EQUINOX GOLD

Equinox Gold Corp.
Second Quarter 2021 Financial Results and Corporate Update Conference Call Transcript

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Time: **7:00 AM PT**

Speakers:

Christian Milau
Chief Executive Officer

Peter Hardie
Chief Financial Officer

Doug Reddy
Chief Operating Officer

Rhylin Bailie
Vice President, Investor Relations

Operator:

Welcome to the Equinox Gold Second Quarter 2021 Financial Results and Corporate Update Conference Call and Webcast.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

I would now like to turn the conference over to Rhylin Bailie, Vice President, Investor Relations, for Equinox Gold. Please go ahead.

Rhylin Bailie:

Thank you, Operator, and thank you, everybody, for joining us this morning.

We will, of course, be making a number of forward-looking statements today, so please do take the time to visit our website, SEDAR and EDGAR to download our continuous disclosure documents.

I will now turn the conference call over to Christian Milau, CEO, for opening remarks.

Christian Milau:

Thanks, Rhylin, and welcome, everyone, to the quarter two results call.

We're pleased with the quarter, and, as usual, there's been no shortage of news and activity. The Company's just been so active in the first half of the year, and really pleased to get this point. We said this was a year of big investment, as we invested in our mines, we looked to get projects ready to build or continuing building them, to explore our assets, and to keep investing money to build the future of this Company, and we have a long-term vision that's in place here.

Things basically ended this quarter as expected. It was a quarter very similar to quarter one. We produced about 125,000 ounces of gold. We had a good safety record for the quarter, pleased with that performance. COVID continues to sort of moderate. Obviously, the new Delta variant does seem to peek its head a little bit in various locations, although it's had minimal impact on the operations. I'm really pleased with how the operations have adapted to the new environment with COVID there.

We've probably hit that trough, which we thought we would do around mid-year this year, where we said the first couple of quarters will be a little tougher. We are coming out of the rainy season in Northern Brazil, as well, and with the investment periods at Mesquite and Castle ramp-up. Obviously we've had a challenge with Los Filos over the last year, as we've taken over ownership, but we're pleased to be coming through a period and getting towards, hopefully, a period of stability going forward here at Los Filos. So, we're turning to a very catalyst-rich period of the year in the second half of this year, and I'm excited to walk you through this presentation and indicate where we see the future opportunities and that long-term vision.

In terms of the actual results, like I said, we sold just sold under 125,000 ounces for the quarter. Our all-in sustaining costs were slightly down from previous quarters, and Pete will walk you through some detail on that, and also our slightly revised guidance. We did take a $28 per ounce write-down on the Los Filos inventory with the shutdown there and lower production. The cost of the actual ounces going up on the leach pad was fairly high for the quarter, so that does impact the overall all-in sustaining costs, which we hope not to see much in the future.

When we turn over to the recent highlights on the next slide, in terms of construction development and exploration, we continue along with Santa Luz, Doug will walk you through that, but we're pleased to see it on budget and on time, and we're getting to about half complete now. We're still on track for, roughly, building a mine per year over the last three years and this year will be no different, so things tracking well there.

We've advanced early works at Greenstone, where we're getting ready for construction here in the near term. In the second half of this year we'd like to be launching into full construction, but we've had a very productive summer. The team has done a great job of getting the camps installed and the tree clearing, and all that work done. Doug will walk you through a little more detail and a couple of photos on that.

There's lots of drilling ongoing, and I'll leave that to Doug to talk about, but we're really excited with the areas we have decided to invest in, from an exploration perspective, and expect to see some results from that in the second half of the year as well.

In terms of the operations, the one key point I will stop on for a second here, obviously, is the Los Filos blockades that we had last quarter which were frustrating for us, and I'm sure for shareholders as well.

We've come through that period, we have got those resolved, and obviously [resolved in] a lot shorter period than the [blockade by a different community] last year. The union did go back to work. I think there was a real frustration level [within the blockaders] of not being paid for the period they had walked out on. [But it was an illegal blockade and we held firm that we will not be providing backpay for time lost during an illegal blockade] and they've gone back to work. There was pressure from communities and certain union leaders to get back to work and start earning a wage again. So, we're pleased to see them back on the job and kudos to Gregg Bush and the team, they've got things ramped back up fairly quickly [at Los Filos] and we'll give you a bit more colour on the operation in a few slides here.

Also, the community blockade from Xochipala, which is a smaller community quite a distance away from the mine. That's another unfortunate illegal blockade, but the situation has been resolved. We do appreciate the support from the other communities and from the government and the District Attorney to actually step in and really put some pressure on to get them back to work [and with that blockade resolved we've again] gotten back into the Guadalupe open pit. So, we're pleased to see Los Filos operating at full capacity across all the pits and undergrounds on the site.

In terms of other corporate actions for the quarter, we completed the acquisition of Premier Gold Mines. It feels like a long time ago, but it actually completed during the second quarter. I think there's some exciting stuff going to be coming from that and we'll walk you through, obviously, the Greenstone project and Mercedes has been integrated. Ewan's doing a great job in i-80 Gold and we're really excited about that. As an investor, we own 30% of i-80 Gold, and we also took up our pro rate interest in their financing during the quarter, so things are going well there.

We've also acquired an additional 10% of Greenstone, as I think most are aware. We loved 50% of the project and we love 60% even more. We've been working well with Orion and the project team to get that ready for launch into construction in the second half of the year. We sold Pilar. It's a $45 million gain on the financial statements, but we sold it for almost $50 million when you add in the royalty and the equity interest that we have in Pilar Gold.

We published our first ESG report, and, again, that's a really important area for us, to now start communicating and putting out a lot more public disclosure. So, I think you should expect to see a lot more information on a quarterly basis, but also we'll be looking very closely at things like our emissions, managing our key areas where we think we can make a big difference going forward, areas that have diesel emissions, and obviously our energy sources in various countries will be looked at for more efficient ways of running the business.

I'll pass it over to Peter now to walk you through the financial highlights on the next couple of slides.

Peter Hardie:
Thanks, Christian.

During the quarter, we sold 125,000 ounces at a little over $1,800 an ounce, for revenues of $226 million. On a cost per ounce basis, our costs actually came down from Q1, about $50 an ounce for cash cost to a little over $1,080 an ounce, and about $100 an ounce to about $1,382, on an all-in sustaining cost per ounce basis. That resulted in mine operating earnings of $46 million, which is an increase of about $4 million over the prior quarter.

As Christian mentioned, we had a very busy quarter on the corporate activity front, resulting in a lot of net income, $326 million, or earnings per share of about $1.10. Included in there are a number of non-cash gains, including $50 million on the sale of those Solaris shares that Christian mentioned. In addition, with the sale of the shares, we have a change in classification of how we account for that investment, from effectively a cost basis to a fair value basis. That resulted in an increase or a gain of $186 million. We had a gain on the sale of Pilar of $45 million. Then, we have the other items that typically are non-cash items, which were gains for the quarter, like unrealized gains on foreign exchange, hedges, etc., for about $43 million. When adjust our net income for those items, we arrive at $3.1 million on an adjusted basis, and one cent per share earnings, also on an adjusted basis. Our cash flow before changes in non-cash working capital was $32 million, and that equates to about $0.11 a share on a basic basis.

With all of the activity in our operations, with respect to our balance sheet, it remains strong. Our June 30th cash and equivalents was $334 million, and our net liquidity was $530 million, when you add in the $200 million of undrawn revolver that we have, and our net debt is $216 million. This leaves us in a great position to fund our growth profile as we move forward.

With respect to our investments, we did put some money into i-80 Gold to maintain our 30% interest, the current market value of that is over $100 million, and we sold 10 million shares of Solaris, and warrants, and when you look at the fair value of that investment, it's over $300 million. The value of our investments is now over $400 million, and that is not included in the net liquidity figure that I mentioned previously of $530 million.

We updated our guidance for 2021. On a production basis, the range is now 560,000 to 625,000 ounces. Overall, our mines are actually performing on or better than planned, generally speaking, with the obvious exception of Los Filos, and we've decreased guidance there by about 50,000 ounces. That's offset by increases at Aurizona of 10,000 ounces, we're expecting access to higher grade ore there in the second half of the year, and 5,000 at RDM, because they had a great first half of the year. Castle Mountain, we've decreased the production guidance by about 10,000 ounces, and that's due to the weaker start in the first half of the year. At Los Filos, the reduction is primarily due to the blockades which suspended operations for parts of June and July, and it also had an impact on the Bermejal underground development, to push it out further, which delays our access to higher grade ore.

On a cost basis, our range is now $1,025 to $1,075 an ounce, and that's the result of two primary influences. The first is, of course, the reduction in overall production for the year, and the second is we are seeing cost escalation on consumables and energy, primarily in the U.S. and Brazil.

Overall, looking at the figures, those cost increases carry through on an all-in sustaining basis. Our sustaining capital, itself, as you can see on the slide, has held steady on a group basis, and then on a mine basis, overall, with respect to our all-in sustaining cost per ounce, we're down about $50 an ounce at Aurizona, and that's a result of a decrease in some sustaining capital, and you see the primary increases, of course, at Los Filos, due to the reduction in overall ounces, and at Castle Mountain, where we're doing a pad expansion and there's been an increase in liner costs.

On a non-sustaining basis, you can see that costs have come down. That's primarily at Santa Luz, where we have a reduction in $19 million for the year, and that's primarily a result of timing of spend. The project is on budget, it's on schedule. We're just not incurring the payables as quickly as expected, so that $19 million would push out of this year into 2022.

With that, I'll turn it over to Doug Reddy, our Chief Operating Officer, for an operations update.

Doug Reddy:
Thanks, Pete.

I just would like to say that there are two main themes for the operations on what's happened in the first half and how it affects the second half of the year and going into 2022. The first one is waste stripping, where we've had large programs at Mesquite and RDM, as well as waste stripping happening at Aurizona and Los Filos. All of those investments in the waste stripping makes for a stronger second half of the year, and into next year. The second aspect is a big effort by our exploration team. 51,000 metres has been drilled so far this year, and that's an investment for the long term at each one of our mines, both within the mines and near to the mine. So, I look for those results and how they affect the future for each one of our operations.

If we look at Mesquite, we completed the Brownie stripping campaign and we're looking at a stronger H2, as we mine oxide ore in that pit. The exploration has been focused on mine life extension, and that's the same thing we've done every year with Mesquite, where there's opportunity to be able to extend the life. It is a very giving overall system there. Q2 production, 24,185 ounces at an AISC of $1,520 per ounce.

At Castle Mountain, our team has continued to work on optimizing the leach pad and plant. We have had issues with percolation on the leach pad, but we've managed to see the daily ounces [increasing] and Q2 versus Q1 has been a doubling of the ounces produced at Castle Mountain. Q2 production was 6,128 ounces at an AISC of $1,026 per ounce.

Los Filos, the operations restarted well after the interruptions that we've had. H2 should be a strong second half of the year. We are in mining at the Guadalupe open pit, and, as Pete mentioned, we have been doing the underground development at Bermejal underground and we should see ore coming through late in the year from Bermejal. Our Q2 production was 27,079 ounces at an AISC of $2,016 per ounce. We also look forward to completion of the updated CIL plant study, which will come in the second half of this year.

Mercedes mine, it's a steady producer. We are campaign milling, so that means that we do have an opportunity to increase throughput and production, and there's good exploration upside. There's a program happening in several areas at Mercedes, with good results coming in. The second quarter production attributable to Equinox was 10,708 ounces at an AISC of $1,226 an ounce, and H2 should be a consistent level of production from Mercedes for the Company.

Looking at Brazil, Aurizona had heavy rainfall in the quarter, but the mining went really well. That was a contrast to a year prior. The team did a very good job of being able to mine during the rainy season, and the processing plant was able to also utilize a portion of the stockpile that had been built up during the previous dry season. So, we're looking at strong second half of the year as we come fully into the dry season in that portion of Brazil. Production in the second quarter was 26,830 ounces at an AISC of $1,083 per ounce. We're very excited for the delivery of the pre-feasibility study that's been looking at the underground potential at Aurizona. A large drill program was done in 2020, wrapped up at the start of 2021, and that study is coming to completion in the second half of this year, so we'll see how that impacts Aurizona, and looks at the overall production that will come from that mine in the long run.

For Fazenda, it's had steady underground production in the second quarter, albeit mining from a few lower grade areas. We had scheduled to open up a new open pit, which [is now complete]. It just didn't happen as early as we expected. So, that will be contributing [ore] in the second half of the year. Q2 production was 13,130 ounces at an AISC of $1,263 per ounce. We're doing a consistent, long-term exploration program both within mine and around the mine, including the area between Fazenda and Santa Luz, which I think is going to be very exciting in the coming months for the Company, with results in numerous targets that we have in the 70-kilometre-long Greenstone belt that's between Fazenda and Santa Luz.

At RDM, we now have a very full water dam. I would say it's the first time I can look at that water dam and say that we have ample water for the rest of 2021, and all of 2022. In spite of an exceptional rainy season, we mined 19% more ore than we did in Q1, and we're doing a major pit expansion through this year that provides access to the lower portion of the ore body. Q2 production was 14,089 ounces at an AISC of $1,073 per ounce, and we're looking at steady production through H2 and a strong 2022, based on the expansion work that's been happening in the pit.

Looking at our growth and development projects, I'll say it's really good to be with a company that has such a great pipeline of growth projects. I'm looking at Santa Luz, which is in construction now. As Christian mentioned, we are 50% complete on the construction and our first gold pour is on track for Q1 of 2022. I'll elaborate a bit more on Santa Luz on the next slide, but let's move down to the other growth projects.

Los Filos expansion, we've been developing additional open pit and underground mines. Guadalupe is now providing ore, so that one is already part of the expansion at Los Filos. Bermejal underground development has resumed, we'll see ore coming from that late in the year, and we've been finalizing the study for the new 8,000 tonne per day CIL plant which will process the higher grade ore at the site. That study will also see the potential to increase reserves and possibly extend the overall mine life, but critical for us is to work out longer term stability with the communities so that we can continue to work on expansions at Los Filos.

For the Greenstone project, very exciting project overall, 5.5 million ounces of reserves and a 14-year mine life. The early works are already underway and we're looking at full-scale construction being targeted for Q4 of 2021, so keep an eye out for that later on this year as we work through all the preparatory work that's been happening on that project.

Then, Castle Mountain expansion, the average gold production that was in the Phase 2 expansion is 218,000 ounces per year. We would expect to start the Phase 2 permitting in the second half of this year.

If we move on to the next page, on Santa Luz, we are on budget, on schedule. The overall budget is $103 million for the initial Capex. This project will bring in 110,000 ounces a year for the first five years at an AISC, on average, of $877 per ounce. In the areas I mentioned already, there's excellent exploration potential, both near surface and also at depth. In the photos on the left, you can see the advance that we have on the leach tanks, they're going up well, the ball mill, which is in place, and there are lots of photos and videos on the website that I encourage you to have a look at, as well as the time lapse that shows the progress at the site.

I want to congratulate the team. As of June, they achieved one-year LTI free and 1.2 million hours LTI free at site. They had a recognition of that at site and I just want to recognize that they've been doing well and they're going to keep up that focus on safe construction.

So, turning the page to Greenstone, it is one indeed of the most attractive development assets in Canada. Previous underground mines produced over 4 million ounces in this area from the Greenstone

Belt. It's got an excellent reserve at 5.5 million ounces, and the opportunity to produce 358,000 ounces per year over the initial 14-year mine life. The project benefits from excellent infrastructure, being right on the Trans-Canada Highway. Community and indigenous agreements are in place, and it's fully permitted for construction. The early works are well advanced. The team's in place. We have a very experienced team that's been with the project for, I would say, the better part of 10 years, advancing it and doing all the engineering and bringing the project up to this point. Tree clearing, the first phase is already complete, the temporary camp, the first phase of it is already complete, and the temporary water effluent treatment plant is complete. So, very good focus by the team moving that project forward.

I'm going to hand it back to Christian.

Christian Milau

All right, thanks, Doug.

I'm going to step back and look at the bigger picture on the next few slides here.

I do want to emphasize that our long-term focus here has been on growth. It's been on building a large, diversified, top-tier gold mining company, and during the downturn in the gold cycle, though, obviously, gold's held nicely at $1,800/oz and our producing assets are generating good cash flow. But what we see here on Slide No. 13 is the diversified portfolio that's starting to come into place.

We've been really focused on all four of these countries and regions. We've been building one mine per year. We're working on expanding virtually every one of these countries in terms of production levels and reserve bases. The asset values and production will be split about a quarter, a quarter, a quarter between all four of these countries when we've finished our job of expanding and developing them, and, really, what you do see is potential production growth from our expansion projects and exploration in all four of the countries. Our goal here is not to be reliant on any one key asset, it's to have to have a nice, diversified portfolio that can weather the ups and downs of this sector and cycle. So, well on track to creating that through this portfolio.

When you look at the next slide, this is something we have talked about in the past but don't want to lose sight of here. We're moving towards a million ounces of production there in that second column.

We'll be in that top tier, the mid-tiers, and moving towards that senior level. Our growth profile, in the third column, is at the top of the charts, the highest amongst peers, over 75% over the next three years, as we develop and expand our assets.

Our reserve base is already 16 million ounces and as Doug alluded to, we're pretty excited for what's coming from Aurizona and Mesquite, the Bahia exploration programs, and we really do see opportunities, including Mexico as well, to expand the reserve and resource base and not just deplete our ounces, but actually add to them over time. The portfolio we have is very prospective and I think we haven't given it enough attention publicly, and we'll start to do that as we finish this key investment year.

When you look at the far left, I mean, that's the part here which I think is exciting, but also a little bit disappointing. Obviously, with the Los Filos blockade, we've had a fall in the share price, but when I look at the value potential here and the price to net asset value basis, we're really at the bottom end of that scale, and we need to rebuild the confidence and the stability in the Los Filos situation, which we're obviously determined to do, but the re-rating will come. This investment year, we're halfway through it, or almost two-thirds of the way through it, and we'll be seeing progressively better quarters here. Q3 will be slightly better than Q2 and Q1, and Q4 should be a really good quarter, as we move into the new year.

When we turn over on to Slide No. 15, how are we going to build to deliver that and what kind of support do we have, and as Pete alluded to, the balance sheet is rock solid right now, $330 million of cash, it holds very firm, and we do our planning at more conservative gold prices, but even assets like RDM, where we're investing a lot of the cash flow back into the business, is actually cash flow positive despite plans for it to be needing cash support from corporate, so it's really pleasing to see that. We've still got our $200 million availability in the revolver and a very strong lending and banking group that's supporting us, and its really exciting for me to see the $420 million in investments.

Solaris is just going fantastically well, Richard and Dan have done a wonderful job there, and we always believed that asset to be worth a heck of a lot and would be worth as much as our debt one day, and I think it actually almost is right now. So, well done to the team there and great to see. i-80 is at an

earlier stage, but I know Ewan has ambitious plans. We've given him great support to start and I think he'll be creating some wonderful value there, as well.

So, we're coming through that trough, in terms of, call it, production and cash flow, etc., for this year. Q3 will get progressively stronger and Q4 should be a great quarter. We have a strong balance sheet, we'll be able to fund all our growth projects, including Greenstone, so I think there's some exciting announcements to come in the second half of the year with some of our catalysts.

When I turn to the last slide, just to bring it all together, again, lots on the go. We're most of the way through this investment year. We're working towards around an 800,000 an ounce type year next year, which will be on the back of getting Santa Luz up and running, getting stability back into Los Filos, and starting to hit our stride at mines like RDM and Mesquite. So, really exciting going into next year.

We have reduced our guidance slightly in this quarter, but it's straddling that original level. We had 600,000 to 665,000 ounces, with still potential to do up to 625,000 ounces, and that's despite a big disruption we had at Los Filos this year. A tough start, with lots of investment going into our mines. So, kudos to the team for finding a way to keep production at a very respectable level.

Keep your eye out for the Aurizona underground study and exploration results coming from Aurizona and Bahia. Also, Mesquite, it's the energizer bunny, as we always say, it just keeps on giving and giving here. [When we bought it we] had a two-and-a-half year mine life, it still has that kind of mine life, and I think we'll be increasing that in due course, as well. So, really pleased with the results there and what the team has done at Mesquite.

We'll be getting out our consolidated reserve and resource update, as well, in the second half of this year, so that'll allow people to have a good consolidated look at the business.

We'll continue to support our investment companies. As we always sort of say, we'll look at opportunistic M&A, but right now we're really focused [internally]. We've got lots of projects to deliver, lots on the go. The team coming into place here is very strong and I think we're well prepared to deliver on these projects this year. So, keep an eye out for all those catalysts in the second half of this year.

I think I'll end the formal part there and open up to questions.

Rhylin Bailie:

Perfect. Thanks, Christian. Operator, can you please remind people how to ask a question?

Operator:

Certainly.

Rhylin Bailie:

Thank you. While we wait for our phone callers to queue up, I'll take a couple of questions from online. Let's just get the inevitable out of the way. What steps have you taken at Los Filos to manage the risk of further disruptions?

Christian Milau:

Yes, I mean, that's something that we're obviously laser-focused on, and stability there is the key goal. "Partnership" is a word we use a lot. It's been a tough go since we've taken over. We've had, obviously, the COVID overhang, and [that eliminated our] ability to visit the site to build relationships. We did change the senior level management during this process about five/six months ago and I think they've done a great job of actually getting engaged and involved with the communities and really establishing that we're all in this together, and having that mine operating is to the benefit of all stakeholders there locally. And that's something we've learned even more so in this most recent blockade situation, is that all parties want this mine operating, government, unions, employees, us. All stakeholders are getting some kind of benefit from it.

I think what's happened here is we have taken a fairly principled approach to resolving this. We're always open to working with our communities, employees and other stakeholders on finding resolutions and sharing in the benefits that this mine will provide for many years to come, but also we do have to manage it ethically and responsibly and make sure that things are fair and fairly distributed. A number of the requests that have come from whichever of these parties that's had a challenge to the mine is, you know, looking for almost sole access to contracts, jobs, the economics—and we do have three communities to manage, we have a union, we have employees, and we have governments, as well. We are trying to, obviously, to create as much local sharing of the pie as possible, but we do need to make sure it's as fair as possible. When we disadvantage one community, it obviously creates a problem over there. So, we want to make sure that all communities understand that they affect each other, as well.

So, I think part of it's been a communication program. Part of it's been also, on certain areas, we have to take a bit of a principled view that we have contractual relationships and things that we must deliver on and we owe to other communities, unions, employees, that we can't break, and we do honour those. I think the situation is also where the mine's not producing and people are not getting the economic benefits through salaries and contracts, and that we can't pay those indefinitely without operating, I think has focused the minds of many people, as well, that everyone needs this mine operating.

So, it's been a painful process, and myself, as a big shareholder, have felt that pain, as well, but I think with that sort of principled approach, I think we are establishing that there are certain boundaries and areas that we can operate within and we can negotiate within, but we also can't accept certain things that disadvantage others, including the mine. I think we're setting a new baseline and way forward with the communities. There is no guarantee, I don't want to mislead anyone in that sense, but I do think we're slowly establishing those parameters.

We do have big plans to work with communities to build joint programs and partnerships. It'll take time to rebuild that trust, but we have some very good people in there, and the spirit of the mine and the employees, which are members of the community mostly, is actually quite good despite all this disruption. So, I'm quite optimistic, but it does need some time to heal those wounds.

Rhylin Bailie:
Thank you. We'll now take some questions from the phone, please.

Operator:
The first question from the phone is from Dalton Baretto from Canaccord. Please go ahead.

Dalton Baretto:
Thanks. Good morning, Christian and team. I kind of want to follow up on that same line of questioning there. You touched on this a little bit in your prepared comments, but, Christian, can you give us a little bit more colour in terms of how the blockades actually did get resolved, and what, if anything, you had to give up?

Christian Milau:

Yes, I mean, I'll give you a bit more colour. Obviously, I won't go into all the intricate details, but the union situation, there's requests for bonuses that are well beyond what's owed and due in contracts and formulas. In a situation, also, where the mine is having a very challenging time, we can't be entertaining that kind of demands, which ultimately are being demanded and not owed at all, and so, unfortunately, I guess, it resulted in this illegal blockade.

At the end of the day, what I think most of the employees realized is that, actually, lost wages add up very quickly, and jobs are vitally important in the region, and steady income. At the end of the day, I think there was a loss in support for the action and the groups voluntarily agreed to come back to work. We didn't have to really give up much, I mean, other than, obviously, the downtime and the impact on our financials and the morale, etc., but they came back to work in the end. So, I wouldn't say we've given up a lot, in that sense. I hope we've earned some respect and trust in that process.

In terms of the community, it's a brand new community, they only own about 2% of the land, most of it's in Guadalupe, and they have some exploration land, so very different than the other communities [that are close to the mine and own the majority of the land on which we're mining]. There's very few people [from the community that was blockading] that actually work at the mine. So, I think part of the process is—I'm going to call it education, maybe that's not the fair word, but also getting familiar with mining, the economics of mining. We can't process the ore in their community from the pit that they happen to own part of the land from. We have a processing plant on-site. It has to be managed through regulations in locations that are obviously suitable. So, part of it is just education. Part of it is we can't give all jobs and all economics for, call it, that pit to one community, because we do need to have flexibility to move our workforce and our contractors around the organization to be as successful as possible, so all stakeholders make a good return on this.

I think, at the end of the day, I think they understood that there is a need to have somewhat sharing in this, but also I think there's been pressures from [the other communities]. The District Attorney was heavily involved, who's a state representative, all the way up to the federal government, although they really relied on the state to be involved, and the District Attorney tried to help with—I call it the education process, but also we filed criminal charges against groups that are illegally blockading, and I think that had some impact, as well, that we're serious about this and we're not just going to stand by and accept illegal blockades on our land that we actually own.

I think, through a number of measures there, it resulted in, obviously, less support for a small group of leadership that was leading this blockade. I would say it wasn't wide community support for this. I mean, honestly, I would suspect that not many people have much involvement with the mine in that community. It's an hour-and-a-half away and there's only 30 employees. So, much less influence in that community. Over time, we're just going to have to work with them on agreements as we rent land for exploration, etc., to continue to build that trust with them.

Dalton Baretto:
Okay. Then, I know you said there's no guarantees in your last response there. Is there anything you can put in place prior to sinking some real capital into this thing to build the plant and so on?

Christian Milau:
Well, I think, something that we do want to do is get out and talk to them, get the messaging in front of them, that we want to build some stability in partnership here as we make decisions to invest in this mine. Obviously, we're investing in Guadalupe and Bermejal as we speak, and they're benefiting very significantly, and I think those were the two key areas that these groups focused on, is there's new jobs, new contracts, new investment there, and they want as much of that pie as possible. The CIL plant will be the next one, obviously, and we want to proceed cautiously with that and build stability before we start investing in that, but it will take a bit of time, and we're going to have to communicate. I'll go see them with some of our senior leadership here at site. They need to understand that there are consequences, ultimately, to not having [operating] stability. We have three other extremely attractive countries and sites where we're investing, call it, $1 billion of capital, and we'll continue to allocate the capital there, and as this one becomes more stable, we'll reallocate capital back here.

Dalton Baretto:
Okay, great, and then just one last question for me, and then I'll jump back in queue. The blockade was in place for about 34 days. A 50,000 ounce guidance cut seems disproportionate, even with the Bermejal underground being pushed out. Can you wrap some context around that? How much are you actually expecting from the Bermejal underground, and is there anything else at play here?

Christian Milau:
I'll let Doug piggyback on any of my comments here, but don't forget that this is a big leach pad and you just don't turn it on and off, so, unfortunately, there's time to ramp it up and you have to get the solution

flow going again. This time, they absolutely ramped it right down when they had that union blockade, so we had to turn the taps off, in a certain sense, so it'll take a little time to ramp it up. But, what it does, also, with all this development, is it pushes some of those good months that were meant to add quite a few ounces into the new year, and that's probably one of the biggest disproportionate impacts, as well, is that those ounces just get pushed out, and, really, Bermejal, I don't think contributes many tonnes of ore this year now, unfortunately.

Doug Reddy:

No, it's mostly development, with a small contribution at the very end of the year. So, it's really pushed out the production from Guadalupe, pushed out ore contribution from Bermejal underground. The impact of, essentially, bringing down the ounces on the leach pad, and then having to bring it all back up again, it all pushes out what would have been a very good Q4. It's still going to be a better second half of the year, but the very good finish to the year will actually be spilling over into 2022.

Christian Milau:

We do take it really seriously. We have almost 2,000 people working down there. With COVID testing and getting people back to work, it doesn't just happen overnight, so we do have to work through that process and ease people back in and sort of retrain or redo some of the safety protocols, just to get them up and ready to go. So, it's a big ship to turn.

Dalton Baretto:

Got it. Thanks for the colour, guys. I'll jump back in queue.

Christian Milau:

Thanks, Dalton.

Operator:

The next question is from Kerry Smith from Haywood Securities. Please go ahead.

Kerry Smith:

Thanks, Operator. Christian, maybe just to follow up Los Filos again. If you've got 2,000 employees and you're already got 30 employees that are from Xochipala, if they want more, it seems like they're already kind of at their pro rata share, if you will. It's roughly 2%, or maybe it's even right around 2%, I guess. So, how do you deliver more jobs for that community when it seems like the pro rate formula maybe wouldn't suggest that they deserve more jobs, because that has to come at the expense of the other communities?

Christian Milau:

Yes, I mean, it is always tricky with all the communities on that kind of front. Certainly, with Xochipala, one thing that we are doing is we've committed to a training program, so we can end up with some skilled labour in the region from that community. I think we're making a little bit more of an overt commitment to hiring some of those people that come out trained. It's not perfect. But the other side of it, too, is I think—I don't want to get too far ahead of myself, but sort of looking at Scott and Doug around the table, is some of the future exploration upside on that is in their lands. They have a long, call it strip of land coming to their community, right into, ultimately, the Guadalupe pit, and some of the future exploration and excitement certainly is in that exploration area. So, what we see and are articulating to them, and I think we need to continue to do this, is we have a small piece of, actually, exploitation land that they get paid for sort of jobs, etc., but that exploration, probably a lot of that future is on their land. There's more to come, but we can't jump ahead of the queue, and they do need to allow us the time to explore. We pay less, obviously, per hectare, for exploration land, because we're not exploiting it, it will come, and so I think a little bit of a patience is required there, and education on the timing and process. So, that's how I see it.

Kerry Smith:

Okay, and just on the three communities, just so I'm clear, do you have agreements in place with all three communities today, and Xochipala just chose to basically ignore that agreement? Is that kind of what happened?

Christian Milau:

Yes, we do have agreements in place with all three communities. With Xochipala, we do have an exploration and an exploitation agreement. I'll be really straight-up here. There's also a misunderstanding, I think, by them on exploration versus exploitation, they see it as all the same thing. If you're out there drilling on land, it's almost like you're mining it. Doug, if you have any comments, please add them. But, that I think is part of the process, it is kind of explaining that once we're mining for gold and making profit from it, we obviously pay a higher rate for it, call it access to that land, but when we're exploring it, it's all of our risk capital going into the ground.

Doug Reddy:

We have agreements with Carrizalilo and Mezcala since the start of the mine, I guess, in 2008, and the agreements for those two communities were renewed in 2019. Xochipala, this was the first time an agreement had been established with Xochipala, so it's a new relationship, but, as Christian mentioned, very important properties on the south end of our mining licence, very prospective, and it impacts the Guadalupe open pit. A very small piece of ground, but it's important to us. It's been, essentially, working through the buildup of a newer relationship with Xochipala versus the other communities that we've been working with for over a decade.

Kerry Smith:

Great. So, Doug, the agreements you have with Carrizalilo and Mezcala, those were renewed in 2019, and were they six-year or five-year terms, I forget?

Doug Reddy:

Five for Carrizalilo, and I think it's 10 for Mezcala.

Kerry Smith:

Okay, and the new agreement that you struck with Xochipala, what would the term be on that agreement? Is it 5 or is it 10?

Doug Reddy:

The new one there is 20 years. Exploration, I think is a shorter term, I'm not sure it's annually, but every few years it gets renewed, but the exploitation is a 20-year.

Kerry Smith:

Okay, got you, and just a question on—maybe Doug can answer this—on Castle Mountain. What is the issue with the percolation? It's an oxide ore body, I've been there, there's really no clays at all. I'm just wondering you're having these percolation issues. Then, secondarily to that, the mining cost per tonne seems really high at Castle Mountain, and I'm not sure why that's the case. Mesquite seems like probably a good comp and it's significantly less on a per tonne basis. So, I just wonder if you could comment on those two issues.

Doug Reddy:

Sure. It's fines, not clays. JSLA material is—previously mined material is put into the JSLA open pit, so there's a fair component of fines in that material. When we initially were irrigating the leach pads with spray emitters, essentially, there was a penetration problem. Several things have been tried. I would say the most productive approach has been burying emitters, which, of course, it's a take a while to step through and try each change. If you do them all at once, you don't know which thing is working. So, it's been a process of working it through and the burying of the emitters has been the most successful one, which has allowed us to ramp our gallons per minute that are being applied to the pad, and essentially doubling the production between Q1 and Q2. We continue to work on other efforts, but we know that percolation is a key item and driven by a high percentage of the fines. Mining costs, it's essentially …

Peter Hardie:

It is a contractor, number one, versus owner mining.

Doug Reddy:

Yes, and trucking over to the leach pad. So, it's been run of mine, and I'd have to look into if there's anything else abnormal about it.

Peter Hardie:

Yes, I think it's also in part, just a lower denominator, Kerry. While the production has come up significantly from Q1, it's not quite at the level we would expect it, and obviously it's not a large production volume. So, with that reduced denominator, it just amplifies on the per unit basis.

Kerry Smith:

The denominator you're referring to is lower tonnes, not lower ounces, obviously.

Peter Hardie:

Yes.

Kerry Smith:

Yes, okay. So, Doug, burying the emitters, do you think that's the best solution now, you've kind of got that fine-tuned and that's the solution you're going to run with, and now you can focus on other areas to try and get the production up? Is that kind of the goal here?

Doug Reddy:

No, we're not resting on that, we've got more to do, and it's been a very—I'll applaud the efforts that have been done by the team at site for the series of actions that they've taken and to methodically work their way through, and they have a couple more things that they want to try, which we're just going through at the moment. I would say that it's an important process of being able to step through and get higher percolation, and, obviously, better recovery overall, and that's what we've been doing. It takes a while on a leach pad.

Kerry Smith:

Yes, of course, okay. Okay, and maybe just one last question for Peter. The G&A quarterly run rate, I mean, it fluctuates a lot quarter-over-quarter. What would be a good run rate going forward on a quarterly basis or an annual basis, whatever you prefer, for G&A?

Peter Hardie:

Oh, for G&A? Yes, it was higher in the quarter for a couple different reasons. One, we obviously had a lot of transaction costs that flowed through with respect to professional fees, due to corporate activity and the sale of Pilar, and the Premier acquisition, and then also during the quarter, there was a cleanup item related to share-based comp, and that was about $4 million, and that was an integration of the Leagold and Equinox plans that carried over, unfortunately, until now, and was resolved in this quarter. We expect about $7.5 million a quarter, overall, as a run rate. We tend to think of it in dollars per ounce. So, on an annualized basis, normalized basis, we would expect to be in around $40 an ounce.

Kerry Smith:

Okay, that's helpful. Thanks very much.

Rhylin Bailie:

Thanks, Kerry. I'll take a couple questions from online. We have a whole bunch of questions about all-in sustaining costs that I'm going to try to combine into one. You've raised your all-in sustaining cost guidance, but you say there will be the lowest costs in the second half of this year, so just trying to figure out what your all-in sustaining costs are going to look like start of 2022, and then even farther down the road, when you hit that million-ounce goal, what would your all-in sustaining cost target be at that point?

Christian Milau:

I'll take the high-level question, and, Pete, please jump in if there's anything more granular or detailed that you can add.

From an overall long-term perspective, I think what you're going to see is, as we move into and finish these investments in some of the mines, you'll see the costs naturally come down. We're putting big investment into areas like Mesquite and RDM, and a lot of that, or part of that goes into, call it sustaining capital, so it affects all-in costs, but also, when you're opening up some of these new areas, you end up with higher grades, more production, bigger denominator, so you'll naturally see some of those costs come down.

Then, you have the additional impact and benefit of Santa Luz and Greenstone expansions, projects that will be naturally lower cost. Those are the projects that are the prize for us, where we want to get Greenstone up and running, which has got a very low all-in sustaining cost. As we get Santa Luz up and running, it has a lower all-in sustaining cost. So, you have the benefit of the operating mines we're investing in coming down over time. The bigger, kind of longer life, high-quality projects that we're developing and putting into place will actually have a lower cost, so the average will come down.

In terms of this year, just H1 versus H2, I think the increase in the all-in sustaining cost, there's probably two key factors that jump out to me. Los Filos had a big outsized impact for H1, $2,000 an ounce, effectively, so that brings up our all-in cost across the whole year, because you're going to have a much lower cost for the second half, but you had a much higher cost in the first half, so you're average is higher, just the simple math of it, and we have one or two sites, in addition to that, that have a similar metric, where each one was a higher cost, so, on average, just bring up this average for the year. But, also, there's a bit of inflation in there, and I don't want to overplay that, but give or take 5% in certain areas, fuel, reagents, etc., that's having a little bit of an impact, as well. We're still getting benefits of Fx, or foreign exchange, offsetting that, certainly, in Brazil.

Rhylin Bailie:

Good, okay. Question from online, given the undervaluation of your stock, are you considering share buyback?

Christian Milau:

It's a really good question. It's something we'd love to do, but the one thing we are focused on right now is we have a lot of capital in front of us, a lot of investment to make, and we have to look at those trade-offs. I think, with Greenstone coming up, finishing off Santa Luz, still investing in a couple of other assets, that's where our capital is best allocated and spent today. As we start to get more visibility come through that, announce those projects, start to deliver on them, we certainly—if the share price isn't moving, we certainly want to be looking at something like share buybacks along the way, but I think for as of today, we want to commit that capital to investing in our assets.

Peter Hardie:

I think it's fair to say that longer term, we absolutely want to be returning capital to our shareholders. That's the whole plan of investing now for future growth, and then returning that, making those returns for shareholders.

Rhylin Bailie:

Thank you. Operator, we'll take the remaining questions from the phone, please.

Operator:

Certainly. The next question over the phone is from Anita Soni from CIBC World Markets. Please go ahead.

Anita Soni:

Hi. The first question is with regards to Los Filos and the $83 million that you have in non-sustaining capital there this year. Could you just give me an idea of what's being spent on this year then?

Christian Milau:

I'll give a very high level and if either Doug or Pete has a little granularity, they can add to it, but key areas, obviously, are opening up, Bermejal and Guadalupe. There's lots of stripping, particularly, the first half of the year at Guadalupe, and Bermejal kind of continues on for this year. Those are brand new ore bodies adding to the mine life. Those are, call it growth projects for us, those two key areas.

Anita Soni:

Okay. That number, was that reduced from a prior number, or was that the same number that you had before?

Christian Milau:

No, it's slightly reduced.

Peter Hardie:

Yes, we reduced it by $12 million from before.

Anita Soni:

Okay, all right, and then next question, I guess, is with regards—just more of a big question. I noticed on the side bar on Slide 16, that you've got 800,000 ounces, is kind of what you're gearing towards for 2022, in terms of production, and I think that's taking into account the impact at Los Filos. Can you just give us an idea if any proportion of that is maybe assuming a slower start-up at Q1 Santa Luz, or is it still kind of the 100,000-plus for next year?

Christian Milau:

Well, for next year, whether we achieve 100,000 or not, it depends on the date we actually pour gold and get to that commercial production, but it probably will not be far off that. We expect to pour gold in the first quarter. If we have a really quick ramp-up, like Aurizona, then you'll be probably pushing towards 100,000. If it's a little bit slower, it'll probably be a bit later. But, you'll have the addition, obviously, to get the 800,000 at Santa Luz. Mesquite, it's hitting that Brownie stride in Q4, where it's actually stacking a lot of ore in Q3 and Q4 this year, and that falls right through to next year, so you see a sort of nice improvement there. Aurizona is producing at a nice, steady level. We've got a full yar from Castle, as well, and obviously Los Filos, hopefully, will be an uninterrupted year next year.

Anita Soni:

Okay, and then the last question, I just wanted ask, given one of your competitors, or colleagues, I guess, in the business at Cote is struggling with capital cost inflation in their new project build, have you taken, or will you take a look at the feasibility study for Hardrock to reassess as you start that capital spend into the second half of the year.

Christian Milau:

Yes, absolutely. One of the key jobs, I think, for us, as we've taken over, we've hired a Head of Projects here in Vancouver, and her first job was to actually look at; also working very closely with Orion and the Project Team, just make sure when we come out with a capital number, we're standing behind it, we're comfortable, looking at all COVID impacts, cost escalations, which obviously there is some out there, and challenges that other operators and builders have had. Foreign exchange is another piece that's separate to the actual project, but it's something that we need to manage, as well, which I think we can do from a corporate perspective. So, absolutely, when we come out with our initial capital number, we'll factor in any of those points, and, hopefully, you'll see that in the next few months.

Anita Soni:

Okay, and then just in terms of the original capital spend, I think maybe you guys had indicated that you were trying to sort of push that in the next 24/30 months. Could phasing that CapEx spend be an option, or would you still want to accelerate the capital?

Peter Hardie:

Sorry, are we just talking about Greenstone specifically here?

Anita Soni:

Yes, we're talking about Hardrock, yes.

Peter Hardie:

So, no, we're not planning to phase it. Sorry, I don't want to give you any indication. No, we think the best way to do it—and in our methodology and thinking here, and I know Ross stands behind this, as well, build the mine right, don't try and build it in phases or cut corners to push capital into the operating period. We've seen that happen way too many times. Let's make sure it's well financed, well understood, and let's deliver the project that will actually be the best operating project on day one. So, no, we don't have any intention to phase it.

Anita Soni:

All right, that's it for my questions. Thank you for taking them.

Christian Milau:

Yes, thanks, Anita.

Operator:

The next question is from John Tumazos from John Tumazos Very Independent Research. Please go ahead.

John, your line is open.

We'll go to the next question. The next question is from Wayne Lam from RBC. Please go ahead.

Wayne Lam:

Good morning, everyone. I was just wondering—in Mexico, there seems to be a lot more scrutiny recently around subcontracting and PTU payments. I'm just wondering kind of to what extent do you guys subcontract at Los Filos, and if you might be able to provide kind of a ballpark amount that's paid out annually in terms of the PTU profit-sharing payments at the mine.

Christian Milau:

Yes, there are some changes coming to the laws and how that outsourcing and contracting is coming. It's still in, call it, the investigation and review phase. I don't have that number off the top of my head, I have to admit, Wayne, so I can't give you—I'm not going to even ballpark it for you there. But, the team at site is well versed in this, they're experienced operators in Mexico, and will adapt the mine, as necessary, with the contractors to make it work. It may be a slight shifting into a profit-sharing into the entity and bringing employees, call it, in-house a bit more. Do we expect it to have much impact? I don't think it's going to have a massive impact. It may shift our costs. It shouldn't, from an outwards perspective, have much impact, or you should see it, but it may shift on where, call it, the profit-sharing or bonus, or whatever, is paid out and allocated.

Wayne Lam:

Okay, perfect, thanks, and then just curious—kind of thinking about that path to a million ounces, obviously, the expansion at Los Filos was a big part of that. Given some of the interruptions that have happened over the past year, and you guys had talked to wanting to see more stability, how should we think about the timing of that expansion, and are you guys still comfortable moving ahead with that over the near term and proceeding with the CIL plant?

Christian Milau:
Yes, I think, you know, it's still a key part of our investment in the future for that mine. It's a great mine, a great deposit there, and what we want to do, and maybe we just proceed a little more cautiously here, but we want to rebuild the stability, indicate to them that until we have that clear stability, we won't invest in that CIL yet, but it'll be on the radar. So, maybe we don't launch into quite as quickly here in the second half of the year, we still need to get the study out, as well, and then we can use that to articulate what the plans are to, call it, the communities and local stakeholders. We'll continue, obviously, investing in Guadalupe and Bermejal underground. Those are, obviously, well underway. Guadalupe is most of the way there. But, we may just take a little bit more cautious approach to the CIL. The good thing here, I guess, is that we don't need the CIL to operate. It's more efficient, obviously, with certain parts of the deposit, to run it through the CIL plant, but ounces are not lost, they may be just deferred, if we put some of the material on the leach pad and ultimately reprocess some of it later.

Wayne Lam:
Okay, great, and then maybe just on the cost inflation that was flagged, would you be able to provide a bit more detail in terms of percentage and what you're seeing on labour and cyanide reagents within the U.S. and Brazil?

Peter Hardie:
Yes, We're not seeing as much on labour to date, it's definitely more on the energy. In Brazil, electricity, and diesel, and also on consumables. On an overall basis, call it about 5%, and we're seeing it similar in the U.S., say 5% of the overall cost structure in each jurisdiction. In the U.S., it's more on fuel and reagents, as well. I suppose you could add grinding media to the issue in Brazil. I mean, you hate to use the term, but I think the whole world is probably on a wait-and-see, are these going to be structural increases or is this just a COVID recovery supply chain issue that's going to come down over time, and we're in the same position.

Wayne Lam:

Okay, got it, and kind of on that similar line, maybe, in terms of budgeting at Santa Luz, it's nice to see that it's tracking well on budget, but how you guys are kind of thinking about costs as we head into the ramp-up here.

Doug Reddy:

For Santa Luz construction, we're on budget, and we've spent a lot of time going through everything in regards to first builds and the remainder of the construction, all the equipment. Over 90% of—well, I think we're 95% of material for the construction is already on site, so we're well advanced on Santa Luz, and I think we're good.

Christian Milau:

In terms of operations, obviously, we've got Fazenda and Aurizona and others around as, call it, benchmarks, and we're actually even, call it, using some of the similar people that were operating some of our other mines, so we've got a good basis. We're also using the same mining contractor. We now have the volume benefit. We have three mines on the same contractor. I believe Santa Luz may be our most favourable contract out of the three. Hopefully, that helps offset any kind of, call it, cost pressures, and as Doug said, I think the guys were saying the other day there may be only three pieces of equipment that's still to arrive on site, and they're peripheral, they're none of the big mills, or anything, core pieces of equipment. Fortunately, any of those logistics challenges are probably behind us, generally, at Santa Luz.

Doug Reddy:

As a multi-mine producer, we, of course, look at the opportunities where we can, for being able to do purchasing beyond just individual sites, so that effort is ongoing in the background, because we know that's an important thing to be doing at this time, and it reaps benefits if there's continued escalation, but long term, obviously, it benefits us no matter what, if we can do group purchasing and bring overall costs down. So, that's going on, as well.

Christian Milau:

Another thing that we're looking, and this is a look forward quite ways, is there's opportunities to look to independent green power in Brazil, but also at other locations. I'm not going to promise anything today, but there's some major mining in other companies that are already involved in taking power from these facilities and having production facilities built, that are proving fantastic from a cost perspective, but also from an ESG perspective, because they're using renewable sources of energy, so kind of win/win in that sense. We're very serious about looking at those kind of opportunities, partly because it's smart business in terms of costs, but it's also great from an ESG perspective. As we get our baselines for all our emissions, and things, it becomes more in focus for us.

Wayne Lam:
Okay, perfect. That's all for me. Thank you.

Christian Milau:
Thanks, Wayne.

Rhylin Bailie:
Thank you, everybody, for joining us today. That's the end of our questions. If you do think of anything, please do not hesitate to get in touch. I will turn it back over to Christian for closing remarks.

Christian Milau:
Thanks, Rhylin. I think it's a pretty comprehensive run-through. As I said earlier on, we're really looking forward to the second half of this year. It's been a little bit more of a challenge in the first half, we knew it would be, it was well telegraphed, and the second half should be pretty exciting, so stay tuned for Q3 and Q4. Thank you very much.

Rhylin Bailie:
Operator, you can now disconnect the line.

Operator:
Thank you. This concludes today's conference call, you may all disconnect your lines. Thank you for participating and have a pleasant day.