Equinox Gold Corp.
Second Quarter 2022 Results and Corporate Update Transcript

Date: **Thursday, August 4th, 2022**

Time: **7:30 AM PT**

Speakers:

Rhylin Bailie
Vice President, Investor Relations

Ross Beaty
Chairman

Christian Milau
Chief Executive Officer

Peter Hardie
Chief Financial Officer

Doug Reddy
Chief Operating Officer

Scott Heffernan
EVP Exploration

Operator's Opening Script:

Welcome to the Equinox Gold Second Quarter 2022 Results and Corporate Update.

As a reminder, all participants are in listen-only mode and the conference is being recorded.

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 today for the Q2 conference call.

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

I'm now going to turn the call over to our Chairman, Ross Beaty, to make some opening remarks.

Ross Beaty:

Thank you, Rhylin, and good morning, ladies and gentlemen.

I don't usually get involved in these quarterly calls, but this particular one is important. I think I'm going to talk a little bit about the CEO transition and a little bit of the background of that.

Obviously, it was a poor quarter, and I just want to make a couple editorial comments here to all investors, whether they're short-term investors or medium-term or long-term. If you are short-term, I want to point out that our Q3 and Q4 this year should be much better than our first two quarters. We signaled that at the beginning of the year, and we expect that to happen again, just like it did last year where we had a blow-up quarter in Q4 last year. So short term, things should be much better as the year progresses.

If you're a mid-term investor, I'd like you to focus on our growth. Obviously, Greenstone is the biggest growth project we have that allowed 200,000 ounces at least to our gold production profile in the next couple of years. But we also have a dramatic growth potential at Los Filos in Mexico, Aurizona in Brazil, Castle Mountain Phase 2 in the United States and, of course, our new Santa Luz mine in Brazil. Tremendous amount of growth, I think we probably lead the entire sector in terms of growth of our production profile and our decreasing cash cost profile.

If you're a long-term investor like me, you should be looking to simply own a company that has been built into one of the world's major gold producers. This will provide a sustainable business over the long term; it will be low cost and it will be a significant generator of strong cash flow and long-term dividends when we complete our growth to produce more than a million ounces a year, which is our medium-term target.

There will be lots of detail on our second quarter coming later in this call, but right now I want to talk about the news last night that we announced about the CEO transition. Christian approached me and others on the Board some time ago, expressing his desire to shift into a different business. These things happen sometimes, and you can't fight them, you have to just simply go along with them and deal with the succession as best you can.

Luckily for us, we had a built-in successor who had always been considered a successor to CEO, and that was our President, Greg Smith. Greg and Christian were both founding members of the Equinox Gold Management team. Joining me right at the start in building Equinox from an idea to what is now a major gold producer with seven operations and a whole bunch of growth, as I've just described.

Christian obviously will be missed, but we are very content with a strong successor who we know well, knows all the team. A veteran industry expert in the mining business, Greg's had a long pedigree in other companies before joining and forming Equinox Gold at the beginning of 2018. So, it's a healthy transition. It was a unanimous decision by the Board. We did have a significant succession plan and succession procedure that we followed. Greg will start at the beginning of September. Today he's on a well-earned holiday I think, just getting ready for the new job. But he's been in the saddle as President, a lot of analysts know him, a lot of investors know him, and I look forward to him really stepping up and taking this Company on to new levels.

Needless to say, I want to express my thanks to Christian. He was a strong CEO. Great guy. We've worked together very, very well, and we've had a lot of, I think, enjoyment, building Equinox together with the rest of the Management team; and building the Management team really under Christian's reign. He really added to a small team at the start and what is now a fully functional major company, build-out team. Really started an admin, finance, ESG team, and of course, all the operations team that is required. I think we have 6,000 or 7,000 employees now, and it's a significant company that's going to become even bigger and better.

Many thanks to Christian, welcome to Greg, and I look forward to investors being able to talk to Greg, once he's in the saddle in September, and then of course on future calls like this.

I can't resist completing my comments with a couple of words about gold. I feel gold is kind of like a coiled spring right now. Even though it came down just under 10% from its highs, it still outperformed almost every other asset class this year in the general decline of all asset classes. But there's still a very, very strong case for gold, and a very strong case for gold moving higher in the very near-term future and longer-term future. Obviously, it responds well when there’s geopolitical turmoil, which I think we can say we have today between what's going on in Asia, what's going on in Ukraine. Certainly, we have persistent inflation, this is not going to go away anytime soon, gold always does well in times of inflation.

Even though interest rates have risen, bond yields have risen somewhat, there's still negative returns on a real basis, and why anybody would buy bonds is beyond me. You have declining equities, declining values in real estate and so on. In the face of all those negative other asset classes, you've got 2,000 years where gold has been a store of value and has held its value.

I think all things included, I have a good outlook for gold in the short term and in the medium term and in the long term. In that environment, Equinox Gold is really being built as a great way for investors to play the gold market, plus play a great growth company, which is what we're all working hard to build.

With those comments, once again, thanks to Christian and welcome to Greg. I'm going to turn the call over to Christian for his last CEO role really in terms of presenting Q2 results.

Christian, I'll turn the call over to you. Thank you very much, one and all.

Christian Milau:

Thanks, Ross.

If you'll bear with me, I just want to add a couple of comments to what Ross said. It's obviously a very emotional decision for me. As Ross said, I was here when we founded this with Greg and Ross and a lot of the team around the table with me today. Very proud of what we've achieved so far, and I know the journey isn't done. As Ross said, this is well on its way to becoming a million-ounce producer and the plans are all in place.

I'm also excited about the new opportunities that are going to come my way, but I'm also very pleased with the succession and transition plan that we have in place. I think it will be very orderly as Greg steps in. I have the utmost respect for him and the team, and I think you'll see very little change as we move forward. I want to thank all of them for their hard work. It's been an exceptional six years.

Also, I want to say very special thanks to Ross and his support and the Board over those years, too. It's easy to say you're going to build a company and focus on growth, and it's really hard to do and execute. I think this team's done a wonderful job in that sense. There's been bumps along the road, but as Ross said, the pathway is clear towards that million ounces, and that will be achieved.

It'd be exciting to be watching Greenstone progress along with all the other projects. You can't find that kind of growth, as Ross said, in many companies around the sector. I'm keen also to make a difference in the carbon finance sector as I do move on to a different space, and excited about that as well. But really, the business at hand, we should cover that today, and that's the quarter two results and where Equinox is and is going.

As at Page 3 with our summary, just to re-highlight it's a diversified portfolio of six producing mines, and really the seventh is almost in commercial production right now. We have that period leading growth with the four growth projects, and really excited about those as they start to come to fruition over the next couple of years.

We've got the large reserve resource base: 60-million-ounce reserves, 30 million ounces resources. We've got a strong balance sheet with almost $400 million of liquidity, and $250 million-plus of investments on the balance sheet.

As Ross said, it was a tough quarter, we have reduced guidance. RDM, we suspended the guidance early in the year, so no surprise there. Also, Santa Luz, it's been a slightly slower ramp up as we have a refurbished plant that's starting to hit its stride a bit more these days. So, that'll be about 580,000 average production for the year. Slightly down on the expectations at the beginning of the year. That clear path to a million ounces is well funded, and it's well on its way to being achieved over the next few years.

Turning to the next slide and the Q2 operating results. Health, safety, environment, another strong performance. Well done to the team again. I do want to highlight we did award Mesquite the Safest Mine Award just recently, and they poured their 5 millionth ounce, so very good milestones for them to achieve. Also, Aurizona achieved the most improved mine last year, so well done to all of them.

In terms of consolidated offering results, we produced 120,000 ounces, slightly shy of what we did expect at the beginning of the year, and that's predominantly due to the suspension at RDM during the quarter, due to the delay in the TSF, or tailings lift permits, and also the slower ramp up in Santa Luz. Those will be discussed a little bit further, and the cost as well, as Pete and Doug run through the mines.

All-in sustaining costs were a little bit higher than expected, primarily due to those operational items at RDM and Santa Luz. Inflation was running about 6%. But again, there's a bit more detail later on. Non-sustaining capital, we spent $134 million. A little bit higher than planned as we spent a few more dollars on Santa Luz. Greenstone we were able to bring forward a little bit of capital, and there's a little bit of inflation in there as well, but not a material change this year to the Greenstone capital.

Overall, for the second half, as Ross alluded to, we do expect a decrease in the all-in sustaining cost by about 10%, down into sort of the mid-to-low $1,400, and also the vast majority of our operating cash flow in the second half of the year as expected.

Looking at the construction development exploration, Santa Luz is ramping up to commercial production in quarter three. Pleased to see the recovery is working well. Doug will walk through a little bit more of the detail on that ramp up.

Greenstone. as we announced last week, tracking very well on schedule, on budget. Very pleased to have the independent QRA, quantitative risk assessment, review done and confirm basically what we expected. It's progressing well in the middle of its first summer. Construction is in high gear, and the site is very busy at the moment. Looking forward to having analysts and investors to site in early September to actually see it with their own eyes; it's for the first time since COVID that actually we have a group of people on-site, and we've got two days of visits coming up, so that should be exciting.

Corporately, again very busy quarter. Sandbox Royalties was spun out in partnership with Sandstorm, another company that we hope to realize some value from in the long term, but create more value in just selling it outright on day one.

Also, we sold Mercedes as everyone knew and we announced around the year end last year. We received the first $75 million of the $100 million proceeds during the quarter and we own still 16% stake in Bear Creek. And we received almost $50 million in Solaris proceeds from the warrant that was exercised on the sale of that stake about a year ago, I guess.

As we mentioned, and Ross alluded to, obviously, the transition upcoming with Greg moving to CEO as of September 1.

I'll turn it over to Pete on the next couple of slides and the end of the slide to talk about the balance sheet.

Peter Hardie:
Thanks, Christian.

We are poised for growth. Our balance sheet is also poised to sustain that growth. A week ago, we announced that we've amended our credit facility to increase the revolving portion from $400 million to $700 million. As part of amending that facility, we also rolled our term loan, which had about $73 million left in principle, into that revolving credit facility. The advantage there, of course, is that it postpones the principal payments that otherwise would have come due while we're trying to build Greenstone, and pushes them out beyond the time when Greenstone will be completed in construction.

We also added $100 million accordion feature. It is uncommitted, which means we do need to go to the banks to ask for more, but we're happy that we have that available. We extended the maturity of the credit facility out to mid-2026 with a one-year extension feature, and of course that pushes it out beyond again our capital commitments that we have for Greenstone. We did all that while lowering the cost of capital, which we're happy about. We've reduced overall the borrowing cost by about 25 to 50 basis points on average for that.

We want to thank our leads, Scotia, BMO, and ING, who helped us put together the amended facility, and as well our entire banking syndicate for their strong support that they've shown to the Company to date and as we move forward.

I'll mention that we drew $100 million of the revolver in July, so we've got $473 million drawn today. But what does this mean overall as we look forward? We've strengthened our balance sheet. Christian mentioned some of the corporate items that we did in selling Mercedes and selling some Solaris shares. But with our existing cash flow of the increased facility that I've just highlighted, we've really increased our liquidity. That does not include the accordion feature when we say that we've got $390 million in liquidity right now, and that's just our treasury and our undrawn balance on the revolver.

We frequently mention that we have other levers that we can continue to pull on the balance sheet, and it's a tough macro-economic environment, and those levers are there. So, we're well poised for the path forward in funding our growth.

With respect to the Q2 financial highlights, I already mentioned we're not happy with them. Very similar actually overall in the sales and revenue side to Q1. We expected them to be higher. We had mine operating revenue of $225 million, mine operating earnings of $17 million, and Adjusted EBITDA of $24 million. We had a loss of $79 million, which is $0.26 a share. On an adjusted basis, when you remove some of the noise that the fair value accounting introduces into the income statement, we had an adjusted loss of $48 million, which is $0.16 a share. Our cash flow from operations before changes in working capital was $16 million, which translates into $0.05 a share. I've already mentioned that we have a strong capital position as we move forward here.

On our next slide, I'll touch on some items in our updated guidance. Generally speaking, we've decreased our production by about 85,000 ounces, and most of that is attributable to, as Christian just mentioned, the slower ramp up than otherwise was expected in Santa Luz, and we've decreased there by about 30,000 ounces on the year and RDM as well, we had a couple of temporary stoppages there and there'll be a shift to moving just low grade at RDM, but Doug will run through all that as part of his overall run-through of the operations here in just a minute.

But at RDM, guidance has been decreased by 45,000 ounces, and that's the bulk of the 85 decrease with those two mines. The remainder really is in Los Filos where we've reduced 7,500 ounces, and then a little bit elsewhere.

With respect to costs, Christian has mentioned, we have seen inflation. I think everybody is seeing inflation. Generally speaking, we plan for about 6% on the year, and that's in addition to the inflation we experienced last year, and this guidance really adds another about 6%. What that means on a cost per ounce basis is overall we've increased $125 an ounce, so our updated guidance is $1,470 to $1,530 an ounce, and about $70 an ounce, $75 an ounce of that is inflation, about two-thirds of that is fuel, and the remainder is really attributable cyanide and lime where we've seen really large increases.

Again, with the remainder really being some of the unfortunate underperformance in the first half of the year, the remaining $50 an ounce, and some of that—a bunch of that is attributable to grade, but again Santa Luz, Los Filos, RDM are where we're seeing our principal increases in our guidance. Aurizona as well, during the first half of the year there was heavier reliance on the low-grade stockpile. Interestingly, we had—again, I don't want to steal Doug's thunder too much, but we actually moved more material during the rainy season than we have before, but that was higher up in the pit, which didn't allow us to access some of the better ore, and so we did rely on the low-grade in the first half of the year, but the second half of the year we expect almost double, so we are about 0.9 g per tonne in the first half, almost double for the second half.

Overall, with respect to guidance, as Christian mentioned, from a production basis we're going to do 550,000 ounces to 615,000 ounces this year. Most of that is weighted in the second half of the year. Costs are up, likewise cash flow. Like with last year, it's weighted in the second half of the year, so we are very happy this quarter is behind us and we look forward to the second half of the year where our performance will just continue to improve.

With that, I will turn things over to Doug to run us through the operations.

Doug Reddy:
Thanks, Pete.

Pete's gone through a lot of the items I would have covered, but I'll re-emphasize. It was tough quarter. We had signaled lower production in the first half, and the very unexpected impacts have hit us principally at RDM and Santa Luz, with weaker production at Aurizona and Los Filos.

But let's start off with the U.S.A., and I would say the best mine in the group for the quarter, Mesquite's done really well in Q2 and Q3. They're benefiting from the stripping that was done principally in Q1 that provided access to the Brownie ore body, and we've now started stripping—while we're still mining from Brownie ore body, we've started the stripping for the next phase of mining in the Vista East that will provide ore as we come into 2023.

Overall, mining and processing at Mesquite are ahead of plan, and about 60% of the gold production should come from Mesquite in the second half of the year. As was noted earlier in July, just into Q3, we celebrated the five millionth ounce being poured at Mesquite, and also safety milestones. At that point, we were 4.3 million hours lost time incident free. So, a really good quarter for Mesquite.

Moving over to Castle Mountain, the crusher and conveyor are now in place. That's been coming for a while, as we needed to make a change away from run of mine or go into leach pads. We've now seen improvement in the permeability, and the overall flows have increased. We'll be watching this quarter as the leaching of the new cells happens. We'll be looking for faster leach times and improved recoveries overall.

With faster leach times, we also hope to be able to put a larger area under leach with the same volume of solution. We benefit from just having done an expansion of our leach pad; that's complete. Therefore, the costs associated with that will not be carrying over into H2, so we're all in sustaining cost at Castle Mountain will reduce in the second half of the year. The leach pad areas are now sufficient for all of the remainder of Phase 1 operations, and our Phase 2 permit application—we did previously state that it was submitted in March, so it's in the process of being reviewed by government agencies at the moment.

Looking at Los Filos, we did have good production from the Guadalupe open pit. It's performing according to plan. In fact, it gets additional run of mine material from the waste areas, which reduces the overall strip ratio. The run of mine material is lower grade and does have a longer leach time, so it takes a while to get the benefit of moving that material. Grades will improve in Q4 in Guadalupe, coming up to about 1.2 grams from the current just under 1 gram per tonne.

Los Filos open pit was behind plan in the quarter and mined lower grades than anticipated, but it should be getting better as we come into the latter part of the year. Bermejal underground development has improved now and we are focused in getting access to the higher-grade Zone 5 area. We should be hitting the higher grades late in Q3 and into Q4. Los Filos underground was mining in areas of lower grade, but it's on plan as of this month, and we hope to keep it that way.

Our updated technical report, including updated mineral resources and mineral reserves for Los Filos, will be ready for filing in Q4.

Moving onto the next page. In Brazil, in the first half of the year, Aurizona had 2.7 meters of rain. So, 1.4 meters of that came in Q2. The heavy rain reduced our mining rate, our mining productivity, and it limited access to the ore in the bottom of the pit. That increased our reliance on stockpile ores, which were mostly consumed during this rainy season, and at the end had relatively low grade in Q2 of about 0.9 gram per tonne.

I'll note that the process plant did very well. Land recoveries were up around 92%, and the throughput was good, but we had slugs of ore that held high moisture content and caused problems for feeding into the mill. So, the mill did well, but suffered when we have the very high moisture content material coming in.

Each year at Aurizona, as we come out of the rainy season, we have a significant ramp up in mining, and this year, we will be looking at about 65% of the total tonnes being done in the second half of the year. That's already been happening in July and needs to continue to happen. We not only need to be able to get access to the rest of the ore at the bottom of the pit where H2 sees process grades coming up to about 1.7 grams per tonne. Therefore, a significant increase in overall gold production, but we also need to be able to put in place the stockpile in advance of the next rainy season.

Other things happening at Aurizona include the new TSF, which will start shortly and be completed at the start of the next rainy season, and we continue to advance studies and permitting for the underground expansion, which will include drilling below the Piaba open pit that occurred in 2021.

Moving over to Fazenda. We've seen consistent production at Fazenda. Mining is about 25% from open pit, 70% from underground. We should see an overall improvement in all-in sustaining costs to about $1,200 an ounce as we come to the second half of the year. The exploration teams continue working on annual reserve replacement drilling and, very importantly, on investigating the several targets that have been identified in the belt between Fazenda and Santa Luz.

Moving on to RDM. Very disappointing performance in the first half of the year, impacted principally by two suspensions. Firstly, there was a change in regulations governing TSF freeboard requirements. It came in and was with immediate effect. So, that's when we reduced our TSF water level by pumping from the TSF to the open pit. Secondly, there was a delay in the receipt of the permit to do the next TSF raise. We have received the permit, and we are in the process of doing that raise now that will be completed late in the quarter. As we’ve been building up the TSF raise, we have restarted operations on July 3, but we still have water in the open pit that we are evaporating and pumping out.

I'll note that we were in the midst of a large stripping program, so essentially it was negative cash flow, and the stripping program was necessary to be able to access higher grade ores for future years. So, at this time, we did an assessment and we have determined that we will stop mining of primary ore and process the low-grade stockpiles that are available. We have enough for all through this year and next year if necessary. In-situ ore grades are about 0.9 gram a tonne, whereas stockpiles around half a gram per tonne.

This is being done to maximize our cash flow at the time where we need it, for putting CapEx into Greenstone, and essentially we're at the same time preserving our long-term value at RDM while we pump out water and while we get the TSF raises completed. Guidance has been reduced to less than 30,000 ounces for the year. We are also implementing vacuum side cloning of tailings at RDM. That gives us the ability to optimize the tailings storage capacity in our TSF and will also allow us to recycle more water at that mine.

Moving on to Santa Luz, it has been a prolonged ramp up to production, but I will note resin works well.

Recoveries are consistently over 70% and up to 82%. That's almost double the recoveries that we would get with carbon using kerosene as a blinding agent, and this is the only operating resin in leach process plan that's treating gold ore with total organic carbon. Technically, it's a success in using the resin, but we got to give the resin a chance to do its job. The prolonged ramp-up has been largely due to modifications and repairs to some areas of the plant.

As we scale up from a pilot plant to industrial scale, it means that we had experienced certain challenges such as high corrosion of the cathodes. Now, we've gone and replaced the cathodes with a higher quality stainless steel and is now performing well. We've also had issues with some of the piping and with leach tanks, and we've been progressively fixing these over the last few months. At the same time, we've continued to keep the process plant in operation. These fixes of the leach tanks should be completed this month.

We have been operating even while having at least one tank offline during this period at about 80% of nameplate, so 6,300 tonnes a day. We have run at full capacity of 7,400 tonnes per day, but we're doing a change out of a trommel on the primary mill, which should allow us to be able to run consistently at 7,400 tonnes per day plus.

The other challenge has been achieving a consistent blend of about 0.65% total organic carbon. Carbon, of course, affects the recoveries that the resin can achieve. We are learning a lot about balancing out the TOC while at the same time trying to maintain as high a gold grade as we can. Unfortunately, they seem to come hand in hand, and so it's a real challenge to keep it consistent and give the resin the chance to be able to perform where we want it to. We expect to achieve commercial production in Q3—at the end of Q3.

Moving over to Greenstone. Yes, it's one of the largest gold—will be one of the largest gold mines in Canada. We just did a news release on July 27 that provided progress following an independent quantitative risk assessment. That was completed when our engineering was over 96% complete and the project was over 25% complete, and it confirmed that the project is on schedule, on budget. We have an experienced and dedicated team building Greenstone. They react very well to the challenges they face. It's an owner-managed team, so their interest lies very much parallel with exactly what Equinox and Orion want to see on the project. I do note that as of mid-July the project achieved 1 million hours with no lost time incidents. A very good safety culture at site.

Inflationary pressures have been addressed partly by contingency and also through offsetting savings opportunities where possible. That's one of the aspects of where our on-site team comes up with the ideas on how they can compensate for any potential overruns by approaching things differently.

Q2 activity is focused on earthworks, structural concrete, structural steel, the first of four mining trucks are received and being assembled at the moment. Those are CAT 793s. We look at Q4 for what preproduction mining will commence. Fifty-six percent of total costs are contracted, 28% of total costs are in fixed costs, and 26% of total costs have been spent as of the end of June.

You can see a few photos showing progress on some of the main buildings.

As we move over to Page 12, as at July 22, there's a series of statistics on the completion in various areas. Overall project is 35% complete. The construction itself is 28% complete. Then we see how we're doing on earthworks being a big factor, 48% complete overall. Individual areas, including process plant being 14% complete, power plants at 18%, and tailings facility 29% complete. There's more detail that's provided in the news release, and also a series of photos on our website showing the progress on site. The majority of the buildings are on schedule to be enclosed by year-end. Obviously, we want to have that complete before we head into the height of winter.

We'll just move on to the next page. That's the first of eight leach tanks being completed and we have commissioning on the effluent water treatment plant should be occurring in Q3 and Q4. You can see the inside of the building there.

Finally, on the next page, an overview of the site showing the progress on all of the buildings. The site is changing rapidly. We see progress on a weekly basis, so on a good advance rate. The photos are up on our website and we'll also be hosting a site visit in September, so we look forward to having two groups come through and seeing the progress as we come to the end of the summer building season.

With that, I'm going to hand it back to Christian.

Christian Milau:
Yes. Thanks, Doug.

Just on the last couple of slides here, I just want to re-emphasize the current position and say thanks to Peter, Seb, Susan, and their teams on an excellent job in getting the balance sheet matured and refinanced. Thanks again to the support of our lenders who continue to support us from early days right through to now as being a mid-tier to a larger gold mining company, and it's great to see the balance sheet maturing.

As Greenstone construction progresses and is de-risked, the balance sheet, cash flow, investment portfolio put us in a strong position to continue to fund that and achieve all of our development goals over the next couple of years.

On the last slide, I just want to make a couple of closing comments and I just want to say I'm proud of what we've accomplished so far, and very excited to watch as Equinox, Ross, Greg, and the team take the next steps towards becoming a 1-million-ounce producer. We're only partway down the road, but I'm very confident in the team on achieving that over the next couple of years. The scale, the diversity, the growth, looking at the four countries we're in are very exciting and what we always set out to achieve. It's really the credit and to a strong team and all the hard work done to date. I want to thank the teams, thank shareholders for your support. It's not easy always to back a growth-oriented company in a part of a cycle where people aren't valuing growth but will in due course.

The Board and Ross have been extremely supportive and other stakeholders on the ground across all these countries. It's one of the hardest decisions I've ever had to make in my life, but I'm super excited about being a supportive shareholder and cheerleader in supporting Equinox from the sidelines as we move forward here. I'll miss Equinox desperately, but I'm also really excited to make a small difference in the carbon finance space as I move forward.

I'll be CEO here at Equinox until the end of August, so not going anywhere too quickly, and Greg will transition in at the end of the month. Please feel free to reach out. I'm here and available and happy to chat and excited to pass on the reins and the keys as we move forward. I just want to close personally by saying thank you to all of you in this journey so far.

Rhylin Bailie:
Thank you, Christian. Operator, can you please remind people how to ask a question.

Operator:
Certainly. We will now begin the question-and-answer session. To join the question queue you may press * then 1 on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question please press * then 2. We will pause for a moment as callers join the queue.

Rhylin Bailie:
Thank you. While we wait for the phone callers, I'll take a question from online from a shareholder in Europe.

As always, questions about costs. Once you get into the higher grade ore at Los Filos in Q4, what do you expect for the all-in sustaining cost profile there?

Christian Milau:
Yes. I can jump in there.

We expect in the last part of the year that obviously Guadalupe will continue on with sort of close to 1-gram material, and I know the underground will start contributing sort of 3- to 3.5-gram material, which will allow us to bring those costs down into that 1,300 to 1,400 range, I think for that fourth quarter, which is a much more respectable level than obviously the last couple of quarters.

Rhylin Bailie:
With the change in mine plan at RDM, do you have a sense of what the costs will be there?

Christian Milau:
In terms of RDM, it will run at a higher cost with that lower grade for now.

Doug, I don't know if you wanted to add to that.

Doug Reddy:
Also, as we get through Q3, we'll be finishing off the current TSF, but we have TSF raise. We have already submitted for the next TSF raise, so we want to get that done. So, all the TSF raises will be

done, implementing the vacuum cyclone of the tailings. It will be another cost that will come into the second half of the year.

Those costs will elevate things, but they're not ongoing costs. It's just the one-off of doing those, and at the same time processing the half-dry material will be—obviously, our cost will be up. But it's all about maintaining the status quo while we pump up the pits as well.

Christian Milau:
It's probably worth—in the same vein, Castle Mountain bore the burden of actually building out all of Leach Pad 1B in the first half of the year. So, give or take $600 an ounce of, call it, sustaining capital built into that cost, and you'll see in the second half of the year that drops off, and you're $600 lower on average, which will put that into a very respectable range for the all-in costs in the second half of the year at Castle and going forward.

Peter Hardie:
I would just add one more point on RDM that, with the reduction in the total amount of ounces that it will be producing, those cost increases on a per-ounce basis will of course increase the profile there quite a bit. But the general impact on the Company will be lowered because the overall production profile is quite a bit lower.

Rhylin Bailie:
I'll ask this question with the caveat that it's obviously a forward-looking statement and a forward-looking response, but sort of going into next year, we've got a couple of years now while we wait for Greenstone to come in production, which will obviously significantly lower the cost with that size of production. But what do you see from the mines over the next couple of years?

Doug Reddy:
Well, we've had obviously work being done at all the mines on cost reductions. We've seen evidence of that already in some of the mines with Mesquite and Fazenda. Some of the investments we've been doing will drive us towards lower costs. For example, Castle Mountain coming off of the pad expansion and putting in the crush and agglomeration, we expect that should bring down our all-in sustaining costs. The other mines are actively working on plans, which include group purchasing, but also cost

reductions overall, so it is an active part where they're proactively working on that. It's been happening for a while now, just takes a while to put into effect.

Rhylin Bailie:
Okay. Operator, can you please take a call from the phone.

Operator:
Yes. We have a question from Anita Soni from CIBC World Markets. Please go ahead.

Anita Soni:
Good morning. Thanks for taking my questions.

First one, I think, is related to C1. First off, just a purely mechanical question, 45,000 ounces to 55,000 ounces, is that including commercial and non-commercial production? Secondly, your cash costs, would that just be the commercial production alone?

Peter Hardie:
There was a question about Santa Luz? I missed the first part.

Peter Hardie:
For Santa Luz, the 45,000 ounces to 55,000 ounces is the whole year. The cost guidance that we provided is just for once it's in operation. So, as Doug mentioned, we expect that to be later in Q3, so the costs that we have there are for effectively Q4 and a little bit of Q3.

Anita Soni:
Okay. Second question is a little bit more big picture, I think I've asked a few times, but just wondering if you're thinking about whether or not all of the assets that you have, would you consider asset sales. I mean, I think I look at this and I think for the amount of production you have, it's a significant number of assets and perhaps your spread a little too thin.

Christian Milau:
Yes. Anita, I'll take that.

I mean, I think we've shown that we're willing to actually divest of either non-core or smaller assets, and I certainly think at the smaller end of the scale we will have to be open to that kind of thing and we have done that, demonstrated that over the last couple of years with certainly the Mercedes sale and a couple of other assets spinouts. So, I think we've been open to that at the lower end of the portfolio.

Anita Soni:
Could you identify which assets perhaps that may fit into that portfolio? I mean, I would think RDM and Castle Mountain don't seem to be bringing the size number that I would expect for…

Christian Milau:
Yes, RDM is the smallest, obviously, in the portfolio, so that's a fair comment. But Castle Mountain will be a 220,000-ounce producer in a few years and the permitting is going well there. So, we see that as a core long-term asset.

Anita Soni:
Okay. I will ask one more question and leave it to someone else to ask. I wanted to pull it back even more. I think I've asked a couple of times as well on this one. The life of mine technical report that was put out by the prior operator in December, I think, of 2021. Some of the unit costs are coming in significantly below what we've seen benchmarked now for Detour operations for Agnico Eagle as they put out their new life of mine update and Côté, both of which are operations that are operating in Ontario. So, pretty good benchmarks.

I'm just wondering: when do you think you're going to address your unit cost? Because as we push towards making sure that the CapEx number is correct and building this, I think we need to keep an eye—I mean, as investors or analysts, I'm trying to keep an eye on what exactly you are building at the end of it.

Christian Milau:
Yes. Certainly, they need updating as we move forward here. As the operating team gets built up, I think in 2023 we'll be updating those costs. But clearly with the inflation that's ongoing, we expect them to be higher than the—I can remember the exact number, $650 an ounce approximately all-in sustaining cost. We expect it to still be a very attractive level, but it will be higher due to the inflation, for sure. But as the operating team comes in, they will build up from a ground up zero-based budget next

year.

Anita Soni:
Okay. That's it. Thank you for taking my call.

Operator:
The next question is from Wayne Lam from RBC. Please go ahead.

Wayne Lam:
Hi. Good morning, guys.

I was just wondering if you might be able to give us some detail on the covenants for the extended facility. And then, just curious when negotiating the increase in size, was there any assumption made on the conversion of the converts? And is the intention to fully draw down on the facility for construction?

Peter Hardie:
On the first question on the covenants, they were updated to reflect—our previous facility didn't contemplate capital debt market issuances. The facility was updated to have both total and net total, net senior debt covenants, and they were loosened from what we had before. So obviously, we're quite pleased with that.

On your second question on the—I think you're referring to the Mubadala convertible notes that we have. We have two of them, one of them maturing in 2024, and the other in 2025. They were not contemplated as part of it, and there have been no changes or amendments. Otherwise, obviously, we would have announced it to those converts.

On the third question, do we plan fully drawing down on it? Generally speaking, no, we do not. We see it as a backup to our ongoing funding through cash flow and other means.

Wayne Lam:
Okay. Great. Was there anything specific on that you will be able to provide on, say, the interest coverage ratios or anything like that?

Peter Hardie:

Yes, we're four-times on our total net and 2.5-times on our net senior covenant.

Wayne Lam:

Okay. Great. Just wondering, at Mesquite, can you provide some detail on the mine plan changes? I'm just wondering how the change in the deferred strip near-term might impact the ability to sustain the production profile in future years and extend the mine life there.

Peter Hardie:

I'm not exactly sure what you're asking, but I'll elaborate on Mesquite. So, we were stripping in Q1 for Brownie. We're mining ore in that same phase for Brownie. We did a modification to our mine plan, which has allowed us to start our stripping on Vista East pit earlier than originally intended, which means that we can look forward towards providing that ore from Vista East pit as we go into 2023.

Beyond that, we are continuing to do drilling and we've been doing—I've got Scott Heffernan here with me. He leads the exploration team. We've been doing $6 million or $7 million of drilling every year at Mesquite for the last several years. Every year is about adding and replacing an updating model. So, it is a constant effort at Mesquite, and we basically go straight from exploration into the hands of the operations team, and they turn it into an updated mine plan and we roll forward with it.

It is, I'd say, fairly dynamic, given that it's been a short life since the operation was acquired, and been maintained at the same life all the way along. We look to be able to bump it out several years, but it is tough to do enough drilling to be able to do that in one fell swoop.

Scott, do you want to add anything?

Scott Heffernan:

You covered it pretty well, given that the asset is here. When we bought it in 2018, it had a three-year mine life on it. Four years later, we're working on a significant resource reserve update. The challenge is that each of these deposits, there is a big stripping campaign before you get into mineralization and ore.

It's a sequencing thing in trying to balance this between Brownie and Rainbow and the Vista deposits and so forth, and so it's an ongoing exercise due to pit economics, and alter the sequencing and so forth. We're very much hard at work at an updating tech report now, it will come out to in Q3 detailing a fully updated complete picture of drilling results so far over the last two years, and we're quite excited about it. A lot of work to be done, quite, over the next couple of months.

Wayne Lam:
Okay. Got it. Maybe just last one for me. I'm just curious in terms of Greg's role with the company. How is that going to coincide with his leadership with the Sandbox team? Should we see this more as an interim role, or is it more of a permanent position going forward? How will his time be split between the two?

Christian Milau:
I think a good analogy, at least to start, is to think about it the way we did with Solaris. Greg, he was President of this company and very involved in it, and he also spearheaded that into a successful sort of spinning out ultimately and becoming its own company with its own life. That's how we see Sandbox going over time here, as well. At the moment actually, there is a bit of a team there that is helping manage the day to day, so it's actually well advanced beyond where we were with Solaris when we first spun it out. Probably learned a few things in that spinout, and this one is more advanced in a sense, so there will be a period of time, certainly, we'll be managing that and helping it through.

Wayne Lam:
Okay. Perfect. Thanks for answering my questions. Christian, wish you best of luck in your next endeavor.

Christian Milau:
Thank you very much, Wayne.

Operator:
The next question is from Kerry Smith from Haywood Securities. Please go ahead.
Kerry Smith:
Great. Thanks, Operator.

Doug, can you talk a bit about RDM. I'm not clear on how the mine plan would evolve here, if in next 18 months you're going to be dewatering the pits, you can get it basically dewatered to be able to get back in there and get to the ore for the higher-grade ore, and then also completing the stockpile loss, so you're not going to be mining any fresh ore. What happens after you complete that process? It sounds to me like you would still have a pretty big pre-strip. So what will happen? When is the last day that you could actually start that pre-strip to make sure that you had uninterrupted ore for the plant?

Doug Reddy:
Just to clarify, we were already in the midst of stripping program, so the stripping program would have been an investment. It would have been a net negative through the year for RDM. When we were hit with the two stoppages, obviously, in the first half of the year were quite negative. We looked at the remainder of the year, and given that we are pumping out of the open pit, that means that on the bottom of the open pit where we do have access to the in-situ ore doesn't really occur until we get into Q4.

We knew the process plant was available for operation. We decided to start working with some of the 0.5-gram material that we knew we had on the dumps available, or stockpiles available. We have enough for about two years of production of 0.5-gram stockpile material. So, that is the short-term plan, while we work through an overall approach to how we would look at strategically being able to transition back from doing stockpiles to resuming the stripping program and resuming full operations.

I'm really only elaborating on what we're looking at for the remainder of this year, while we’re still investing in the TSF raise, and then the next TSF raise and the vacuum cyclone tailings and the processing of the stockpiles, but we are working on the overall long-term plan as well.

Christian Milau:
It allows the mine to be roughly cash neutral during the next few years, where we're building Greenstone, and the investment could happen after that.

Doug Reddy:
But we will still have to do a strip program.

Kerry Smith:

Right. Right. Right. No, I understand that. As I understand, the dewatering would be done by the end of this year, the raise on tailings…

Doug Reddy:

Well, it should be done by—I believe it's early Q4.

Kerry Smith:

Okay. Early Q4. When does the raise finish on the dam?

Doug Reddy:

Late Q3 for the current raise. But we're already—as soon as we achieved the required freeboard on the TSF, we resumed operation of the plant. We will finish off the rest of the current raise, and we've already been in permitting for the next raise, which we will immediately do rather than waiting, and then the vacuum cycle and tailing. Essentially, what it does is it optimizes the volume of material going in, so we're putting in less water, more tails, and it gives us more bang for our buck in the TSFs. It's something that we're looking at for all the mines that have TSFs.

Kerry Smith:

The second TSF raise, would that be the last raise you would need for the current reserves?

Doug Reddy:

That would be the last raise that we're permitted for the current TSF. Our approach would be to no longer look at permitting a conventional TSF. We would look at doing thickened and vacuum tails to a dry stack facility instead of doing TSFs.

Kerry Smith:

Right.

Doug Reddy:

TSFs have become more and more onerous to be permitted, especially in Minas Gerais.

Kerry Smith:

Right. Okay. When is the last quarter that you would need to start pre-strip then to dovetail into the key areas of ore that you've got remaining in the stockpile then, Doug?

Doug Reddy:

Putting it another way, are you asking how long can we process stockpiles before we need to be resuming stripping? It's over two years from now, if we chose to do stockpile.

Kerry Smith:

No, I was asking it the other way. How long will it take to do the pre-stripping to give you access to ore before the two years of stockpile material runs out?

Doug Reddy:

The stripping does give access to ore, but it's still a net negative. So, while we're doing the stripping campaign, it does give access to ore, but it allows us to be able to get the benefit. Essentially, the stripping campaign that we interrupted would go for another year.

Kerry Smith:

Okay. The plan is that you're pre-stripping finished before the stockpile ore runs out then, and you're planning to run two years of stockpiled ore, and then you'd milling fresh ore?

Doug Reddy:

That is the re-planning exercise that's currently underway, and we're looking at what the optimal way to do it, and what our options are to be able to run as long as we need to mitigate cash outflow, keep it as cash neutral as possible, and to resume at the right time.

Kerry Smith:

Right. Okay. Okay. Doug, can you remind me what the targeted recovery is for Santa Luz for the resin circuit?

Doug Reddy:

Santa Luz, our target with optimal blend was 84%. We've gotten up to 82%. We're still working on trying to get it up to 84%. We may temper our expectations at the end of the day. It is scaled up from the pilot plant to the industrial scale. We do find it a challenge to get quite as high as we originally planned. But we're not done yet. We have to do all the fixes, and then stabilize the plant at the same time with full throughput.

Kerry Smith:
Okay. With the share price, the company has been probably one of the worst performers in the sector. Has there been any insider buying lately?

Doug Reddy:
Personally, yes.

Christian Milau:
Yes, I bought some in the summer. Or earlier, just before the summer.

Rhylin Bailie:
Yes, I know a bunch of us bought sort of back when it was around $7.50, thinking that was the low. I can get back to you on that, Kerry. I get sort of like quarterly updates from my Corporate Secretary, but I haven't had anything recently.

Christian Milau:
Yes, there was a bunch of buying around $7.00 and $6.00. I know that.

Rhylin Bailie
Yes.

Christian Milau:
For sure.

Kerry Smith:
All right. Okay.
Peter Hardie:
There is already a—Kerry, as Christian mentioned, many of us around the table have been around since the very beginning. There is already a very high level of insider ownership, especially compared

to our peers. We probably, compared to our peers, have the highest level of insider ownership.

Christian Milau:
And at the beginning of the year, we implemented an employee share purchase plan where we can buy shares as well on an ongoing basis, and that is now implemented. I believe, 81% of corporate staff are doing it. Every month.

Kerry Smith:
OK. OK, yes. Great. Thank you.

Operator:
The next question is from Mike Parkin from National Bank. Please go ahead.

Mike Parkin:
Hi, guys.

Can you just comment on the equity portfolio? Are you seeing that as a potential source of capital to fund Greenstone, or is it more of a long-term holding?

Christian Milau:
Yes, the equity portfolio consists of everything from Solaris to i-80 to Bear Creek to Pilar to Sandbox. I think there might even be more in there, but a whole bunch of names, obviously, and we've been supportive shareholders and spinning out a number of those companies along the way. They are, as Pete, I think, described, part of the levers that are available if need be. They're not necessarily going to be our primary—certainly, if their gold companies are primary source of funds. But they're there, if need be. Most of them are not core holdings; they would come from spinning out or selling a company, but we're also supported as well.

Mike Parkin:
Okay, and then we heard from Iamgold this morning having an impact on their projects with respect to crane operators in the second quarter. Do you guys experience that as well at Greenstone?

Doug Reddy:

Yes, we did experience the crane operators and carpenters going on strike. We had a recovery plan that made up the difference. I think the crane operators affected us more, but that's well behind us. We did double up on shifts and made other adjustments. We were a matter of a couple of weeks' delay; the recovery was in the order of $2 million to $3 million to be able to make it all back up.

Christian Milau:

Not material.

Doug Reddy:

Yes.

Mike Parkin:

Thanks.

Doug Reddy:

The team is very proactive in addressing it.

Mike Parkin:

On the Greenstone contingency budget, can we get an update on—I think it was around $175 million. Are you proportionately through that as you are—as percent complete? Or is that tracking at a greater rate than the percent completion of the project?

Christian Milau:

Yes, that overall contingency, which we increased when we put out the original budget, it's about $180 million. Probably not a bad way to think of it is it's kind of proportionately being used up and allocated as we move through. We're also finding offsetting areas, such as leasing, and other areas of financing of small things; like, some of the infrastructure is actually going to be handled by the local municipality or the First Nations in that. So, between the contingency and that, we're actually tracking nicely. We are expecting to use it as we move through. That's what it's there for. Certainly, with this inflation, we are tracking roughly in line.

Mike Parkin:

Okay. That's it for me, guys.

Christian Milau:

Thanks, Mike.

Rhylin Bailie:

All right, thank you. We're over the hour, so I think we're going to wrap it up.

Do you have any closing remarks, Christian?

Christian Milau:

I think I kind of made them earlier, but just again a big thank you to everyone, including all the analysts, all the shareholders, supporters, and the team here. I really enjoyed it so far and going to just love watching the ride as it goes forward. I'll be a supportive shareholder here too. Thank you again, and that's it.

Rhylin Bailie:

Thank you, Christian. Thank you, everybody, for joining us today.

Operator, you can now conclude the call.

Operator:

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