Equinox Gold Corp.

Third Quarter 2022 Results and Corporate Update Conference Call Transcript

Date: **Thursday, November 3rd, 2022**

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Speakers:

Rhylin Bailie
Vice President, Investor Relations

Greg Smith
President and Chief Executive Officer

Peter Hardie
Chief Financial Officer

Doug Reddy
Chief Operating Officer

Operator:

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

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. 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 visit our website and our other continuous disclosure documents on SEDAR and on EDGAR to read all of those cautionary notes.

I will now turn the call over to our CEO and President, Greg Smith.

Greg Smith:

Thanks Rhylin and thanks everyone for joining us today.

On the call with me is our COO, Doug Reddy; our CFO, Peter Hardie; and our EVP of Exploration, Scott Heffernan; and of course, our VP of Investor Relations, Rhylin Bailie.

I know most of you on the call are familiar with the Company but for those that aren't, Equinox is a diversified America's focused gold producer and with our Santa Luz Mine now in commercial production, we have seven producing mines and four growth projects, including our large scale Greenstone joint venture project in Ontario, which is in construction now. Just a reminder, we announced the CEO change in August, and so this is my first quarterly call since taking on the roll in early September.

I'll start with a broad overview for the quarter and then turn the call over to Pete and Doug for more details. We expected increasing gold production through the year and during the third quarter we did see a meaningful increase with production of over 143,000 ounces of gold, which is a 19% increase from Q2 and a 22% increase from Q1.

That said, we also experienced some operating challenges at our Los Filos and Aurizona mines, and a slow start at Santa Luz that impacted production. This, in addition to inflationary cost pressures and an inventory write down at Los Filos resulted in lower production and higher costs than we had planned, with consolidated cash costs in the third quarter of $1,400 per ounce and all in sustaining costs of $17.49 per ounce. We are addressing the operating challenges at Aurizona, and Los Filos and we are making progress. However, production in Q4 will also be affected and looking forward, we now expect gold production for the year to be approximately 540,000 ounces.

We are seeing inflation start to ease, particularly in Brazil, but we also see inflationary cost pressures persisting through Q4 this year. As a result, we expect our all in sustaining costs to exceed the upper end of our guidance of $15.30 per ounce by about 5%. Pete and Doug will provide more information on our Q3 operating results and financial results shortly.

On to our projects. During the third quarter we continued with commissioning of our new Santa Luz Mine in Brazil, and we announced commercial production commencing on October 1. This makes Santa Luz our seventh producing mine. We also advanced an updated feasibility study for the Los Filos mine during the third quarter, and in October we filed a technical report outlining the potential expansion of Los Filos through the construction of a 10,000 tonne per day CIL plant, which would complement the existing heap leach infrastructure. The study confirms that Los Filos could grow to be a largescale, long life mine, with peak average annual production of over 360,000 ounces of gold per year.

However, we have no immediate plans to proceed with the expansion. In part, this is due to the capital needs at our other projects and primarily Greenstone, but also due to the continued risk of community blockades, the most recent of which occurred in September. On to Greenstone. The team has made significant progress during the quarter and construction continues to go very well. I was on site with our analysts and other stakeholders in September and the site is very impressive. I encourage everyone on the call to go to our website and you can check out the photo gallery there.

Overall, we're now over 57% complete and Eric and his team have successfully executed on the critical path, with major components being shipped on time, including from China in October and the building enclosures are progressing well for the yearend and for the winter work. I'm very pleased to confirm the project continues to be on schedule and on budget. Finally, as was discussed on the Q2 call, we did amend our credit facility during the third quarter, which termed out our debt, increased our total available credit, and reduced our overall interest rates.

With that, I'd like to hand over the call to Pete to run through our financial results.

Peter Hardie:
Great. I'll start with our operating results. We continued with a strong safety and environmental practices in Q3, with no lost time injuries for the quarter. Total recordable injury frequency rate of 1.10 and a significant environmental frequency rate of 0.71. We're obviously proud of those figures and being able to continue to operate safely.

During the quarter, we sold 143,000 ounces of gold at an average realized price of $1,711 per ounce, for revenues of $245 million. Our mine operating costs were $189 million, which translates into cash cost, as Greg mentioned, of $1,400 an ounce and all in sustaining cost of $1,750 an ounce.

We continue investing in our operations. We spent $41 million on sustaining capital. That's primarily waste stripping at Aurizona and Los Filos, and $132 million in non sustaining capital. That's primarily spending on Greenstone construction of $111 million, as well as Santa Luz, the mine we just brought into commercial production. We spent $10 million there.

On our next slide you'll see our consolidated financial results. Compared with Q3 2021, the decrease in average gold price that I mentioned, combined with higher cost compressed our margins. On the revenue side, we're down $70 an ounce compared to Q3 last year. On the cost side, examples of the inflationary pressures driving up our consumables cost.

Compared to Q3 last year, include in the U.S.A., fuel is up 60%, cyanide is up 40%, lime is up 27%. In Mexico, cyanide is up 36%. Power and lime were up between 15% and 20%. In Brazil, all of those items are up about an average of 40%, with the exception of power which decreased a little. All of that said, we are quite happily seeing signs, early signs of inflation having peaked or even starting to reduce a little in Brazil. We obviously hope that that continues, and we hope it spreads to all of the other regions where we operate. That compression in margin is demonstrated by the decrease in income from mine operations that we had for the quarter of $7 million from the $54 million we had in Q3 last year.

EBITDA was $30 million, and that's $26 million on an adjusted basis. The Company had a net loss of $30 million or $0.10 a share for the quarter. On an adjusted basis it was similar at $26 million, $0.09 a share.

Cash flow from operations before changes in non-cash working capital was $15 million or $0.05 a share.

Our liquidity and capital position at the end of the quarter, we had cash of $142 million. Our net debt was $584 million. I'll note that we drew an additional $100 million from a revolving credit facility in October and that leaves us with $127 million undrawn and the $100 million accordion feature still in place. As to our investments, we had about—they were worth about, the market value was about $220 million at the end of October.

On the next slide, what does that mean for our overall funding status? We have about $435 million left to fund at Greenstone. That's our share of the remaining construction. We expect to fund that using future cash flow, along with the sources I just outlined.

We always continue to try and optimize our capital structure. We demonstrated that earlier this year by refinancing our revolving credit facility. I'll note that in late October we filed a preliminary base shelf prospectus with the exchange that when finalized will be effective for 25 months and allow for raising up to $500 million through various sources of capital. We see this as very normal course for a company the size of Equinox.

Years ago, when Equinox was a single asset developer, we did have a base shelf in place. Since then, the Company embarked on a rapid growth strategy. We completed three acquisition and merger transactions and now that we've had a period of relative calm from that activity, we've had time to put a base shelf prospectus back in place. We see that, again, as being normal course and especially prudent given our current economic environment. As part of that prospectus, we're also assessing the implementation of an at the share—pardon me—at the market share facility. We hope to finalize the prospectus in November.

I will turn the presentation over to Doug for a discussion of our operations.

Doug Reddy:
Thanks Pete.

On operations for the quarter, Mesquite performed well in Q3, as we finished mining of Phase 2 of the Brownie pit, and we benefitted from a large amount of ore that was stacked in Q2 and came under leach in Q3. Mining at Mesquite has now transitioned to stripping in Brownie Phase 3 and the Vista East pit, which will provide ore as we go into 2023. The mine celebrated pouring its 5 millionth ounce and over 4.3 years with no lost time incidents in the quarter, as of the quarter.

At Castle Mountain, crushing agglomeration has been providing better percolation and better recovery, but we needed to increase the crushing capacity so that all of the ore can be crushed and agglomerated. In Q2, we had lower tonnes being stacked and there were mainly run of mine ore, no crushing. Therefore, we had lower ounces coming out in Q3. The transition as we move from leaching of run of mine ore to putting all ore through crushing and glomeration will take several months as we gradually bring on new cells that are crushed and agglomerated and eventually turn off the run of mine cells and we'll begin to see the overall results as that happens.

At Los Filos, both Guadalupe and Los Filos open pits were under reconciling on grades. In part, they had gains in more tonnes of low grade but overall lower average grade overall and they fell behind into the mine plan. We're currently working on revisions to the mine plan to adjust for that.

At Guadalupe we also had some high sulphur and copper content ore, which has a lower recovery. That has been essentially slowed down the recovery that we can get from that material. We are drilling at the moment to look ahead to see how localized this has been and to anticipate how we have to adjust the mine plan to compensate for areas where we will need to mine through high sulphur, copper content ores. Excuse me.

In Bermejal underground, we had slow development and slower mining rate than anticipated in the quarter. We did have an improvement during Q2, but it slowed back down again in Q3. Essentially, providing fewer tonnes than expected and so we are doing an operational review on Bermejal underground. Overall, we will expect that Los Filos will be below the lower end of production guidance for the year.

At Aurizona, we had an extended rainy season that made it difficult to access higher grade areas at the bottom of the open pit. This meant that the operation relied on processing of lower grade stockpiles for longer than usual. Typically, two thirds of our mining is done in the second half of the year as we come out of the rainy season and go into the dry season. We are doing some catch up now. The contractor has brought in an additional excavator and five more triple-seven trucks. We're also looking at bolstering the fleet of articulated trucks that are on site with an additional set of trucks, so we can continue mining into the rainy season and get caught up on what is a slower overall ore and waste movement in the second half of the year than originally intended. We are doing catch up, but we do expect that Aurizona will be below on production guidance for the year.

At Fazenda, the mining is by open pit and underground, so the increase in the open pit mining this year has given a chance for the underground to catch up. We've been able to do additional development and bring more stopes online, so that's worked out well. Plant throughput and recovery has been increased over prior quarters and overall Fazenda is on track to achieve the upper end of production guidance for the year. Excuse me. And I note that they have achieved one year with no lost time incidents, so a good result at Fazenda.

At RDM, we continue processing low grade stockpiles, but we've also started work in the open pit this quarter. Gradually, we will restart in situ mining in the open pit as we go into 2023. The mine is on track to achieve the upper end of production guidance, and the TSF raise is scheduled for completion this month.

At Santa Luz, we declared commercial production effective October 1. The resin has been working well, but we continue working on optimizing recoveries and on increasing throughput. For the quarter, for Q3 we had overall recovery of 70% and throughput was 85% of the design capacity of 7,400 tonnes a day. But we still do have challenges on maintaining the blend of total organic carbon. At the same time, on increasing the throughput, and also working on increasing the recoveries over where we currently are at.

Moving on to Greenstone. The Greenstone project is tracking on time and on budget. As noted, overall project is 57% complete and that compares to 35% complete at the end of Q2, so really good progress during the summer months. The team has completed over 1.8 million hours with no lost time incidents and during the quarter we had four seven-nine-three trucks and a PC5500 excavator. They were assembled in the quarter and mining commenced ahead of plan. The team has moved over 550,000 tonnes so far.

Just going to the next two photos. All of the buildings are to be enclosed in Q4, with the exception of the east end plant—the east end of the plant building which is scheduled to be enclosed in Q1. They're doing really well. That is on schedule. That is as planned. All of the major items are arriving in the next two quarters.

I note that the natural gas pipeline is now complete. The MTO relocation is now complete and we're on schedule with the tailing's storage facility and ahead of schedule on the highway relocation work. Those—as per our schedule, the work on those will be suspended during the winter months and we'll pick them up again in the spring and they'll be carried to completion. The site photos, they show great progress by the construction team and as Greg noted, you can see up to date photos on our website and also on the Greenstone project website.

Back to Greg.

Greg Smith:
Thanks Doug.

I'll just make a few quick concluding remarks. Just going back in time a little bit here, Equinox is still a young company. We launched this Company in 2018 with two development projects, no production, but we did have an ambitious goal. That was to build a gold company of scale with significant leverage to the gold price, which we believed was going to do well over the coming years. Our strategy at the time included both acquisitions and internal development.

We executed on this first through our acquisition of Mesquite and then the development of Aurizona, then the acquisition of Lee Gold and the development of the first phase of our Castle Mountain Mine. The strategy worked very well. In 2020, our shares significantly outperformed as the gold price rose to over $2,000 an ounce. At that time, we were then able to buy Premiere Gold, which of course delivered us the largescale Greenstone Gold project, which we're building now.

But leverage works both ways and in these current inflationary conditions and with this sort of decreasing and stagnant gold price, you know, it's challenging for all gold companies but particularly for higher cost, high growth companies like Equinox that are spending capital to grow and build our mines. In this macroenvironment, our strategy underperforms. Now, we've got to live with this to some extent and stay focused on the task at hand, which for us is delivering on construction at Greenstone, on time and on budget and also performance at our existing operations.

You know, we did plan to do better at our operations than we did in Q3, and we intend to do better. We have a dedicated team at Equinox, supportive shareholders, a world class project at Greenstone, with Orion Mine Finance as a great joint venture partner. We've got a portfolio of assets that are going to support a much higher production profile as we continue to expand and develop them. I'm very confident in our future and we're going to continue working very hard to build a great company here at Equinox.

I think with that I'll conclude and pass it back over to Rhylin for Q&A.

Rhylin Bailie:
Thanks Greg.

Operator, can you please remind people how to ask a question?

Operator:
Certainly. (Operator instructions 15:55).

Rhylin Bailie:
Thank you.

While we wait for people to queue up, I'll take a question from online. "When you announced the Los Filos update, it made it quite clear that you weren't going to build the expansion right now and that you were prioritizing Castle Mountain. How are the expansions going at Castle Mountain and Aurizona?"

Greg Smith:
Well, why don't I take the Castle Mountain question first?

You know, Castle Mountain, we did develop the Phase 1 operation there, which is a fairly small scale operation. Primarily, in place in order to advance the Phase 2 expansion which would take production to over 220,000 ounces per year.

Earlier this year, I believe in March, we did file a plan amendment. Let's just call that our permit application to the regulators. Since that time, we have received notice of completion of that plan amendment from both the state and the county regulators. We're just waiting on the BLM, and we expect to have their conclusion by the end of this year.

Then that will set the stage for determination of whether we're doing just an environmental assessment, or full environmental impact statement. We should know that early next year. Then the timeframe to complete that would have us ideally permitted some time in mid-2024 with an outside date of mid-2025. At that point we would hopefully look to start that expansion at Castle Mountain and increase production there.

Rhylin Bailie:
Doug, at Aurizona?

Doug Reddy:
I'll take Aurizona.

On Aurizona, after we finished the BFS, we have been drilling during 2021, so we've continued working towards a feasibility study while we were also putting in permit applications for three portal locations. We are working towards a mineral resource, mineral reserve update for Aurizona underground.

We have received permits for the three areas where we want to do the portals. We are—did a trade off that confirmed our selection of the west end portal location. Essentially, our mining will have it that that area is available at the end of Q3 this year. We will have the ability to be able to start with development of a portal in Q4 of this year.

Greg Smith:
Q4 of next year.

Doug Reddy:
Sorry. I beg your pardon, Q4 next year. Jumping ahead a little bit. It's progressing really well. We're seeing overall good result and at the same time, we continue exploration in the area around Aurizona.

Rhylin Bailie:
Perfect, thank you.

Operator, please go ahead with the questions on the phone.

Operator:
Certainly. The first question is from Dalton Baretto with Canaccord Genuity. Please go ahead.

Dalton Baretto:
Thanks. Good morning guys.

Greg or maybe Peter, I want to start kind of with the elephant in the room here. On my numbers, it looks like at spot prices there's still a reasonable funding gap, even after considering your stake in i-80 and Solaris. You guys mentioned the shelf. You mentioned the ATM. I'm just wondering, what other options are available to you and again, how would you rank all these options in terms of deploying them? Thanks.

Peter Hardie:
I'll start. Greg, can feel free to jump in any time.

Option number one is cash flow. You know, when we did our guidance for the year, cash flow and its part driven by seasonality, is weighted into the second half of the year. We underperformed for the quarter and as Greg mentioned, we expect to come in below our guidance for the year. Our expectation is that that cash flow will push into next year. We're going through our budgeting now. Then obviously we'll confirm all that when we do our guidance for next year.

Option number one is cash flow. We generated lots of it last year. We expect to return to profitable and, you know, good margin production going forward. We have our existing treasury of $142 million at the end of the year. Obviously, that is immediately available, and we have our undrawn revolver portion of $127 million. Following that, our next most liquid source of capital are investments. We're strong and supportive shareholders of those companies and have been for some time. That said, that is a lever we can pull.

Following that, with respect to most available or immediate available, we have the accordion feature on our revolving credit facility. That's an additional $100 million. That requires an additional approval by our lenders, but it's set and ready to go and those approvals, assuming everything is in order with the Company, can be done quite quickly. Those are our most ready and immediate sources of capital.

Dalton Baretto:
Okay, great. Just maybe switching gears to Greenstone and I'm looking back at the notes from my September site visit that I took. First on the schedule, so at the end of Q2 you were 35% versus target of 40% and at September 30 you were supposed to be at 60% but on October 21 you were at 57%. I'm just wondering, you're still kind of lagging behind but you keep saying that you're on schedule. I'm just wondering when that gap is going to be made up.

Greg Smith:
I mean, I can jump in here, Dalton.

I don't think our numbers agree with your numbers. I think we are, you know, we did the re-baseline in this summer, and I think we're tracking very closely to that.

Pete's waving me down here.

Peter Hardie:
Yes, Dalton, I was at site with Gordana Vicentijevic, who's our SVP Projects, a week before last. What we saw was that we are at most a 0.5% behind currently, the schedule.

Greg Smith:
If you want, we can follow up. Try to reconcile to see where the misunderstanding may be there, but we don't believe that those numbers jive with what you've mentioned.

Dalton Baretto:
Okay, fair enough. I mean, we're only halfway through so there's probably some give and take there.

But just kind of in that same vein but on the CapEx side of things, also on the site visit. At that point in time, you had 55% of the CapEx contracted but you only had a third of your contingency left. Now you've got 67% committed. I'm just wondering how much of the contingency is still left. Thanks.

Greg Smith:
I mean, Dalton, again, I think we talked about this on the site visit. When we were showing consumption of contingency on the site visit, forecasting to the end of the year, that was us taking our forecast, allocating contingency to the various buckets assuming full construction complete, cash out the door. To be clear, we had not consumed that much of our contingency at that time.

The forecast at the time is also based on trends that the team at Greenstone and our advisors determine, you know, where prices are going. Those trends can change over time, and I think in some cases we have seen some easing, which is obviously a good thing. But again, our CapEx including our contingency is tracking very well against what we've publicly reported we're going to spend. We don't see any issues again, on making budget at the time.

Peter Hardie:
Yes, and I'll add one final point to that, which is when we report our expected spend and budget at Greenstone, that's a gross cost. It doesn't include what you might call typical offsets, such as gold produced during the preproduction period or precommercial production period and other similar items. We track against gross budget and then if we have pickups along the way, those are obviously pluses to help reduce the budget.

Dalton Baretto:

Great, thanks for clarifying everything, guys. That's all for me.

Rhylin Bailie:

Thanks Dalton.

Operator:

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

Wayne Lam:

Thanks. Good morning guys.

Just wondering at Los Filos, for the update fees, can you comment on what was driving the lower reserve grade there. Then just wondering in terms of potential optimization on costs, can you outline some of the things that you're looking at? Is there a potential scenario where you might be able to, where we might evaluate the potential to put the mine on care and maintenance during the Greenstone construction period?

Doug Reddy:

Well, in regard to the lower average grade at Los Filos, you'll note that the reserve gold price is lower than it was beforehand, so it brings in more material. At the Los Filos open pit you rapidly add a lot of additional lower grade material, which ultimately becomes the ROM or uncrushed ore that goes to the leach pad. We also did resource model reviews, which have—we've taken a more conservative approach on some of the deposits to be able to account for some reconciliation issues that we've had in the past. We believe that those are prudent measures and at Greenstone the average grade overall.

Wayne Lam:

Cost optimization and then care and maintenance possibilities.

Doug Reddy:

Yes, so on cost optimization, I think that's a two part question for… Obviously, the site has been working hard to see how they can use less consumables wherever possible. They have some approaches that they've been taking in regard to pumping and managing the large leach pads.

Obviously, cyanide costing up is one of the hugest impacts for us. But they've been going through and trying to work on essentially the reduction, the consumables that we use.

On I think the big impact we've had is going from in Q3 having less ounces than we anticipated. It means that overall, on a cost per ounce basis it's hit us hard. Some of those ounces that were supposed to come in Q3, they're still going to come. They're just going to come in Q4 and then into Q1 of next year.

Peter Hardie:
Yes, another item. Greg mentioned that we are in relative terms still a young company. Another initiative that we have in place is a global procurement strategy. We have a new executive at Equinox. He started over the summer. He's in charge of supply chain and he has started visiting those opportunities to use, you know, the economies of scale and the larger purchasing profile that the Company has to help bring down those costs.

Greg Smith:
Yes, and on your third question regarding care and maintenance. I mean, we have no current plans to put any of our operations on care and maintenance. Obviously, Los Filos has been a challenge for us in terms of production and operations over the last couple years. We have continued to invest in Los Filos, both in the Guadalupe open pit and in the Bermejal underground.

We are—you know, we're in our 2023 budgeting process right now. We are looking at mine plans at Los Filos that could see us, you know, deferring some of that capital into the future, particularly given we're not going to be building that CIL plant any time soon. That can take some of the edge off the capital investment at Los Filos over the next year or two. But as of now, no intention to go into care and maintenance, no.

Wayne Lam:
Okay, perfect. Thanks. Then maybe just on the updated revolver. Can you help us understand any of the covenants in terms of net debt or interest coverage? What are the conditions to drawing on the accordion feature?

Peter Hardie:
With respect to covenants, they are typical of a company our size that is growing and maturing. We're

well onside with our covenants for Q3. We expect to be well onside for Q4. With respect to the—and onward.

With respect to the accordion, there is nothing else that's required for the Company, other than to make a request for it, and assuming that we remain in compliance with obviously the agreements, the credit facilities, or facility, pardon me.

Wayne Lam:
Okay, great. Thanks. Then maybe just last one at Santa Luz. Can you comment on the performance in the recoveries as you ramp-up and scale there? Then how much more improvement should we expect to see over the coming quarters?

Doug Reddy:
Yes, obviously we had hoped that going from a pilot plant through to industrial scale would be a lot smoother. But resin is not, you know, I think we're the only resin operation in all of the Americas that are dealing with an ore with organic carbon in it. As we started up, we found that maintaining a consistent blend is critical, but we have variable ore. We have been trying different feeds to see what works better and it is the time to be to working it through.

Seventy percent in Q3 was what we achieved. We're essentially looking at Q4 and I'm just planning on 70%. We do see that we should be up around 74%, 75%. Overall target, I'd say I'm saying that if we can get up to 80% that would be good. I have a tough time seeing getting to 84%. It's just very difficult to get there with the overall ore body we have. Total organic carbon is the key item. There are a few other elements that are issues for us, but it's really the carbon that causes the issue.

Wayne Lam:
Okay, great. Thank you. Thanks for answering my questions.

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

Mike Parkin:
Hi guys.

One question on Greenstone. You mentioned on the site tour the mill enclosure was a little delayed. You've got kind of a good chunk of it enclosed. It looks like the pictures continue to show progress there. What's the latest in terms of expectations of having the full mill enclosed?

Doug Reddy:
The west end of the mill building is done. The grinding area will be, the structural steel—well, we just put in the E room and then the structural steel will be going up. The mill building will be enclosed in Q1 of next year. Essentially, the east end remains open into Q1 and then it becomes enclosed. All the rest, the HPGR, the crushers, they'll be enclosed prior to Q1 of next year.

Greg Smith:
Mike, we had always intended, and I think we did talk about this on the site tour that the grinding end of the mill building would be enclosed in Q1 next year. It would be the last piece.

Doug Reddy:
Yes, as the last pieces of the ball mill are arriving on site.

Mike Parkin:
Right, okay. Then on the crushing you're adding in at Castle Mountain, is that equipment you're purchasing, or are you using like a contractor for that?

Doug Reddy:
We have a contractor. We are actually reassessing our arrangement at the moment because we know that we need more capacity than we currently have. We can create the capacity but to be able to achieve pull through, but we know we need to do a bit more. That's going through review at the moment. But the first thing was to see if the crushing agglomeration was a good improvement and it's faster and gives us an overall recovery improvement because our leach cycle is actually getting—being achieved.

Whereas with the run of mine, the leach cycle was so long that you had to have huge areas under leach. It is an overall improvement but we're still working on it, and it will take time to transition everything over. But you know, it's a small operation. We saw this as being a valuable way to start with Phase 1, while we were also doing the permitting on Phase 2. It gives us a good opportunity to learn and to also do some—as you're aware, we're processing dump material at the moment. We'll also be shifting towards processing some in situ or so we can do tests with that as well.

Mike Parkin:
Is that something you're looking to add to a contractor or actually purchase the crushing equipment yourself?

Doug Reddy:
We're looking at both at the moment. We're doing the trade off and currently contractor, but we may just switch.

Mike Parkin:
Okay. Do you guys have a sense of like, I don't have the numbers right in front of me, but if you went 100% crush where your expected recoveries would shift to?

Doug Reddy:
We do intend on shifting 100% crush in agglomeration. Overall, I mean, talking overall, not just dump material but everything, the anticipation is that total recovery would be in the low 70s, but we consider that we have an operational recovery that would be around 67%. You get the last 7% as the residual leach, as you're leaching the lifts that are above those initial lifts and during the full life of the mine. The way I think about it is, 67% plus the 7% comes out over time.

Mike Parkin:
Okay and you'd be looking to kind of that 100% crush capacity sometime in 2023?

Doug Reddy:
Yes.

Mike Parkin:
Okay. Then I noticed the accounts payable is up a bit, $24 million quarter-over-quarter. Is that primarily tied to Greenstone's construction, or other factors?

Peter Hardie:

Yes, primarily.

Mike Parkin:

Then just following up on the RCF, like just wondering why the accordion option would be kind of a last resort in the order of priority, given the interest you expressed in maintaining your equity holdings in the past. Does it carry a different interest rate?

Peter Hardie:

No, I was speaking more, you know, in terms of immediately available capital. Like with respect to liquidity and just trying to—

Mike Parkin:

Okay.

Peter Hardie:

I think the question was, you know, what order in liquidity would we do it. That's the order that I—hence the order I mentioned.

Mike Parkin:

Okay. Thank you for that and that's it for me, guys. Thanks so much.

Greg Smith:

Thanks Mike.

Rhylin Bailie:

Thanks Mike.

Operator:

The next question is from Anita Soni from CIBC World Markets. Please go ahead.

Anita Soni:

Hi. A couple questions, firstly on Greenstone and the CapEx. When we were on the tour on September 7, I guess it was, or eighth, and kind of well into the quarter at that point. You had said that you would spend about $210 million. I'm just looking at the mine tour project that you had given us for capital spend and you ended only up spending about $182 million. Is there a reason for the differential and why there was such a vast difference in the spending?

Peter Hardie:

I think the spending relates to the lag time that we have in spend.

Anita Soni:

Okay, so as we look at the, okay. As we look at these bar charts which show a drop off to like $150 million in Q4, we should assume that there's a certain differential or a cascade, a waterfall there? Like that there's a $30 million difference as we go or how should we think about the rate of spending?

Peter Hardie:

Yes, Anita. That is the case.

Anita Soni:

Okay. Then secondly, I wanted to ask, for next year as we think about, you know, your budget when you talk about the 12 months forward and your liquidity available to you and what your projections are. When you're doing that forecast, could you give us an idea of what costs you're using? I mean, obviously at the $1,600 ASIC and the current stock price we sit at, you know, unless there's a reduction in the cash cost or the ASIC going forward it's going to put you in a fairly tight position from a liquidity scenario under my estimates. I'm just trying to understand what you guys are forecasting and what levers you could pull in order to improve upon your current cost structure? I'm assuming Los Filos and, you know, trying to improve grade or the way you mine there would be one of them.

Greg Smith:

Yes, Anita. This is Greg speaking.

As I kind of mentioned in my comments, when you have the increasing costs and the sort of decreasing and stagnant gold price, it does result in some margin compression. We are, you know, right in the middle of our 2023 budgeting process and I think it's fair to say we are looking at scenarios, as I mentioned earlier on the call, where we can maximize cash flow from our assets. That could include deferring some capital and then also as both Pete and Doug mentioned, looking for cost optimization that we can do across our sites. Obviously, it's a huge focus for us and is part of our funding plan. That's, you know, we're right in the midst of that right now.

Anita Soni:
Okay, that's it. That's all for me. (Inaudible 43:04) .

Rhylin Bailie:
Okay, we've had about 20 questions come in—sorry, are you done, Anita? I think so, okay.

We've had about 20 questions come in from online, so I'm going to try to group them together in something that makes sense.

We'll start with Los Filos. "Obviously, you've been underperforming. When do you think you're going to get into better grades and see it either cash flow neutral or positive? If you can't improve performance there, would you consider an outright sale of that asset?"

Doug Reddy:
I'll talk about the first part.

In Guadalupe and Los Filos open pit, Los Filos was going through a big stripping campaign in the first part of the year and as we came out of Q2 and into Q3 we started to see the ore coming out of Los Filos. Los Filos open pit, on average, is a lower grade open pit but very reliable recoveries for that ore. We benefit as Los Filos open pit comes online.

Guadalupe open pit was the hiccup where we got a reduction in the ounces, the recoverable ounces coming out of Guadalupe because of a slug of high sulphur and copper content. That's the one that caused us to stumble on what is higher grade ore. That comes out of a portion of the Guadalupe open pit.
With Bermejal underground, with the slower development, it is a very vertical deposit in Zone 5, which is a higher grade deposit in Bermejal underground. We have just tapped into the top end of it. We need a lot more development to be able to be mining on multiple levels to have them mining tonnes per day

that we need to really make Bermejal underground work. We are getting higher grade material from Bermejal underground but not at the rate that we need it to be coming from in that mine. It's a challenge to both develop and have the tonnes per day that we need.

Basically, that's the higher grade material is still—has been coming in Bermejal underground but not at the rate we want. Higher grade material from Guadalupe open pit, we got hit. I would say we should be looking for that to come in Q4 and Q1. We are drilling ahead to make sure we're not going to have any other areas with the high sulphur, high copper that we did not pick up in our long-term model.

Greg Smith:
On the, this is Greg speaking here.

On the question of whether we'd sell Los Filos, I mean, it's kind of a tough one. We've sold mines in the past and, you know, I like to consider us a commercial company. If there's opportunities that we think make sense, we're always going to consider them, but Los Filos is, you know, a very large gold system, lots of growth potential, lots of expansion potential and a pretty large production profile, long mine life. As the technical report notes, it's a good, long-term, all in sustaining cost as well.

Parting with an asset like that would be very painful for us, I think. It certainly is not something that we're considering at the moment. I think that's what I would say to that. It's, you know, a big part of our portfolio right now and my strong preference would be, support the asset and kind of get through this macroenvironment and be able to expand it and really surface the value there. Obviously, we've had challenges to date but that's an area we're also focused on.

Rhylin Bailie:
Okay, thank you. In terms of sort of the order in which you would do your funding if you need to, circling back to what Pete said, would you consider a sale of the other assets or a sale of your equity investments before you did an equity raise?

Greg Smith:
I mean, I think it's—an equity raise at this valuation would obviously be very painful. It is not our first choice. It's not something we intend to do or want to do. We do have the preliminary base shelf file. We

will finalize that as a base shelf, and we are assessing the putting in ATM facility in place which would give us some optionality and flexibility if we needed it. Obviously, at these prices, it's not something we prefer to do.

There are other levers we can pull that Pete went through. We've got, obviously, other assets in the portfolio that aren't necessarily core. But ideally, our first choice of course, is our credit facilities and cash flow, and cash flow on hand.

Peter Hardie:
Yes, I'll just add to that. That everyone in the room is a shareholder. I can speak personally that it's a substantial part, you know, my holdings in the Company are a substantial part of my own personal portfolio. On behalf of, for myself, on behalf of everyone in the room as shareholders, and our largest shareholder we'll note is Ross Beaty, our Chairman. On behalf of everybody, it's very much a last lever we ever like to pull. Equity raising, equity is an expensive form of capital and so it's the last lever that we would ever want to have to pull.

Rhylin Bailie:
Thank you. When you started the Company, you had the million ounce target. Is that still a target and from a capital allocation perspective, are you better focused on the expansions versus optimizing your assets?

Greg Smith:
Yes, I mean, I think we had a million ounce target, and I would say that target is and has always been really just an indicator of scale. There's nothing magic about the number itself. I think Ross has said that in the past as well. But we do still have a plan to grow this Company to a company of scale and if a million ounces is the right number then that's the number we'll use.

With Greenstone, Castle Mountain expansion and Los Filos by themselves fully producing, that's over 700,000 ounces a year. Then that's before we actually would do a Los Filos expansion. If you were to do that, that's 800,000 plus your Brazilian business. Our current portfolio can support a million ounces a year. We are working toward that. We're building Greenstone now. We're permitting Castle Mountain. We've done the technical report, feasibility study on Los Filos. We're working on the Aurizona Gold underground. None of that has changed.

I think the current environment means we have to be very careful in where we allocate our capital and focus on those areas that are most important. Right now, that is getting Greenstone through its construction period. That—it might take a little longer, but you know, we still have that portfolio that can get us to that scale. I think there's just a tremendous amount of value sitting in these assets. It's a situation where we've just got to focus on surfacing that value over time. It's a tough market. It doesn't change what we need to do.

Rhylin Bailie:
Thank you. Do you have any intention to hedge against rising diesel prices or falling gold prices?

Peter Hardie:
I'll deal with that.

On the latter in relation to gold hedging, we finally are off the gold hedge program that we inherited as part of one of our mergers. That ended in September, and very happily. We very much believe in keeping the Company fully exposed to gold price, so we will not be hedging gold going forward.

Then with respect to diesel price hedging, we have no hedges in place against diesel currently. We see diesel as decreasing a little going forward, so we're not keen on hedging it at really what have been very close to peak diesel prices. At least we think they are. It's very difficult to make effective and put in place. We focus instead on hedging of the currencies where we operate, the real, the peso, and in the case of Greenstone, the Canadian dollar.

Rhylin Bailie:
The gold price has obviously been weak recently, which causes a squeeze on the margins. What is your view on the long-term gold price?

Greg Smith:
Well, I think the gold price is actually doing pretty well given the strength of the U.S. dollar. I think as long as rates keep going up here or indication of rates going up, U.S. dollar will stay strong and that's going to put pressure on gold. I don't think that's a surprising opinion to anybody. But I also know that at some point the rates will get too high and then we're going to be back in a situation where they're going

to have to start easing again. The yields will come down. Dollar will come down. That will be positive for gold.

I think yes, right now we're in a situation that is headwinds on gold, but I also see it as a situation that will reverse and historically has reversed and that should be very good for gold. Long term, we're bullish on gold.

Rhylin Bailie:
Thank you. One wrap-up question, Brazil election. Do you see any impact on mining in Brazil?

Greg Smith:
The short answer is no. I mean, nothing right now indicates that we would expect substantial changes. The previous Lula administration wasn't unfriendly to mining and, you know, I don't think it will be unfriendly to mining this time either.

Rhylin Bailie:
Thank you. At the moment, there are no further questions online or on the phone, so Greg, I'll turn it over to you for closing remarks.

Greg Smith:
I think that's all I have, Rhylin.

I guess I'll just say thanks again to everyone for attending the call today and you can always reach out to myself or Pete or Doug, or Rhylin if you have any other questions. We'll talk to you next quarter.

Rhylin Bailie:
Thank you, everybody for joining us today. Operator, you can now conclude the call.

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