



Equinox Gold Corp. Third Quarter 2020 Results Conference Call Transcript

Date: Monday, November 9, 2020

Time: 8:00 AM PT

Speakers: **Christian Milau**
Chief Executive Officer

Peter Hardie
Chief Financial Officer

Doug Reddy
Chief Operating Officer

Scott Heffernan
Executive Vice President, Exploration

Rhylan Bailie
Vice President, Investor Relations

Operator:

Welcome to the Equinox Gold Third Quarter 2020 Results Conference Call and Webcast. As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, and zero. If you are participating online, you can submit a question using the Ask a Question tab on your screen.

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 very much, and thank you very much, everybody, for joining us on the call this morning. We will, of course, be making a number of forward-looking statements today. So, please do take the time to visit our continuous disclosure documents on our website, on SEDAR, and on EDGAR.

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

Christian Milau

Thanks, Rhylin, and welcome, everyone, today to our third quarter results webcast. Heck of a day, Friday and today, and certainly the world is not a dull place, so stay tuned.

We had a very solid quarter overall in quarter three, and I'm pleased to present that to you today starting on Slide 3 here. Our health and safety record, again, for the quarter was very good and strong. We had two lost-time injuries in over 3 million hours worked, so good performance again by the team.

In terms of COVID impacts, there were no COVID-related restrictions during the quarter, so all the mines did operate. Quarter 2 is when we had our disruptions. Los Filos was ramping up during the first part of this quarter, quarter three, and we've really put in place strong [COVID] protocols. We've been proactively testing in each of our sites. We're even instituting [our own] labs where needed or accessing private labs, so we can make sure that we're proactively testing our workforce, and we've seen the case load come down very significantly.

Both Ross, Doug, and I had a chance to visit most of the operating mines, actually, in the last few weeks here. So, we were very pleased with the protocols we saw in place, and the teams have really stepped up and are operating in a very safe and positive manner during this difficult operating environment.

In terms of the operating results, we sold 128,000 ounces and produced just under 125,000 ounces, a very respectable quarter, considering we didn't have any production from Los Filos in September. As alluded to in the press release, all the mines were operating in line with guidance, except for Los Filos. Los Filos was temporarily suspended due to a community blockade, which we announced in early September. I'll discuss that a bit more and give a bit more colour on that later.

Other things that happened corporately here, we did get Board approval and announced official construction at Santa Luz. It really continues the trend that we've had of measured internal growth. We've built one mine per year over the last few years. Aurizona came into production in 2019, Castle this year in 2020, and Santa Luz should be constructed close to the end of 2021. We're really pleased with being able to continue to deliver on that clear strategy we set a few years back.

Also, as I mentioned, we did pour first gold at Castle Mountain, and kudos to the team, Tom, Doug and the guys in California. They did a good job in a challenging environment with COVID really kicking in, in the height of construction, and they were able to deliver that mine basically on time. So, really well done.

As well, really pleased to see Mesquite mineral reserves and resources increase very nicely with the results recently. Again, kudos to the team, Scott and also the guys in California who were able to deliver that, and we'll talk about that a little bit later.

Also, congratulations to Doug Reddy, who was promoted to COO on September 1. He'll be talking to you about Santa Luz a bit later in this call after Peter Hardie talks about our financial results. Also, our Board, we continued to evolve the Board. Sally Eyre joined the Board just over a week ago, at the end of October. She brings some technical experience and lots of experience also in the Americas, so really pleased to see her joining the Board. So, welcome to her.

I'll turn it over to cover the next couple of slides by Peter Hardie on the financials.

Peter Hardie

Thanks, Christian.

We're moving to Slide 4, where we highlight our Q3 financial results. Despite the issues at Los Filos, Equinox had a strong financial quarter, saw it exceed its Q2 results on virtually every financial metric, including revenue, earnings from mine operations, profitability, and cash flow.

Revenue for the quarter was \$244 million on the sale of 128,000 ounces of gold, which is an increase of almost \$30 million over Q2 revenues, and the key driver for the Company's financial performance, gold price. We had an average realized price per ounce in Q3 of about \$1,900, an increase of almost \$190 over Q2's \$1,712 an ounce.

Earnings from mine operations for the quarter were \$98 million, EBITDA, \$71 million, and on an adjusted basis, \$99 million. We improved our profitability. We had income of \$12 million, and on an adjusted basis, \$39 million. This translates to earnings per share of \$0.05 and \$0.16 on an adjusted basis.

We also had good cash flow. Cash flow from operations before changes in working capital was \$90 million. That's \$1 million a day. In Q2, it was \$61 million. So, that's strong performance by the Company for the quarter, and those strong financial operating results for Q3 further strengthened our balance sheet.

As of September 30, we had \$311 million in cash, and that's after paying down \$200 million on the revolving credit facility. It leaves the Company with over \$500 million in liquidity. Net debt was \$232 million at the end of the quarter, and that includes convertible notes that are well in-the-money, with an average exercise price of US\$6.50 a share. If you assume those notes are converted to shares, as of September 30, we actually have a net cash position of \$22 million.

Our investments are also strengthening our balance sheet. We equity account for our investment in Solaris Resources. It has a book value in our financial statements of \$9 million. On Friday, the market value of the 26 million shares we hold in Solaris was US\$109 million or C\$142 million.

Another item that can contribute to our liquidity going forward are warrants that expire in October 2021. They have a \$15 strike price and are exercisable into 16 million shares and could bring up to another

\$180 million onto the balance sheet. So, we had a good quarter, and we retain a very strong balance sheet.

On our next slide, we start our operational results by mine. Generally speaking, with the obvious exception of Los Filos, we're very much on track at our mines. Aurizona was the star of the quarter, producing and selling 33,000 ounces of gold at low cash cost and at an all-in-sustaining cost that's well on plan. The low cash cost for the quarter is attributable to higher volumes, better grade, and favorable foreign exchange, and the increase in all-in-sustaining cost was expected with a planned tailings lift and planned stripping. I'll note, it's actually still lower than what our guidance is for the year.

The other Brazilian operations are stable and performing right on plan.

Mesquite produced and sold 31,000 ounces of gold, which is lower than the prior quarter, but [the decrease was] planned as we started stacking non-oxide material, which has a longer leach cycle, and Christian will speak to that, I believe, in a moment. But the cash costs and all-in-sustaining costs are on track. The increase [in all-in-sustaining cost] over Q2 is actually due to water well improvements for pumping that are going to aid in increasing irrigation volumes for the leach pad.

For the year, we've produced 341,000 ounces of gold, sold 337,000 ounces, and have \$590 million in revenues. Our year-to-date total cash cost across the Company is \$854, and our all-in-sustaining cost is \$993 an ounce. So, all in all, performing right on plan for what we were hoping other than at Los Filos.

I'm going to turn the presentation back over to Christian to continue the discussion of operational results by mine.

Christian Milau

Yes. Thanks, Peter. I just want to walk everyone through each of the mines briefly here and give you a flavour for what we've seen and what we plan to see in the upcoming near term.

Starting with Los Filos on Slide 6. We were suspended for Quarter 2 due to the government restrictions around COVID. Los Filos was ramping up in July and August and then we, obviously, went on to suspension on September 3. So, it's been down for almost maybe just over six months this year. I just want to give you a bit of colour on the situation at Los Filos here.

As announced on September 4, mining activities have been suspended since the 3rd as a result of a blockade by members of the Carrizalillo community, one of the three primary communities that we draw our workforce from. We have a land access agreement and social collaboration agreement in place, both of which were signed last year and will run until 2025, but the community is now asking for an increase to their benefits under the social collaboration agreement and more control over employment and contracts.

We continue to have regular and respectful meetings with the community to understand and discuss the grievances and concerns that they've raised. Unfortunately, to date, the blockade is still in place. We continue to seek a resolution to the blockade, so Los Filos can resume normal operations and continue to provide substantial benefits to all its stakeholders. We really are seeking a long-term solution here, not a quick fix. Something that does not affect our ability to operate effectively and meet all our health, safety, and governance obligations.

As background here, just to remember, Los Filos is a significant employer and economic contributor in the region, employing almost 2,000 people and using more than 100 local businesses to support mine

activities. Over its production life, Los Filos has provided significant benefits to Carrizalillo and the other neighbouring communities through social collaboration agreements for education, medicines, health care, cultural programs, and infrastructure improvements.

While we believe we can accommodate some or many of the community's requests, others would potentially affect health, safety, and proper contracting processes, or impact good corporate governance practices. In particular, we must be able to screen our potential employees for standard health and safety checks, vision, hearing, etc., conduct background checks, ensure they have adequate training before and as we hire people and send them underground or to operate large equipment. These are just normal procedures that we have in place at all our locations, and we'll put the same standards in place here.

We also use local businesses as much as possible. We support local contractors and equipment suppliers, but we cannot bypass requirements under the law, since there's a new trade agreement between the U.S., Mexico, and Canada that prohibit certain types of sole sourcing and monopoly services and pricing mechanisms. We must be able to effectively operate, control our operations and abide by our corporate governance policies.

Any amendments to the existing social agreement must result in a solution that is fair, long term for all our community partners. We're choosing to be patient here and resolve this in the right way rather than rushing to get back into operations and ending up with issues again down the road. In short, we really do believe that all stakeholders are supportive of the return to operations, and we remain optimistic and open to constructive dialogue.

Our preference is to achieve a resolution through face-to-face discussions with the community, as we believe this is the best way to build a long-term positive relationship with the community partners. Also, we've been keeping informed the governor, union leaders, other communities, and the Secretary of Interior, who all are important stakeholders as well. We appreciate the patience of everyone as we work through this and work to get a long-term resolution with the community.

Despite that, Los Filos has produced just under 50,000 ounces this year, and we did withdraw guidance, as Peter mentioned earlier. The one thing that will be impacted and to think about in the future is we were doing work to access the higher grades in Guadalupe open pit and Bermejil underground. Those were supposed to be worked on for the bulk of this year and accessing those higher grades in the last part of this year, but it looks like those will be pushed into sort of mid-2021 or a little bit later. So, there's a bit of a delay in that process.

Then turning to Aurizona in Brazil. As Peter said, a strong quarter. Really pleased to see the mill averaging almost 9,000 tonnes per day, and that's almost 10% above nameplate. During this dry season, which is ongoing at the moment, we're working on stockpiling ore to prepare for the rainy season, which comes in the early new year. We've got a target of about 600,000 to 700,000 tonnes that we want to have in the stockpile, and we're probably about two thirds of the way there. As well, exploration has been ongoing. We've really had a focus on both the underground and extensions along strike, and we've also started the pre-feasibility study, which we hope to issue publicly next year as well on the underground deposit.

Mesquite in California, again, performing well. It really has exceeded our expectations since the acquisition in late 2018. As Peter said, it's transitioned to non-oxide material, so a slightly lower quarter in Quarter 3. We should see that increase in Quarter 4. Really pleased with the mineral reserve increase of almost 30% and the M&I resource increase of almost 100%. Really, thanks to the team,

Scott and the team in California, for focusing on that. We've allocated the dollars to drill, and we've seen the results come through, and we expect to see continuing results from drilling as we move forward here.

Now remember, when we bought this mine in [October] 2018, it had about a 2.5, maybe 3-year mine life. We're almost that far into it now, and we still have visibility to another 3 years plus of mine life. So, we're going to continue investing in this site. We'll continue allocating exploration dollars, and we expect to see results from that, and we plan to start investing in the new fleet next year as well. So, we're really building the confidence in this asset.

Turning back to Brazil and Fazenda on the next slide, again, a strong quarter, as Peter mentioned. Fazenda will get more and more attention in terms of exploration. There's a real district belt between Fazenda and Santa Luz that we plan to explore over the next few years.

RDM had another strong quarter as well. Recoveries were improved. We have sufficient water to operate continuously throughout the year. Even when Ross, Doug, and I were down there, it was raining. So, we were pleased to see that the water reserves were filling up. The other key milestone that we achieved in the quarter was we received the permit for the pit pushback, and that was an important milestone. It will allow us to access higher grade ores in the next 18 to 24 months. There will be elevated stripping over the next 18 to 24 months as we work to move that waste and access the ore.

Then Pilar had another good quarter. Again, higher mining volumes and good performance by the mine overall.

Turning on to Slide 8. In terms of guidance, again, Pete's commented on this. As we know, Los Filos' guidance has been withdrawn, all the other numbers we expect to achieve this year. Please note that all the Leagold assets that are in here only from March 10 onwards, because the acquisition closed in March, so it's really three quarters of a year for those assets.

When we look at the growth and development projects on Slide 9, just a quick update. Castle Mountain poured gold October 15. Congrats to the team. We expect to do 5,000 to 10,000 ounces this year in 2020, and then it will be about 40,000 ounces per year on average from 2021 onwards. The pre-feasibility study for Phase 2 should be available in Quarter 1 next year. We're just working on the optimizations at the moment. That will demonstrate a 200,000-plus per year producer for many years to come. So, we're really excited about the Castle Mountain project in the long term.

Then Los Filos expansion in Mexico. This has potential to take this mine to about 350,000 ounces per year on average. As I said, we're opening up the new open pit and an underground mine there. Those are slightly delayed due to the current suspension, but could be in place as early as mid-next year. The new study will be released as soon as it's available. That will indicate an 8,000 tonne per day CIL plant, which could process the higher-grade ores, and we've also been able to reschedule the mine plan and hope to increase the reserves as well with that study update. At the moment with the suspension, obviously, there's no further investment as we speak today, but as we get a resolution, certainly, we'd like to be looking at reinvesting again in this project.

Now, I'll turn it over to Doug just to run you through the Santa Luz update.

Doug Reddy

Thank you, Christian.

If we can go to Page 11. Santa Luz has a construction period of 14 months, with first gold scheduled for

Q1 of 2022. The project will involve mining 1.3 million ounces in reserves at a grade of just over 1.3 grams per tonne. That will be mined by open pit using contractor mining. The strip ratio is 4.7:1, and we'll be mining at 7,400 tonnes a day. That's about 15.5 million tonnes per year for total of ore and waste.

Looking at the base case of \$1,500 per ounce, average gold production for the first five years is just over 110,000 ounces per year, and average annual gold production of 95,000 ounces per year. Gold recovery is 84%, and the initial mine life 9.5 years, initial capex \$103 million, and our cash cost will be \$776 per ounce, with an all-in-sustaining cost life of mine of \$877 per ounce. The after-tax NPV at 5% discount [at \$1,500 per ounce gold] is \$305 million, and at \$1,800 per ounce it would be \$475 million. The IRR after tax [at \$1,500 per ounce gold] is 58%, or 85% at \$1,800 per ounce, and the payback period is 1.6 years.

Moving to Slide 12. This is a brownfields project, therefore, we do have a low initial capital cost [for construction], with the majority of infrastructure already in place. So, that includes grid power, there's a 138kv power line coming into site, and we have tailings storage facility and water storage facility already in existence at the site as well as a CIL plant. So, the plant alterations and the capex total of \$37.5 million to convert the plant from CIL to resin-in-leach. We will be doing a tailings and water storage facility raise this year, at \$7.5 million and with pre-stripping of \$20 million, it totals up to \$103 million on initial capital cost.

The water storage facilities have already 3 million cubic metres available for when the project starts up. Operating cost for mining is \$2.41 per tonne mined. Processing cost at \$13.43 per tonne processed, and G&A is \$2.75 per tonne processed. So, the plants will include two-stage crushing, that will be jaw and cone crushing; two-stage grinding, that's a SAG mill in combination with the ball mill. We're putting in a gravity circuit, and we'll have a resin-in-leach circuit. Importantly, the ore feed will be blended to maintain 0.6% total organic carbon with a feed from dacitic and carbonaceous ores, and that will be to achieve the 84% recovery.

So, if we go to Page 13, the project sensitivities, it's most sensitive, obviously, to gold price, but also to operating cost, foreign exchange, and capital cost. You can see the base case has been done at \$1,500 an ounce, and we provide the \$1,800 per ounce as the upper end on the sensitivities here, showing the NPV going from \$305 million to \$475 million and the IRR going from 58% to 85% based on the gold price alone.

If you turn to Page 14, there are additional opportunities at Santa Luz. We can look at the development of the C1 deposit, which is the main deposit being mined at Santa Luz, and going down dip, there is a PEA that's already been prepared on the underground deposit, I'll talk about that in a moment. But as Christian mentioned, we are doing a large exploration program in the Santa Luz to Fazenda belt. It's about 70 kilometres of greenstone belt between the two mines. Scott Heffernan and Carlos Paranhos are embarking on a multi-year program that will work on several targets in that greenstone belt and could not only benefit by extending life at Santa Luz, but it could also add into resources and reserves at Fazenda. So, we're excited about that program that's beginning this year.

On the underground preliminary economic assessment, it was done as an update at \$1,500 per ounce. Total potential production is over 0.5 million ounces, mining rate 2,500 tonnes a day, and that's with a gold grade of 2.6 grams per tonne, and the initial life is 9.5 years in the PEA with preproduction capital of \$74 million. Net cumulative cash flow, that's before tax, would be \$289 million, and after-tax NPV of \$178 million with an IRR for the project of 39%. So, we've got some more work to do on advancing that

particular opportunity.

If you look at Page 15, our Board has approved construction. The budget is \$103 million of capex, [of which] \$10 million will be spent in 2020. We've already been doing the early works and we've commenced with plant site clearing and leveling. Process plant detailed engineering is 99% complete. We have already been working on the engineering for the tailings and water storage facility expansions, and that's nearly complete.

Most of the major equipment is already on-site, and additional long-lead-time equipment has been ordered. Our owner's team has already mobilized to site. Contractors will be mobilizing in November. The first gold pour is targeted for Q1 of 2022, and as you can see in the chart down below, we have a 9.5 year initial life of mine, and we look forward to being able to extend that through additional exploration and the opportunity in the underground.

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

Christian Milau

Yes. Thanks, Doug. Just concluding on Slide 16, focusing on our near-term catalysts. So obviously, a number of things have been achieved this year, and are really excited to see the gold pour at Castle Mountain and getting the construction started at Santa Luz. This is a really low capex intensity project, so really in our sweet spot to complete over the next sort of 15 months here, and also commence the Aurizona underground pre-feasibility study, and we're very excited about the underground potential there at Aurizona.

The upcoming catalysts and things we want to focus on the near-term here, obviously, get Los Filos back and restarted after we resolve things, but we'll certainly take our time to do that right. The expansion study for Los Filos is another thing to follow on in the new year. As well, the Castle Mountain Phase 2 feasibility study should be out early in the new year as well.

On the exploration front, again, we're sort of building momentum right now. We've had a focus on Mesquite and Aurizona over the last year or so, but we're certainly building up our multiyear sort of midterm plans. We'll focus on the shorter life mines to continue to extend the mine lives. We think most of the mines that we have are actually quite prospective, so they need some attention starting in 2021.

Corporately, we've achieved a lot this year. The Leagold merger and integration has gone well despite the COVID situation. We've been included in a number of indices. We started to get our ESG reporting disclosed more publicly; we started to harmonize and combine the actual reporting that we have, and you'll see more and more information on our website as we move forward. And we continue to look at accretive M&A on a sort of disciplined basis. We've got a lot of internal growth that we're focusing on at moment, but we'll certainly keep our eyes open for good opportunities in the market, whether it be producing mines or whether it be development projects that fill our pipeline as we continue to deliver on building and putting mines into operation on an annual basis.

Assets that we'd be interested in, obviously, would add diversification to our portfolio, fit our pipeline of development, enhance the portfolio quality of assets. So, our eyes are open on that front, but we've certainly got a lot of growth internally that we can focus on as well.

So, overall, I'd say we had strong operating performance in Q3. We've got a rock-solid balance sheet coming out of the quarter, as Peter outlined earlier, and we'll continue to focus on our disciplined growth as we continue to deliver on our strategy of becoming the premier America's gold producer.

Now, with that, I'd like to thank you for your time and open the floor to questions.

Rhylin Bailie

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

Operator:

Certainly. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speaker phone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. If you're participating online, you can submit a question by using the Ask a Question tab on your screen. We will pause for a moment as callers join the queue.

Rhylin Bailie:

Thank you. We do have a few questions from people online, and one thing I've been getting a lot of questions about over the last couple of months is people wondering why we haven't been providing more regular updates about Los Filos and also responding to some of the things that have been said in the press.

Christian Milau:

Yes, thanks, Rhylin. Certainly, we'll update the market when there's any material changes, both positive or negative, but we do believe really pretty strongly that we don't want to be negotiating in the press or media. It's not part of our strategy. We'd much prefer respectful dialogue, face-to-face discussions with the community as we work through this challenge at Los Filos and certainly believe that's been the most effective method so far. We continue to be optimistic and work on those discussions locally, and we won't be negotiating in the press. You'll see [updates] as things change materially, [either] positive and negative.

Rhylin Bailie:

We've also had lots of questions about the allegations that there's water contamination at Los Filos. Can you address that?

Christian Milau:

Yes, sure. I mean, historically here, there's a water source that was moved for the local community. It's about three kilometres away from the mine site. It's, I think, 150 metres above our current elevation, and originally, I think Goldcorp put in place the actual system to access that water. It probably needs some updating right now and, certainly, we've agreed to do that. Actually, that was in the social collaboration agreement last year to upgrade the system.

Basically, once we're able to get back to work here, we'll continue on with that process. The community has grown quite significantly, and we plan to be putting in place any upgrades that allow that community to access the water for years to come. There's been a couple of allegations, I guess, in the press as well related to arsenic in the water. It's, obviously, not something that we're involved in. We do not use arsenic in any of our processes as we process the ores.

As well, [arsenic is] naturally occurring in, call it, trace amounts in the local rock and area. There is probably naturally a little bit of arsenic in the water, [but] it's safe to drink. We're pleased with all the standards we've put in place and, obviously, with our operating permits and health and safety requirements, we have regular reporting to the regulators. We monitor it on a very regular basis and,

we want to make sure that all our communities are accessing good, clean, healthy water. We'll make sure that we continue to work with them on upgrading that system, but the water sources in place right now are safe.

Rhylin Bailie:

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

Operator:

Certainly. Our next question comes from Dalton Baretto of Canaccord. Please go ahead.

Dalton Baretto:

Thanks, and good morning, everybody. Christian, I'm sure you're not going to be surprised, but I'm going to start with the Los Filos docket as well. I appreciate the commentary you provided in the scripted comments there, but there's a number of things that are still unclear to me. Maybe my first question could be, what triggered this?

Christian Milau:

Well, it's always hard to know exactly. Certainly, with the change in ownership and there was a change in senior leadership down there, and maybe it disrupted some of the communication channels. I can't speak on behalf of the community on what their desires are. Certainly, they're looking for enhanced social collaboration benefits. Maybe it's an opportunity with the change in environment here with COVID and change in management in that down there that this has been triggered.

Certainly, we want to make sure that we have a dialogue here to resolve it in a long-term manner. We have members of our team from up here in Vancouver, as well as senior leadership down there, working on it right now as we speak. That's probably the flavour of it.

Dalton Baretto:

Okay, and then you mentioned some of their asks, and it sounds like they're incremental to the current contract, but it sounds like their stance is that you're not living up to the current contract. Is this just posturing?

Christian Milau:

[We've got] a pretty standard grievance mechanism that's in all the contracts with all the communities and it's pretty normal across the world really. Certainly, I know it's in place there in a regular sort of monthly review. There can be differing views and opinions on whether certain clauses are being met and managed, things like numbers of scholarships or amount of medicines, etc., being provided, but I believe there's a very strong mechanism for resolving that.

It's a bit disappointing to see this go to the point of asking for incremental benefits and taking it outside of that grievance mechanism for resolution, but we'll work with them on that. We believe in supporting the communities as well. We do think it's good to see people get education, to get extra benefits, if it makes sense.

Dalton Baretto:

Okay. Then maybe just one last one for me on this topic here. On the assumption that you're still meeting with them regularly, what needs to happen to move forward? Are they fairly entrenched, or is there kind of give on both sides?

Christian Milau:

I'd say there's a lot more give on our side, and there's regular meetings, I'd call them quite intense, and ongoing as we speak. There are certain areas, like I sort of alluded to, that we can't give in on that have any impact on health and safety or certain governance policies. We have to make sure people are vetted before they're employed when they're operating big equipment or they're underground. It has to be a health and safety first focus. We have to do background checks, etc. Those kinds of areas, we can't compromise on to a certain level.

Also, just around sourcing of contracts in that we certainly need to be very careful around how we source contracts, and we need to have full control of the operation. Some of the other social collaboration benefits, obviously, there's more flexibility on. They tend to be some good things that we provide to the community.

Dalton Baretto:

Understood. Thank you. I'll jump back in the queue now.

Christian Milau:

Thanks, Dalton.

Operator:

Our next question comes from Arun Lamba of TD Securities. Please go ahead.

Arun Lamba:

Hey, guys. Congratulations on a good quarter minus, obviously, the Los Filos stuff. Just two quick ones from me. You've talked about M&A and what you guys might look for. Just wondering how you're thinking about the portfolio otherwise in the sense that would you look to potentially possess maybe some of the smaller assets because they might take the same amount of time as the larger assets, or at these prices, are you kind of just happy with the free cashflow generation that they all generate?

Christian Milau:

Thanks, Arun. I guess in this environment, there's a bit of that luxury is, all the assets are performing pretty well here, even the small ones. We're pretty happy to see that cashflow generation and contribution to the portfolio. Certainly, over time, as the portfolio diversifies, grows, enhances, we could look to dispose of an asset or two, but at this stage, we are pretty happy with the performance of all of them, even the small ones, but over time, I think you could see that happen.

Arun Lamba:

Great, and just a quick one on, you guys mentioned Solaris, it's kind of run up a little bit. It's now worth over a hundred million to you guys on your position. Just comment if the plan is still to hold that longer term. I know the balance sheet is kind of net debt free. Would you look to stay as a long-term shareholder, or what would you look to kind of do with that with these prices?

Christian Milau:

We're a pretty happy shareholder right now. Richard and Dan are doing a great job with it, and we're really pleased in the last six months or whenever they took over. To see it go into those hand there's a good focus on it, and certainly, we believed it could turn into what it already has, but we still have a lot of belief in the upside to that single asset there in Ecuador in Warintza, but also, it's got four more

assets in the portfolio. We're really excited about a couple of the other ones as well. We have no plans to be divesting. We have also committed our shares to escrow, I think for a couple of years at least, so we're certainly very committed to them right now.

Arun Lamba:

Great. That's it for me and hope to get the Los Filos blockade results soon. Congrats, otherwise.

Christian Milau:

Yes. Thanks, Arun.

Operator:

Our next question comes from Kerry Smith of Haywood Securities. Please go ahead.

Kerry Smith:

Thanks, Operator. Christian, for the underground at Santa Luz, did you only just update the gold price assumption in that [underground] PEA, and you didn't update the costs?

Christian Milau:

Doug, do you want to take that one?

Doug Reddy:

Sure. It was updated with the economics on the project, so, yes, gold price and costs, but it's something that we'll need to do more work on. Essentially, we were updating the rest of the study, so we asked RPA to go back and do an update on that as well. We know we have to do more work. We want to do a drill program there, and then revamp the whole thing in light of the opportunity that it can add while we're operating the open pit.

Kerry Smith:

Okay, and, Doug, just maybe on that underground PEA. The 511,000 ounces of recoverable gold, what percent of that would have been inferred? Is it all inferred, or is there any indicated at all?

Doug Reddy:

I'd have to go back and check. I will check, Kerry, and I'll get back to you.

Kerry Smith:

Okay. I guess, my second question is, what is the plan going forward then? Are you planning to complete an infill drill program to try and convert a bunch of the inferred and then complete some sort of further economic study, or a PFS, let's say?

Doug Reddy:

Yes. I think when we're not interfering with the construction, we would look at doing an infill drill program. One was designed a while back. I've handed all that over to Scott Heffernan. Scott and his team will have to review that for how to logically do the follow on drill programs, so that we can move it towards doing a PFS, but at the moment, we'll wait while they're in the midst of construction, so we don't interfere with the site.

Kerry Smith:

Okay, because I guess the timing, then you said there was a couple of years of development to get into the ore body. It sounds like there'd be another, maybe 18 months of drilling and engineering work before you could even make that decision to start that decline then, would that be fair, Doug?

Doug Reddy:

Yes, that would be fair, but there's also lots of additional opportunities for open pit targets on the site as well. While it would be nice to bring the underground on and have it dovetailed for the 9.5 years with the open pit, there are other low-hanging fruit nearby to the process facility that we would look for open pit opportunities as well.

Kerry Smith:

Okay. Great, and then just maybe Peter or Christian, what is the holding cost per quarter for Los Filos while you're on this blockade?

Christian Milau:

Peter, do you want to take that one?

Peter Hardie:

Yes. It's Peter Here. It's about US\$750,000 a week, Kerry.

Kerry Smith:

Okay, and that's for just the asset protection, and then I think you're still paying the salaries, I guess, or the wage to the employees as well. Is that correct?

Christian Milau:

We've actually—go ahead.

Peter Hardie:

Yes, No, go ahead.

Christian Milau:

Okay. I was going to say, Kerry, we've actually suspended payroll to certain people that, obviously, can't access site, can't work, etc. We've slowly started to reduce that payment and, obviously, over time, we'll reduce that further if necessary. There is some flexibility in that number that Pete gave as well, we could eventually reduce it a bit more, but that's kind of a reasonable carrying cost.

Kerry Smith:

Okay, so that's US\$750,000 a week, then how much of that would actually be payroll then, if I can ask it that way?

Christian Milau:

I don't know, Pete, if you remember that number off the top of your head?

Peter Hardie:

I don't, Kerry, I'll have to get back to you on that one.

Christian Milau:

I'm going to venture a guess at 50% to 60% of that, but yes, we should verify it.

Kerry Smith:

Okay, how did you decide which half of—how many people are not on the payroll? Is it half of the employees are now off the payroll then, or what is that number?

Christian Milau:

Well, certainly, most of the actual people who work in the operations can't access site at the moment. Those would not be working and not paid at this stage. There are certain groups that have to keep the site safe, which are obviously key to having them onsite, security, and certain other management involved in the process that's ongoing at the moment as well.

Kerry Smith:

Okay, so the people that are being paid are people that are able to access the site every day then effectively?

Christian Milau:

Yes, that have a meaningful job to do right now.

Kerry Smith:

All right. I got you. Okay, and what is the timing on the PFS for the underground at Arizona? You'd mentioned 2021, but is that second half or Q4, Q3? Can you sort of be a bit more specific there?

Doug Reddy:

The drill program is just being finished up right now, and so we will be digging into it with the new drill data in the coming months. PFS wise, probably in Q2, but I would say I'm not 100% percent certain on that. I think that's the target date at the moment, but we've got a lot of work to do on it now that we've got the drill program results rolling in.

By the way, Kerry, your question about percent inferred on Santa Luz and the underground, if you look at the exclusive resources, the indicated underground is about 484,000 ounces; the inferred underground resources, 461,000 ounces. I'll say a big chunk of it's inferred, but also it could be as much as 50/50 between the two, but I'd have to go back and check. Just noting that there is essentially over 950,000 ounces of indicated and inferred in the underground at Santa Luz.

Kerry Smith:

Okay. Thank you, Doug. That's it. Thanks very much. I appreciate it.

Christian Milau:

Thanks, Kerry.

Rhilyn Bailie:

Thanks, Kerry. Okay. I'm now going to take a question online from an investor in the United States. It's great to see Santa Luz moving ahead. How do you expect to sequence all of the growth projects in your portfolio? How many active projects do you have the bandwidth to manage?

Christian Milau:

I think the way we're managing them is there is a project team and a country head that's in each country, so we certainly have a lot of bandwidth in each country to manage almost a project at each time. We certainly like the idea of sequencing them like we've done so Castle Mountain gets done, Santa Luz gets going, and then we'll be done and wrapping up towards the end of next year. Potential Los Filos expansion may overlap a bit with that, but obviously, a different country, a different project team, that could happen with some oversight, that kind of growth happens a lot. [Los Filos] will happen at the end of the Santa Luz build. It's been really nicely sequenced over time here and, obviously, that's helpful on a capital management front as well as the people management front.

Rhilyn Bailie:

Great. Operator, we can take Dalton's call.

Operator:

Certainly. Our next question is a follow-up from Dalton Baretto of Canaccord Genuity. Please go ahead.

Dalton Baretto:

Thanks. Christian, I wanted to ask a little bit about Castle Mountain, just really two questions. It sounds like you're putting the final touches on the study there. What's the latest on the water situation? Has your permitting situation changed in the context of a Biden government?

Christian Milau:

Let me start with the water. We continued to drill various water sources as we were doing the study, so we've been drilling on our property on the claims that we have, the closest to the plant site as possible. We've had good results from that. The hydrogeologists are actually doing some of the pump tests and recharge rates. They're checking them out, but we've had water in every hole, so that's along the southern end of our property. We've got some really positive indications coming out of that. We believe some of the water will certainly come from there, maybe even up to 1,000 gallons per minute.

We've also been testing a few other locations. One key one is off site on some private lands, say about 30 miles away, I believe it is. We'd be able to pipe that water in along a right of way where the power line would go as well. We're pretty confident that amongst various water sources, including the existing well field and also the west well field, which is a historical well field. Between those sort of four areas, there's multiple sources of water, and we want as much flexibility as possible. We're feeling pretty good about that so far.

We've not completed all the test work, so that'll come with the study. In terms of permitting, well, I don't know for sure what the change will be like, but one thing I do know is that this is an operating mine now. It's got existing permits and it's been in operation now twice. It makes a huge difference to have a brownfield site when it goes to amending permits. We're not looking for brand new permits. We plan to stay within our EIS boundaries that already exist, so we'll not be looking to amend those.

Remember that Mesquite's had on and off operations for 30 years, Castle was producing for about 10 or 12 years in the 90s and early 2000's, and is now producing again. I don't remember all the governments during that period, but they were certainly a mix of Democrats and Republicans. We can work with both sides and both parties.

Again, we bring good jobs to Eastern California there. We've had great support from San Bernardino

County as well as Imperial County where Mesquite is. Maybe it'll change slightly, but I actually don't expect a ton of change in terms of permitting process. You tend to deal with the BLM and the local regulators more than the federal government, so I expect sort of almost business as usual, really.

Dalton Baretto:

Okay. Great, and then maybe just one last one from me. The gold collars and swaps, they're looking pretty punitive right now. Any way, in terms of ...

Christian Milau:

Less punitive than yesterday.

Dalton Baretto:

Well, that's fair.

Christian Milau:

At the moment, those run until, I think it's mid-2022. It's only like 10% or 12% of production. I think we'll just let those run out, deliver into them on a quarterly basis. They're historically from the Leagold merger, and were put in place related to the financing they did. It's something we have to live with, and we'll just deliver into it and they become smaller and smaller every quarter in terms of impact.

There was a big run-up, obviously, in the gold price in the last six to eight months where we did have quite a negative impact on the P&L, but obviously, this current gold price environment seems more sort of stable or around these sort of higher \$1,700 to \$2,000 levels, there's less and less of an impact on a quarterly basis. We'll just let those run out to termination in 2022.

Dalton Baretto:

That's good. Thanks, guys. All the best.

Christian Milau:

Thank you.

Operator:

Our next question is a follow-up from Kerry Smith of Haywood Securities. Please go ahead.

Kerry Smith:

Thanks, Operator. Christian, just on the blockade again, are you actually currently meeting regularly with the community? If you are, what is the frequency of those discussions? Are they weekly or quarterly, or how do you schedule this?

Christian Milau:

Again, I don't want to give out too much detail, but over the last week I think we've been meeting almost every day and continue to do so, including today.

Kerry Smith:

Okay, so it's pretty frequent then.

Christian Milau:

Yes.

Kerry Smith:

Okay, great, and you had talked about you were committed to a new fleet at Mesquite in 2021. When you say new fleet, is that haul truck sand and loading gear, or just the truck fleet?

Christian Milau:

No, there's an old terex fleet there that are sort of coming towards the end of their life, and you're starting to look at big engine rebuilds and quite a lot of investment to keep them going. They always were planned to run right through to the end of the mine life when we acquired it, but now its mine life seems to be double what it originally was, and we still see some upside beyond that. It's certainly time to be looking at investing in the trucks at the moment, so a cat fleet instead of the old terexes.

Kerry Smith:

The rough capex next year for that equipment upgrade, can you give me a rough number?

Christian Milau:

Yes. We'll put that out in our guidance, probably in that sort of \$30 million to \$40 million range, but we'll give you more exact numbers in the guidance.

Kerry Smith:

Okay, and then you'd also talked about an exploration budget for Scott at Santa Luz or along the greenstone belt too, from there to Fazenda. What might that number be there, just so I can sort of quantify? Is it \$5 million a year or less?

Christian Milau:

I might let maybe Scott comment on that. I mean, how much are we going to give him?

Scott Heffernan:

We're right now in the middle of the budgeting and planning process for 2021, but as Christian mentioned, we have started with the regional program. It's 1,000 square kilometres to explore there and lots of good work to do. We've got a lot of compilation synthesis work underway.

Crews are doing the surface work, sampling, mapping, prospecting, soil sampling, drill target definition, work we'll follow up with next year. I hope it would be a significant program, several millions of dollars at least. There's lots of low-hanging fruit to chase, both near-mine at Santa Luz and Fazenda as well as the district. We're going to put a big emphasis on it. The team's really digging into the data right now.

Christian Milau:

Scott, I was going to say, is it fair to say there's probably a good \$5 million to \$10 million worth of exploration we could do there and just a matter of how much we're going to allocate next year? We haven't decided that quite yet.

Kerry Smith:

Right. Okay, but it's likely that 2021 would not be a drill program. It would be more reconnaissance and prospecting and target generation then?

Scott Heffernan:

No. We're moving as fast as we can to drilling. We will have some modest amount of drilling going on

this year, and we expect to drill as aggressively as we can next year. It's a matter of building out the pipeline of drill targets in advance of drills chasing the field crews. There are sufficient drill ready targets already that we can start on and I'm pretty comfortable that we'll be able to keep a significant number of drills turning throughout the year moving through the 45, 50, exploration permits.

Kerry Smith:

Okay. That's great. Thanks very much.

Christian Milau:

Thanks, Kerry.

Rhylin Bailie:

Okay. Thank you, Christian. We're nearly out of time. I'm going to turn it back to you for closing remarks.

Christian Milau:

Thanks, Rhylin, and thanks, everyone, for your time. Lots of good questions today and [we see an] exciting future here. Lots of catalysts coming, so please keep an eye on this space. We've got a number of projects on the way, lots of exploration ongoing, and we hope to get to a resolution here on Los Filos. Please keep an eye on this space, and we look forward to speaking to you at the year end. Thank you.

Operator:

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