard to win back the trust of generalist investors, and the best way to demonstrate this is to consistently show, as we have again this quarter, that Evolution is a sustainable, profitable dividend-paying company. The release this morning of our annual mineral resource and reserve statements show the success we've had in replacing and adding to both our resource and reserve base even after accounting for the depletion of the ounces produced in 2017 and the sale of Edna May. Our gold resources at 31 December, 2017, stand at 14.24 million ounces, up from 14.18 million ounces. A clear highlight was Cowal's success in adding over 1 million ounces of resource as we start to demonstrate the quality and scale of gold endowments at this cornerstone asset.

Our gold reserves increased to 7.05 million ounces, driven primarily with the maiden reserve at Marsden being included, which represents an interesting long-dated option for Cowal. At our shorter-life assets, Cracow and Mungari, we were not only able to replace depletion but also add ounces to their reserve base, which we recognize as also being very important. I also note that we continue to calculate our reserves off a very conservative gold price of AUD 1,350 an ounce. It's also very pleasing to be, today, announcing a further improvement to our FY '18 guidance. We now forecast our group production to be between 790,000 and 805,000 ounces. And more importantly, we have reduced our all-in sustaining cost guidance to AUD 780 to AUD 820 per ounce.

Our new COO, Bob Fulker, officially joined Evolution in February. Bob is off to a flying start and has been visiting our assets multiple times in the short time he has been onboard. I was traveling with Bob last week to one of our sites, and I know he shares our enthusiasm and optimism for our future.

With that, I will hand over to Bob.

ROBERT STANLEY FULKER, COO, EVOLUTION MINING LIMITED: Thanks, Jake, and good morning, everyone. It's a pleasure to be able to walk you through my first quarterly operation highlights since commencing in the role as Chief Operating Officer in mid-February.

As always, I'd like to start with safety. Our continued focus on leading indicators to improve our safety culture is paying dividends. At the end of the quarter, our 12-month moving average TRIFR stood at 6.3, and we have reduced our severity rate to 2.

Moving on to the operational update. If you then turn to Page 5 for Cowal and Mungari results. Cowal had a good quarter, producing over 62,000 ounces at an all-in sustaining cost of $999 per ounce. Higher throughput rates and grade contributed to this outstanding result. The mill set a new throughput record for the second consecutive quarter with a throughput of 1.99 million tonnes, 50,000 tonnes higher than last quarter.

In late March, we hosted an investor site visit at the Cowal. Thank you for all those who attended. The highlight for me was the ability to show the Stage H cutback and the Float Tails Leach projects, both in full swing and progressing according to plan.

Mungari had another solid quarter producing 30,000 ounces at an all-in sustaining cost of $1,153 per ounce. Net mine cash flow improved to $8 million and is -- sorry, and is expected to increase in the June quarter as a strip ratio in White Foil open pit declines. The pit continues to perform well with recoveries increasing to 95.2%.

The last week, Mungari experienced a series of seismic events. Standard safety procedures were followed, and we evacuated all our people safely whilst we assessed the situation. There was no significant damage caused to site infrastructure and the mining operation resumed once we determined that it was safe to do so. For now, turn to Page 6 for Mt. Carlton and Rawdon. Mt Carlton produced 26,000 ounces at an all-in sustaining cost of $445 per ounce for the quarter. Both the mine and plant performed well. Net mine cash of AUD 16 million was lower than the December quarter due to shipment timing with heavier rain restricting access to site in the late quarter. It is expected that this will recover in the June quarter by increasing shipment size. Mt. Rawdon got back on track during the quarter and produced 30,600 ounces at an all-in sustaining cost of $536 per ounce. Net mine cash flow of $16 million. The mine is expecting another strong quarter to finish the financial year. Although, our full year production will likely be below the FY '18 guidance range of 105,000 to 115,000 ounces.

A small slip in the west wall occurred during the quarter, which prompted a review of the ground support regime in this area. Production isn't expected to be impacted, although productivity in this area might slow.

Onto Page 7 for Cracow and Ernest Henry. Cracow had another consistent quarter with 20,500 ounces produced at an all-in sustaining cost of $1,210 per ounce, delivering $9 million in cash flow. The significant addition of over 60,000 ounces in reserves post-depletion to the 250,000 ounces has extended the mine life and should ensure Cracow continues to be a strong contributor to the portfolio going forward.

Ernest Henry produced 23,000 ounces at a negative $510 per ounce all-in sustaining and cash flow continues to be very strong with $54 million produced during the quarter. Mine and mill produced -- production were in line with the plan. In summary, a good quarter with the group producing at 191,000 ounces at a record low all-in sustaining cost of $768 per ounce. Our major projects are kind of progressing according to plan, and our drill programs continue to add life to our assets.

Thanks, and I'd like to hand it over to Glen.

GLENTON J. MASTERMAN, VP OF DISCOVERY & CHIEF GEOLOGIST, EVOLUTION MINING LIMITED: Thank you, Bob, and good morning. As Jake mentioned a few minutes ago, a clear highlight in the quarter was the growth in mineral resources at Cowal. The result includes over 800,000 ounces delivered by drilling programs on the Galway/Regal E46 complex and at E41. Following on from this very pleasing outcome, we have continued step-out drilling at E41 West and further extended our run of positive results. The new drilling includes identification of the design of structurally controlled mineralization as illustrated in Figure 2 on Page 11 of this morning's quarterly report.

What's interesting is that we've observed the same fault on adjacent sections where it appears to be influencing grade distribution in a similar way to the 4-plus grams over 19 meters in hole 2811. We'll continue to explore the significance of these relationships in follow-up drilling, along with commencing infill work to confirm continuity along a 150- to 200-meter zone south of the near surface resource at E41 West. At Galway/Regal E46, drilling and review work has identified new opportunities to the south along strike of the 600,000 ounce maiden underground mineral resource. A program of drilling will be designed to test the possibility of further extending resources along the GRE46 corridor. At Mungari, full results were received for the first phase of infill drilling beneath the north end of the White Foil pit. Further infill work will be required to upgrade classification of resources to indicated confidence.

The development commenced during the quarter on extending the decline at Frog's Leg to establish an underground drill drive. Up to 8 holes are planned, which will target the structure 250 meters beneath the base of existing workings. The aim of the program will be to understand deep mineralization potential following a detailed review of the 3D geologic model. Drilling is expected to commence in the September 2018 quarter.

With that, I'd like to hand over to Lawrie.

LAWRENCE JOHN CONWAY, FINANCE DIRECTOR, CFO & DIRECTOR, EVOLUTION MINING LIMITED: Thank you, Glen, and good morning, everyone. It's a pleasure to be able to provide an update on the financial performance for the March quarter, which was another pleasing result due to the strong operational performance as outlined by Bob. A summary of the financials is provided on Pages 8 and 9 in the quarterly report. As mentioned, the all-in sustaining cost was a record low $768 per ounce. What can be missed in this number is the all-in sustaining cost for our 5 100% owned assets reduced from $991 to $968 per ounce. 4 of the assets reduced their all-in sustaining cost, and at Cowal, the higher all-in sustaining cost was driven by planned higher sustaining capital and planned -- and plant maintenance.

Mine operating cash flow of $174.8 million was down from the December quarter of $204.7 million. This was due to $9.5 million from timing of lower gold sales net of higher gold price. This will be received in the June quarter. Copper revenue was lower by approximately $12 million, due a lower realized price and lower copper volumes. For the copper volumes, about $2.5 million is due to delayed shipments at Mt. Carlton, and this would be realized in the June quarter. Higher operating costs related mainly to the major shutdown at the Cowal processing plant.

Our operating EBITDA margin, excluding Edna May, improved again in the quarter to now be at 54% year-to-date to March. This is up 8% from the FY '17 full year margin of 49% with no real movement in achieved gold price, but there has been a 16% higher achieved copper price. All our operations continue to be cash flow positive after meeting their capital investment commitments of $63.5 million. We expect sustaining capital for the full year to be in the range of $90 million to $100 million, while major project investment will be in the range of $170 million to $180 million. Therefore, we expect capital investment in the June quarter of $25 million to $35 million for sustaining capital and $50 million to $60 million for major projects. Net mine cash flow for the quarter was $111.4 million and is another indicator of the benefit of the diverse portfolio where improvements in cash flow at Mt. Rawdon, Mungari and Cracow offset the impact in ramp-up of capital investment at Cowal and the impact of shipment delays at Mt. Carlton. Ernest Henry was again consistent with cash generation of $53.8 million for the quarter and over $160 million year-to-date. Group cash flow of $103.6 million was approximately $28 million higher than the last quarter. We paid our interim dividend of $59 million, which now brings our return to shareholders via dividends $230 million with $173 million returned in the last 2 years.

Cash on hand at the end of the quarter was $208 million, reducing net bank debt by 19% to $187 million. During the quarter, we renegotiated our expiring debt facilities. We took the opportunity to improve our flexibility and liquidity on the balance sheet by an increase in the revolver facility to $350 million and a re-profile of the amortization of the term loan facility. Completion of the term loan facility, however, remains unchanged at October 2021. The renewal of the debt facilities will realize lower financing cost to the order of $6 million over the next 3 years.

With that, I'll now hand back to Jake.

JACOB KLEIN: Thanks, Lawrie. Our business strategy and approach remains the same as it has been since we set out on the journey of building this business 7 years ago. We passionately believe in it. We want to build a gold company that prospers not only when the gold price is going up, but one that prospers through the cycle. A consistent and focused strategy that has been rigorously implemented and that we are not going to deviate from. Today, we are highly profitable dividend-paying globally relevant low-cost mid-tier gold company. This is a company in great shape, but at Evolution, we believe there is more: more efficiency gains, more productivity gains and more ounces to be discovered.

With that Shawn, can you please now open the lines for questions?

Questions and Answers

OPERATOR: (Operator Instructions) Your first question comes from the line of Michael Slifirski from CrÃ©dit Suisse.

MICHAEL SLIFIRSKI, MD, CRÃ©DIT SUISSE AG, RESEARCH DIVISION: I've got 3 questions, and all really focused on the reserve and resource statement. Now first of all, with respect to the Marsden, seeing Marsden ounces brought to reserves there, not a lot of grade, but where does that fit in your conceptual thinking and that you said you have more than enough ore in that region anyway. So do you have a view as to when you might actually see that pop into the schedule?

JACOB KLEIN: Thanks, Michael. Glad you've arrived in Sydney safely. Our thinking at the moment with Marsden, given it's predominantly copper, 70% of it -- of the deposit relates to -- of the revenue base would be copper. You'd need to reconfigure the Cowal plant. So that would fit at the end of the mine life of Cowal. The gold -- the current planned gold mine life of Cowal.

MICHAEL SLIFIRSKI: Okay. Secondly, with respect to Rawdon. Just interested in what the prospectivity is there, particularly given that the reserves this year declined by more than mining depletions. So interested whether you still see prospectivity, the chance to -- in future to offset depletion whether this year's depletion -- or adjustment exceeding depletion was just a one-off?

GLENTON J. MASTERMAN: Michael, it's Glen, and I'll respond to that question. What we've done at Rawdon -- in fact, in the last 12 months a number of new targets have developed, both inside the pit and outside the pit. So we're going to be really working hard with the drill bit over the course of the next 12 to 18 months to sort of peg back some of that lost ground in the reserve. So we will be looking to sort of implement those programs coming into the next financial year.

MICHAEL SLIFIRSKI: Okay. But there's evidence of targets there that could contribute ounces going forward?

GLENTON J. MASTERMAN: Yes, there's a -- yes, that's correct. We've identified a target to the west of the pit, so just at outboard of it by several hundred meters. We also have targets that we'll be drilling deeper, but from within the pit.

MICHAEL SLIFIRSKI: Okay. And then finally with respect to Mungari, always intriguing to look at that very, very large open-pit and regional resource that you've got. Interested in where that's thinking now strategic -- what you're thinking strategically with respect to, at the moment at least, the lack of significant progress with the White Foil -- with the -- sorry, of Rose Lake's underground?

GLENTON J. MASTERMAN: I'll address that one, again, Michael. So I think it's -- what we have done this year is, we've actually approved additional budget into both the discovery program and a resource definition drilling programs. And I'll start with the resource definition work first and primarily what we've been able to do is identify new target area deeper in the Frog's Leg vein system. And as I mentioned earlier, we've started work on extended the decline to establish a drill position from underground, whereby we'll be testing the potential for an extension of mineralization deeper beneath the now in workings.

The other piece, I guess, in terms of res dev and neither mine is that we've identified the possibility of the White Foil mineralization to extend to the north of the pit boundary. So we've done some preliminary work during the quarter and the indicators are that -- are positive, and we'll be following up with additional drilling later this quarter and into the next financial year. In terms of the overall regional package of -- at Mungari, the discovery of a high-grade vein such as a Frog's Leg remains a really key priority for us. To that effect, yes, we still have well over 30 targets in our pipeline. The highest priorities are the types of targets that can deliver that outcome to the business. So again, we'll be advancing exploration aggressively along those lines on a continuous basis going forward.

MICHAEL SLIFIRSKI: Maybe to follow-up to -- and maybe to Bob, in terms of that large regional resource and how do you think about in terms of what could be done to the plant if Glen isn't able to deliver the high-grade replacement to Frog's Leg. What would be required at the plant so you've got a continuing long-term business on that regional resource?

ROBERT STANLEY FULKER: Yes, Michael, thanks. Can I take that one on advisement and come back to you? Because I really don't have that level of knowledge at this point in time.

MICHAEL SLIFIRSKI: Yes, no problems.

OPERATOR: (Operator Instructions) Your next question comes from the line of William Sennitt from RBC.

PAUL HISSEY, ANALYST, RBC CAPITAL MARKETS, LLC, RESEARCH DIVISION: Yes, I think that's me. It's Paul from RBC guys. Just a couple of questions on the quarterly metrics here. Obviously, you mentioned the timing of the shipment of Mt. Carlton and the $350 million -- $350 an ounce cash adjustment. So simplistically on the assumption there's a catch up of all of that in the second quarter we'd expect, I guess, just a mechanical addition of $350 to the cash cost for that operation in the next quarter, right?

LAWRENCE JOHN CONWAY: Yes, Paul, Lawrie here. You will say not all of that because it is -- there are also other adjustments that -- depending on where they finish the June quarter, both between the concentrate and the dorÃ©. But we do expect them to be in the order of $10 million to $12 million of additional cash coming through to Mt. Carlton in Q4 from delayed shipments.

PAUL HISSEY: Yes, but -- so we're calling normalization is probably a better phrase. And then similarly, just at Mt. Rawdon, the $480 of stockpile adjustments there, obviously mined a lot more ore than you treated in the period. Just a little bit more color on the mechanics of that adjustment too, please.

LAWRENCE JOHN CONWAY: Okay. Mt. Rawdon, deep mine, a lot more than they processed at 1.4 million tonnes mined and 800 million processed. That will narrow in Q4 -- that would still out-mine the mill, but we would say that in Q4 Mt. Rawdon's all-in sustaining cost would be somewhere between $700 and $800 an ounce. So you'll see a normalization on that inventory adjustment coming through for Mt. Rawdon in Q4.

PAUL HISSEY: And is that just a function of, I guess, a big chunk of the capital pre-strip winding off, but yet you've still got a pretty significant mining fleet, so you're literally just mining faster than you need to?

LAWRENCE JOHN CONWAY: Yes, and no. So yes, as we are reducing our capital waste there and moving into both operating and ore. We're mining to keep the average grade up through the mill, and we are stockpiling a lower grade material.

OPERATOR: There are no further questions at this time. I will now hand back to the speakers.

JACOB KLEIN: That was quick. Obviously, everyone's got all the information they need in the quarterly. For those of you who've listened in, I really appreciate it. I understand how busy you are. These quarterlies come around very quickly, and I just want to acknowledge and recognize the work that has been done by Bryan and his team and really everyone at Evolution. There's a huge amount of work that goes into this, and particularly with the MROR statement this quarter. So it really is appreciated and I trust that you find the (technical difficulty) and our communication very open. Thanks for joining.

OPERATOR: That does conclude the conference for today. Thank you for your participation. You may all disconnect.

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