Equinox Gold Corp.

Fourth Quarter 2022 Results and Corporate Update Conference Call Transcript

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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 Fourth Quarter 2022 Results and Corporate Update.

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, Ariel, and thank you everybody for joining us today for our Q4 call.

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

I will now turn the call over to our CEO, 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; our EVP of Exploration, Scott Heffernan; and of course, our VP of Investor Relations, Rhylin Bailie.

As you all know, we're here to discuss our 2022 fourth quarter and full year of financial and operating results. As a reminder, Equinox is a diversified Americas focused gold producer. We've got seven producing mines across Brazil, Mexico, and the United States. We also have several growth projects, including our large-scale Greenstone Gold Mine in Ontario that we are constructing now, along with our 40% joint venture partner, Orion Mine Finance.

I'll start with a broad overview for the quarter and the year, and then turn the call over to Pete and Doug for more details.

Q4 is our highest quarterly production for the year of just over 150,000 ounces. In fact, this is the second highest quarterly production in the Company's history. While inflationary pressures persisted through the fourth quarter, we also achieved our lowest cost for the year with cash costs of $1,223 per ounce and all-in sustaining costs of $1,523 per ounce. We finished the year with total production of just over 532,000 ounces at total cash cost per ounce of $1,328 per ounce and all-in sustaining costs of $1,622 per ounce.

We also advanced a number of our assets over the course of the year. We submitted our permit application for the expansion of our Castle Mountain Mine and that is in process now. We also received permits for three portal locations for exploration ramps at Aurizona, so we can start to advance our underground development potentially later this year once we've completed a feasibility study that we're currently working on.

We completed construction and achieved commercial production at our Santa Luz mine in Brazil, and we're now starting to see some improvements in the recoveries and, Doug can provide some more details on that. We published a feasibility study on the expansion of our Los Filos mine to a long-life large scale mine with peak annual production of 360,000 ounces per year.

Probably most significantly, Eric and his team at Greenstone have continued to advance construction of the mine on budget. As of yearend, the overall project was 65% complete and today the project's over 70% complete. I'm pleased to report we remain on track for First Gold in the first half of 2024, again, Doug will provide more details on the current status of Greenstone later in the call.

On the corporate development side, we completed the sale of the Mercedes mine to Bear Creek Mining, and we launched Sandbox Royalties, which is a new diversified metals royalty company. Sandbox is private right now but is working on going public sometime in the next few quarters.

I'm very pleased to say we finished the year with an excellent safety and environmental record that has continued to improve year-over-year. We also recently announced our greenhouse gas emissions reduction target of 25% by 2030 as compared to our business as usual case. Details of how we plan to accomplish this target are laid out in our first Climate Action Report, which is available on our website, and I'd encourage everyone on this call to take a look at that report when they can.

Looking toward 2023, we expect an increase in production to between 555,000 ounces and 625,000 ounces with cash costs of between $1,355 and $1,460 per ounce and all-in sustaining costs of between $1,575 and $1,695 per ounce. These costs remain somewhat elevated as they reflect a full year of the increasing input costs that we saw over the course of 2022. That being said, we are working to mitigate this cost pressure through optimization opportunities at all of our sites.

Looking beyond 2023, we also expect to see the benefit of lower costs and the overall increase in production from the Greenstone Mine and the Castle Mountain Phase 2 expansion as those projects enter production.

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

Peter Hardie:
Thanks Greg.

We're on Slide 5. Safety and environmental practices continue to improve over 2022. We ended the year with a 12-month rolling total recordable injury frequency rate of 2.12 and a 12-month significant environmental frequency rate of 0.63. I also want to add, we had no LTIs in Q4. These are just great results. We really want to—and it takes an effort by everybody, the whole company. We just want to say congratulations to all of our employees for making Equinox a safe place to work. It's really a great achievement for the year on safety.

For the year, we sold 532,000 ounces. It was really an investment year. We invested $456 million in growth development; $328 million of that was at Greenstone, $49 million of that was at Santa Luz to complete construction there. We also spent $43 million at Los Filos, that was primarily on Bermejal underground development and preparing the Los Filos open pit for its next phase. The $139 million we spent on sustaining items was primarily deferred stripping at Aurizona, Mesquite and Los Filos.

On Slide six, as Greg mentioned, we had a good quarter. We had our second highest output for the Company to date. We sold 149,000 ounces for revenues of $260 million, and an average realized price of $1,733 an ounce. As Greg mentioned, cash costs for the quarter were $1,223 and our all-in sustaining costs were $1,523 per ounce.

The interesting thing we saw during the quarter in relation to costs is while our costs are up significantly, if you look at it on an annual basis, 2022 versus 2021, or on a quarter-on-quarter basis, i.e., Q4 2022 versus Q4 2021, costs are up significantly.

The interesting thing that happened in the second half of the year going from Q3 to Q4 is we actually did not see much by way of cost increases. In fact, cost stayed overall relatively flat. We saw some increases in consumables, such as reagents in grinding media in Brazil and the U.S., which were offset by decreases in fuel. We're quite pleased to see that. It looks like costs have peaked sometime in Q3 and at least remained steady for Q4.

With respect to what that means for our financial metrics, we saw improvement in Q4, which we're of course happy about. EBITDA was $65 million, $75 million on an adjusted basis; net income of $23 million for earnings per share of $0.07; $7.5 million of income on an adjusted basis or $0.02 a share. Cash flow from operations also improved. Before changes in non-cash working capital, we had cash flow of $80 million or $0.26 a share. So, happy with the quarter.

With respect to liquidity and capital position, we ended the year with just over $200 million. We have 127 undrawn on our credit facility for total liquidity of $327 million. We did draw an additional a $100 million on the revolving credit facility during Q4. The market value of our investments at February 17th was about $220 million, and I'll note that we realized proceeds during Q4 of $52 million on Solaris share sales and an additional $20 million in the new year.

Net debt increased due to that debt draw to about $630 million. Just want to note a few other things or at least during Q4, we did other things to improve our balance sheet resilience. We filed the Base Shelf Prospectus with the ATM supplement—I should say, at the market supplement. I will note we have used $25 million of that aftermarket supplement, and through the end of January, we've paused that program since.

Also, something we did in the new year to help with balance sheet resilience and cash flow funding, we did put in place a strip of hedge collars for 20% of our production through the end of Q1 2024 that represents about 150,000 ounces. The floor of those collars is $1,900 an ounce, and they have significant upside opportunity up to a ceiling of about $2,065 an ounce.

Another thing we did in the new year is we worked with our lenders, and just completed late last week to retool our covenants on our revolving credit facility, which will take us through Greenstone start-up. We, of course, want to thank our leads, Scotia, BMO and ING, for working really constructively with us on that.

On our next slide, Page 7, what does that all mean for Greenstone funding? We think we've got about $340 million is our amount, our share to fund of the remaining budget, and that's going to be done through our existing cash of $200 million, our revolving credit facility of $127 million. There is a $100 million accordion feature also in place on the revolving credit facility.

We, of course, are using operating cash flows. We have about—to help fund Greenstone. We have about a $200 all-in sustaining contribution margin per ounce on that. Of course, as we've shown with our Solaris share sales since Q4, we have our investments of $220 million as a lever that we can pull to help with funding. We deem ourselves well-funded to complete the construction at Greenstone.

On to Page 8. We have our guidance for the year. Greg has already touched on it, so I'll just highlight a couple of things. First of all, the midpoint of guidance represents about a 70,000 ounce increase over 2022 production when you pull out the 14,000 ounces attributable to Mercedes that we sold last year. On costs, our view is that inflation has peaked. But the cost will stay elevated through the year. You can see that reflected in both our cash and sustaining costs.

Our view is also that the Brazilian real and Mexican peso, which are two of the better performing currencies against the U.S. dollar, will continue to hold their current exchange rates against the U.S. dollar. So that's factored in.

Seasonality will continue to weight production and cash flows into the second half of the year. We'll just make a couple final notes on sustaining expenditures. The $137 million we have there includes really only essentials on tailing facility raises, deferred stripping and equipment refurbishments that we need to do. Of course, the growth capital of $324 million is primarily Greenstone at about $275 million of it.

With that, I will turn it over to Doug to kind of run through what we're expecting for the upcoming year?

Doug Reddy:
Okay. In addition to the production guidance that we have, I'll also mention that all of our mines have been working on a program that involves continuous improvement, as well as consumable reduction and group purchasing initiatives. All of that is above and beyond what we've put forward for our production and cost guidance. We've also doubled down on our adherence and reconciliation of mine

plans, benchmarking and productivity improvement work, which is all geared towards achieving and beating what we've put forward.

Looking at the individual mines. Mesquite in Q4, we were mainly in a stripping phase for Brownie and Vista East. That will ultimately contribute to the ore going to the pads in 2023. Due to the emphasis on stripping in Q4, that means we had a relatively low number of new ounces going under leach in that period. For 2023, we have adopted a new mine plan that will see less stripping and smaller pits in order to reduce cost at Mesquite. We continue with exploration and permitting work at Mesquite for mine life extensions.

In Castle Mountain, in Q4, we were running with both run of mine and crushing and agglomeration of the material going to the heap leach pad. The plan is that we should be all going through crushing agglomerations, so we'll continue working on increasing our crush and agglomeration throughput. At the same time as working on the Phase 1, we have been advancing our permitting on Phase 2 and met test work in support of the Phase 2 work, and I'll come back to that later on.

At Los Filos, in Q4, we had a production impact related to a shortage of explosives that was caused by a strike at our explosive supplier. We also had some of the ore that was coming from the Guadalupe open pit, it had a higher copper content, which meant that it had a reduced recovery over the leach cycle. We're now separating that to be able to leach that separately from the rest of the ore feeds.

As we look at 2023, we continue mining in Guadalupe open pit and Los Filos open pit, as well as the Los Filos underground with 20% of the tonnes coming from the open pits. We will be suspending Bermejal underground, that's given the prolonged development period and the lower productivity than anticipated. Just to put it in context, we have developed down to the central zone, zone five of Bermejal underground.

We've accessed into it, and we've been mining from it, but we need to do significant additional development in order to have enough scopes in production at the same time to be able to achieve the 1500 to 2000 tonnes per day. In the meantime, we'll be looking at plans to be able to improve overall productivity and reduce the costs. We'll also look at the timing for this higher-grade ore to eventually be fed into a CIL plant.

In Aurizona, we had a longer than normal rainy season in 2022, and we relied on stockpile material more than usual, which meant lower grades go into the plant over an extended period. By the end of the year in Q4, we had an increase by our contractor of their mining fleet with an addition of nine 777s and an additional six articulated dump trucks. We had a higher total tonnes being moved as we worked towards removing—returning back to our mine plan.

In addition to the expanded mining fleet, we're also bringing in a second contractor who will come with 14 articulated dump trucks so that we continue mining at a higher level through the rainy season and have a stronger start once we come out of the rainy season this year. We want to build up our stockpile significantly during the course of 2023.

In Fazenda, the mine did very well in Q4 and for the year, open pit mining contributed to higher grades and tonnes overall, and offset the lower production that came from the underground mine this year. Throughput and plant recoveries at Fazenda were both above the overall plan and our exploration work at Fazenda continues to work on resource and reserve replacement. We also continued the exploration program in the Greenstone Belt between Fazenda and Santa Luz.

At RDM, we were processing low grade dump material in Q4, but we suspended processing in mid-December as we waited for permitting of the additional material for dump material at RDM. In January, we've restarted the in situ mining and we're using owner operated equipment. We also completed the TSF rays and we've begun permitting for a filtered tailing storage facility at RDM.

Looking at Santa Luz, Q4 was difficult. We had lower throughput due to the hardness of the ore. We also had a high sulphur content in some of the ore that impeded our recoveries. We also had to deal with the thiocyanate impact on the resin, which related to overdosing with cyanide. Each time that happened, it happened twice, it takes the system several days to be able to recover from that, and we have to regenerate the resin activity so it can perform properly again.

I will note, the resin leach plant is achieving higher recoveries overall than were possible by previous operators using carbon-in-leach processing. It is working, but we still are working through some of the issues. By December, we had changed our blending strategy and we also adopted a new fragmentation plan in the open pit, and that's enabled us to achieve a higher throughput. Also, since year end, we've seen an increase in stabilization of recoveries as we've come through January and February.

Moving on to Greenstone. Ultimately, Greenstone's going to become the cornerstone for Equinox. One of the largest goal projects in Canada. It's got a five and a half million-ounce reserve, annual production of 400,000 ounces and first production coming in the first half of 2024.

On to the next slide. We are on budget and on track. The project is 70% complete at the moment, and the team has just passed 2.5 million hours with no lost time injuries. So, a good record. They've also had great progress as you can see in the slide, with several of the buildings being fully enclosed. Mining started in Q3 with four trucks and one shovel, and we now have four additional trucks coming, and getting ready for use. The second shovel will be added in the second half of this year. We're 54% complete on the capital spend at the end of the year.

If you move to the next slide, you can see several more of the buildings. Four of the buildings are enclosed and heated, and next week we expect the last two buildings to be enclosed. The HPGR building is one of the two buildings that was just being finished off this coming week, and as well as the East End Mill building, which I'll note already has the roof on and a lot of the claddings already done in the photos I saw as of yesterday. So, it's progressing really well.

Moving on to the next page, upcoming milestones for Greenstone. The main ones are the buildings being closed this quarter, commencement of the ball mill installation. We will—n Q2, mechanical piping and electrical installation will be happening as we move inside the buildings. All the equipment will be on site in Q2.

In Q3, we're looking at pre-commissioning of the power plant and the crushing circuit. By Q4, we're completing the TSF and the highway relocation will be completed, in the first half of 2024 will be in commissioning and first gold pour.

Moving on to the next page. Our other expansion projects include Castle Mountain, where we'll see an increase in stacking to over 45,000 tonnes per day going to the leach pads and production of around 218,000 ounces a year over a 14-year life. We submitted the permit application in March. We continue working through the process of permitting. We'll see environmental review, and public scoping scope happening in the first half of 2023.

For Aurizona, we're working on the feasibility study, which involves mining from both the Piaba underground at the same time as we're mining from open pits. That feasibility study will be wrapped up in Q2.

As Greg noted, we have received permits for three portal locations. We have selected one for the initial ramp location, and we would look at establishing a exploration ramp that ultimately will allow us to touch into and mine on ore. At the same time, we would also be able to establish a series of exploration cut-outs so that we can do a drilling program from underground, and they would be dimensioned so that ultimately it could also serve as a production decline.

On Los Filos, we delivered the updated feasibility study for the construction of a 10,010 per day CIL plant. Reserves in that study were increased 44% after depletion was taken into account. But as we've noted previously, we will make a—we'll wait on making a construction decision while we're in a high CapEx period for Greenstone, and also while we work on our operational efficiencies and having stability with local communities.

I'm going to pass it back to Greg.

Greg Smith:
Thanks, Doug.

I'd like to briefly just acknowledge the Equinox team. We had some challenges in 2022, but the team has been doing a great job at navigating those challenges. We're in solid shape to fund the completion of construction at Greenstone, on budget, on schedule. A year from now, we expect to be commissioning one of the largest gold mines in Canada. We're also working hard to progress our growth projects, as Doug mentioned, manage our costs and improve our operations, and we're looking forward to continuing that through 2023.

I think I'll conclude there and pass it back Rhylin for Q&A.

Rhylin Bailie:
Thanks, Greg. Operator, can you please remind people how to ask a question?

Operator:

Certainly.

Rhylin Bailie:

Thank you. While they're queuing up, Scott, we've got an exploration question for you. I can see from your MD&A that you drilled about three, sorry, 30,000 metres at Aurizona this year, and it looks like you're going to start the underground in Q4. When will we see those results?

Scott Heffernan:

The 2022 program at Aurizona had three components. We did drill just under 30,000 metres. The first component was a few deep holes on Piaba itself to support the feasibility study that's been mentioned a couple times on the call so far. Those holes were looking at converting big areas of inferred resources to indicated to support reserve growth and also to address some geotechnical questions in the deeper portions of the mine. Those results will funnel into the feasibility study that will be released mid-year Q3.

The other two components included a regional program; approximately 7,000 metres on a number of targets across the thousand-kilometre square land package. But the majority of the effort was focused near mine, looking to hit targets both east and west of the job itself within the main trend to support mine life extension, targeting the shallow open pit targets, the multiple targets that we have there. Those results we'll look to release here probably in Q2, early Q2.

Rhylin Bailie:

Perfect. Thank you. Officer will take questions from the phone, please.

Operator:

Thank you. Our first question comes from Wayne Lam of RBC. Please go ahead.

Wayne Lam:

Good morning, guys. Just wondering at Greenstone, can you give a bit more detail on what you see as the bottleneck items or and the large items left to spend? Where have you seen some of the savings optimizations? Just curious, given the independent assessment completed last year, how has that reconciled the date and how much of the contingency has been utilized so far?

Doug Reddy:

In regards to bottleneck items, I'd say we always knew what our critical path was going to be. It's getting through to building enclosure and then starting in on the east end plant, east end of the process, plant building for ball mill installation.

We're four buildings done. The last two buildings finished off this week. We're starting in on installation. I would say going forward, that remains our critical path for most of this year. Obviously, productivity is going to be the issue, is to move to the more detailed piping and electrical inside the buildings. But the team's been very good at being able to adapt and compensate for where we have delays in one area. They'll turn around and work out how to adjust the program to be able to compensate for it.

Really, we're pushing through this spring to be able to maintain our schedule as we come into the summer where we're most productive, and then we get back into areas such as the TSF and some of the other Earthworks projects that we don't progress as much during the winter months.

Overall, I'd say very good against our overall schedule with minor things that they've been adopting and compensating for elsewhere within the overall construction.

Greg Smith:
Yes, it's probably worth mentioning, we expect to do another quantitative risk assessment. It's currently scheduled, I believe, Doug, for around April. We're looking forward to doing that, getting an update from an independent party on schedule and budget.

With respect to your other two questions, Wayne, savings optimizations, one of the bigger ones frankly is foreign exchange. The Canadian dollar, unlike the peso and the Brazilian—the Mexican peso and the Brazilian real, the Canadian dollar has been a little weaker against the USD, that's helping. It's probably one of our main areas. With respect to contingency through the end of last year, we've used about $120 million of it.

Wayne Lam:
Okay, great. Thank you. Maybe at Mesquite, I'm just curious, how should we think about the mine beyond this year? Is it kind of a case of a mature asset approaching depletion given the short reserve

life? Or how should we think about the future potential for reserve additions once you have greater capability to reinvest in the capital stripping there?

Doug Reddy:
For Mesquite, essentially, yes, quite right, it is a mature asset. Every year you'll hear us talk about a stripping program, and then we get into the ore. It's essentially, diving down into particular areas where we have to strip to get down to be able to mine the ore, and that's been cyclical and this year is no different where we were doing our stripping in the latter part of 2022, and then we'll benefit from that ore during this year.

We continuously are doing drill programs and looking at revised models to be able to improve the mine plan. It just happens that this year we have a lower number of ounces being produced, while we work through revisions to the mine plan to see what we can do to be able to put more on the table as we go forward.

Peter Hardie:
Yes. Down in the U.S. we had a, like everybody, pretty significant increase in costs. When we looked at the mine plans for Mesquite in 2023, it made sense to go with that smaller pit scenario to maximize cash flow over that period of time.

As we progress through 2023, we'll have drill programs on Mesquite, and then working to extend that mine life 2024 and beyond. But that requires some additional drilling.

Doug Reddy:
The other thing is obviously, permitting's always something that we're doing at Mesquite, and we currently have two heap leach pad expansion permits that we're working through, which we expect to get in the next couple months. Those obviously give us the opportunity to be able to continue to stack more. It's always add more pad space, while at the same time develop and permit additional resources so we can be able to convert them to reserves. It's a never-ending process.

Wayne Lam:
Okay, great. Thanks. Maybe just last one, just looking at the upper end of cost guidance across the

operations, it seems like a few of the mines have relatively elevated costs, near breakeven, especially in the first half of the year.

As part of the optimization review, is there any scenario where you might see improved economics for, say, putting Castle Mountain on pause, and reopening that with Phase 2, or maybe putting Los Folis on care maintenance and reopening that with the CIL construction, just given the higher cost of those mines?

Doug Reddy:

It's something we discussed, but there's more than one reason why we do Phase 1 at Castle Mountain. Obviously, coming into operation while we're in the permitting process is a good thing for us. We wanted to be back into production during that process, so we're present and working through everything that our operation ultimately needs.

It also means that, aside from having our footprint there, we're also able to move the essentially dump material from previous operators and to be able to leach the gold out of that. It actually works as a pre-stripping for us for the Phase 2. It's a good outcome. The third one is, we did want to get in and try the run of mine versus crush and agglomeration so we get an opportunity to be able to do a larger scale test by virtue of doing the Phase 1 operations at Castle Mountain.

Peter Hardie:

Yes, I think you also asked about Los Folis, Wayne, and Folis is a large mine. You know, it's very expensive to shut down a mine, restart a mine like that. I think it's fair to say our focus right now is trying to improve that operation, and we're working hard to do so. We've reduced some of the CapEx at Filos in the near term with the suspension of Bermejal underground. But that doesn't mean we're not very focused on the Guadalupe open pit and the Los Filos underground mine.

I don't think that that's on the table at all, and not something we're considering at this time.

Wayne Lam:

Okay, great. That's all from me. Congrats on the quarter, and nice to see things going well at Greenstone.

Rhylin Bailie:

Since we're talking about Filos, I'm going to jump in quickly and ask a question from online. Would you consider selling Los Filos since it's consuming so much capital?

Peter Hardie:

I mean, the quick answer is no. I don't want to speculate on any individual mine. We've got no plans in process. Obviously, in the past, we've been commercial on certain assets in the portfolio. We have sold mines in the past. But the challenge with Filos, and I think we addressed this in Q3, it's a huge deposit, a huge reserve resource, lots of exploration potential, permitted infrastructure. I mean, that type of a deposit's incredibly rare.

Parting with something like that would be pretty challenging. I think, again, our focus is working to improve that operation and optimize that operation and turn it into a long life, very valuable operation for the Company.

Rhylin Bailie:
Thank you. Operator, will take more calls from the phone lines, please.

Operator:
Our next question comes from Anita Soni of CIBC World Markets. Please go ahead.

Anita Soni:
Good morning and, thanks for taking my question. I just wanted to address first, you mentioned that you had retooled your covenants for the revolving credit facility. Could you give us an idea of what changes were made?

Peter Hardie:
Yes, Anita, it’s Peter. The covenants reflect more, I guess what you would call a company and development phase. We effectively took a very conservative case scenario, added a full turn, and adjusted accordingly. We're not going to disclose exactly what they are, but we're quite comfortable that there's plenty of room and covenants to see us through Greenstone construction.

Anita Soni:
Okay. You mentioned some of the deferrals that you've had, and I think Greg mentioned that the sustaining capital that you are doing in 2023 is the essentials only tailings lifts, etc. Would we expect to see a catch up in sustaining capital in 2024 and 2025? Is that fair to say?

Peter Hardie:

I think—some of the bigger, chunkier areas where we've deferred capital is Bermejal underground at Los Filos. That's a big one. To a lesser extent, stripping at Mesquite and those are probably the two largest areas where we've retooled the mine plans to reduce near term capital. With Filos, yes, I mean, eventually our intention is to get back into the Bermejal underground. We obviously want to develop, that's a big part of the future of Los Filos. That is capital we will eventually spend.

In the meantime, we're going to work to retool that program and increase the productivity and reduce cost. We will be back in Bermejal underground, exact timing of that is to be determined, but definitely at some point.

Mesquite, same thing. We've got drills going and continuing to operate that mine will involve stripping. I don't think we're working toward a giant catch up in 2024 that's going to be crazy or anything. We're trying to smooth that out over time. But you're always going to have that at Mesquite, stripping as Doug mentioned, to get down to the ore.

But otherwise, I don't think that we've carved out anything critical that we're going to have to be spending a whole bunch of money in 2024. Always looking at capital allocation decisions, and with Greenstone coming online next year, that obviously frees up some funds for additional CapEx.

I think, personally, I want to see us go underground in Aurizona, and that would be another area where we haven't budgeted in 2023 for any sort of a portal construction or decline. But on the basis of the feasibility study, as we move into Q4 this year, once the pit reaches that, the appropriate level in the west end, that's an area I think we'd like to start spending money on next year and even later this year. There's stuff that will come, but it's not a situation where we've carved out a bunch of necessary stuff and kicked it down the road.

Anita Soni:
Sure. Bermejal underground though was—that was in development capital, right, not sustaining?

Greg Smith:
It was a mix primary development.

Peter Hardie:

I'm saying capital generally.

Anita Soni:

Yes, capital generally. I was just wondering if there was anything sustaining that I should be thinking about that might need to get done in the next two years if you're not doing it this year. In terms of Santa Luz, what kind of recovery rates are you assuming when you guided for this year? I just want to understand where you think the recoveries are going over the course of the year.

Doug Reddy:

For the budget, we backed it off to focus on getting stability. We were looking at achieving a minimum of 65% in the first half of the year, 70% in the second half of the year. As we came through December and changed the plan, we were at 62% in January, and we're over 70% in February. But the key is stability. A big key thing to that was ensuring our makeup water coming back in from a water storage dam was zero or less than 0.5 ppm cyanide, which is a real hindrance to activity of the resin.

Now our system's working properly with all the detox. We saw that that was really helping to be able to establish a good activity on the resin.

Anita Soni:

Okay. Last question was reserves and resources, did I miss that last night? Did you guys update it yesterday or is that coming later on?

Greg Smith:

No, we did not update our global resource reserve statement yesterday. Looking forward throughout the course of the year, there won't be a single consolidated update. They'll be updated as available and as studies are complete. Most of our projects are in a study state versus a steady state.

Peter Hardie:

Consistent with what we've been doing over the last number of years, Anita. I think at some point in the future we do want to get to a one time annual global update, but what we've been doing is as and when those updates come available, we report it, we integrate it into our consolidated reserve and resource summary on the website. That's what we've been doing and probably will be continuing to do for another year or so until we get to the point where we've harmonized everything and do an annual update.

Anita Soni:

Okay, thanks. I was just calling from the context of a lot of people are updating their gold price assumptions and then also cost assumptions, so it would be good to have a sort of reset on that. Can you just let me know what the interest rate right now is on your floating rate debt?

Peter Hardie:

Combined, it's about 7.5%.

Anita Soni:

Is that fixed and floating, or just the floating?

Peter Hardie:

Sorry, that's just the floating. Pardon me.

Anita Soni:

Okay. All right. Thank you, very much.

Operator:

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

Kerry Smith:

Thanks, Operator. Just to follow-up on Anita's question about the reserves and resources, would you just generally—as a ballpark, would you expect that you replace depletion in your reserves and resources overall for the company on a year-over-year basis or kind of unchanged? Or do you think they're going to be down a bit or up a bit? how would you generally point us directionally?

Greg Smith:

Yes. Primary goal with the exploration and drilling has been to replenish reserves as again, a primary goal. Secondarily, a lot of our assets have been under capitalized over the last three, five years. There's a real need—real push to build up the resource base. The exploration has been pretty aggressive in that respect in Santa Luz. There'll be a lag before we're kind of getting beyond replacing reserves, resources on an annualized basis, but the hope is that with the significant exploration expenditures that we put into the ground for the last three years now that two, three years from now that will be paying off with substantive resource and reserve growth.

Kerry Smith:
Okay. On the Casa—this is for Doug actually. On the Casa Mountain Phase 2 permit application, given that you're now switching over to a hundred percent crushing agglomeration for Phase 1, is there any thought that you need to revisit the assumption in the Phase 2 feasibility, which only looked at run of mine? Or are we expecting that at some point maybe you may have to add some crushing agglomeration, or are you pretty confident that Phase 2 will just be a run of mine operation?

Doug Reddy:
No, Kerry, we're quite confident that we get better performance overall through the crushing agglomeration for the material that we're currently processing. But remember, we're dealing with dump material, and we're doing a lot of work to metallurgical modeling on Castle Mountain and lots of additional met test work for the in situ material.

If it were all the same material, we would be doing crush and agglom for Phase 2, but that's why we're doing the additional met work, the geometallurgical modeling because we want to make sure that as we look at in situ material, that we're treating it the right way.

It is part of the work we're doing in the background. We don't anticipate it'll change anything in regards to our footprint overall, but we're looking at all opportunities to be able to see whether we can optimize and also prove out everything that we've done in previous test work and concepts.

Peter Hardie:
Kerry, recall that in that feasibility study, you do have a portion of the material reporting to a small mill in

the highest-grade material. We are looking at potential scenarios where you would ditch that mill, not be required to triage the different ore grades and just put it through one circuit.

That is something that we are kind of looking at and doing some trade-off studies on. If there's an opportunity to simplify the overall operation and flow sheet, reduce some capital, that's something that's pretty interesting to us.

There is some work being done on that. Nothing confirmed and that'll progress over the course of the year. I can confirm that our permit application does contemplate pretty much any sort of modifications we want to make to that flow sheet. We would not have to go back and do any re-permitting compared to what we've already submitted.

Kerry Smith:
Okay. That's all covered off in that application then?

Peter Hardie:
Yes.

Kerry Smith:
Got it. Okay. The other question I had was at Mesquite, you reduced the strip ratio in 2023 to lower the cost just to help with the cash flow in the short term here. Does that impact 2024 mine plans and what sort of in-house mine plan do you currently have for the life of mine for Mesquite? Do you guys model three years or two years? How do you actually model it internally?

Doug Reddy:
We continuously remodel it. The mine plan that we have in the budget, it's already—we're already working on a revision to that. What can I say? It's building in the latest information as it comes in from exploration and as we get permitting. I know it will change from the budget mine plan.

Peter Hardie:
I think, it's fair to say we're working on a mine plan for next year that would bring production back up to previous levels. But there's work to be done on that, Kerry. We had to adjust the mine plan this year. In the United States especially, we saw really significant increases in diesel, cyanide, explosives, all the major input costs at Mesquite, right, that have an effect on production there and cost of production there.

This year kind of takes that into account. Internally here we're working on what can 2024 look like, given the current cost structure and this year's mine plan, what will that do for next year? We don't have guidance on that yet. That'll progress over the course of the year. Later this year we should have some more information.

Kerry Smith:

Okay. But would it be fair to say that the operating team at the site at Mesquite have a three-year mine plan that they're working against? Or is it one year then? Is it like just 2022?

Peter Hardie:

If you didn't have any permitting timeline constraints, then it's very easy to model out a multi-year mine plan, and we'll also throw five years plus out there. But there is timing differences between—in terms of leach pad expansion eventually proceeding to the west, right? There's a highway there that we'd want to move, or sorry, to the east and other areas of the site that would need some permitting in order to continue on a plan that would utilize all of the resources that we currently have.

A constraint is not really the deposit itself, it's actually the permitting timelines around some of that expansion opportunity at Mesquite. When you model that out you can kind of play, and the goal for us is continuing with the permitting that we need to do and want to do, while filling in those gaps as best as we can. As Doug said, it's kind of a continuous process at Mesquite, and has been since we bought it.

Mesquite's been a great mine for us. Since we've acquired it in 2018, it's made us money every single quarter, I think, except one. We've recovered our acquisition costs, well above our acquisition costs. It was a great—it's been a great mine for us and continues to be. It's important for us to see it continue and that's kind of been our process all along, just with a mature asset like Mesquite that requires additional permitting.

Kerry Smith:

Okay. That's helpful. Kind of the same question at Los Filos with the deferral of the Bermejal shutdown at the underground of Bermejal, does that impact the long-term plan there in any significant fashion?

Doug Reddy:

Well, it doesn't actually—I mean, essentially because Bermejal would've been a pure net investment for this year, it actually alleviates some of the cash drain that Los Filos would have this year. Deferring it gives a couple of opportunities. One, we need to change our productivity there to be able to make it so we can get to the 1,500 to 2,000 tonnes per day that we need. It's just prolonging the pain by doing the development at such a low productivity rate.

The cost per tonne were just coming in too high as we were mining in the initial stokes. It also gives an opportunity for that higher grade material to be able to go to a CIL. We know that by sending it to a heap, bleach it means that certain material you have to leave behind because it's not suitable for going to a heap leach, but you can process it in the CIL. That approach for us just means that we'll push it off. Meantime, we'll look to restructure how we'll deal with Bermejal underground.

Peter Hardie:
The near-term effect is you have a bit of lower production because we're not mining those ounces, but we actually save on free cash flow at Filos because of the deferral of capital. Longer term, as I said, we're going to go back into Bermejal underground eventually. The long term plans for the mine, of course, include Bermejal underground.

As Doug said, if that material's going through a CIL plant, you're obviously getting higher recovery than you would just on the heap leach itself. There is an economic tradeoffs study to deferring it where you're going to get those higher recoveries once you've put that CIL in place.

Kerry Smith:
Right. Okay. This last question for me then quickly, this explosive strike that your supplier had at Filos, I assume that's behind you now, and I just wondered if you could maybe give a little bit of an update on the pulse of the three communities and how all of that's been going, Greg?

Greg Smith:
Yes, that explosive strike was long past. It was—earlier affected the earlier part of Q4. So that's done. Pulse in the communities, well we're doubling down on our efforts to be in dialogue with the communities. Obviously, Bermejal underground will be another point where we'll be talking to all of the communities.
We've tried to make it clear that there's—it is a partnership. It's a dialogue that we need to have and we need to be able to work collectively on our relationship and be able to see what can be a bright future at Los Filos, but it involves everybody working together.

Peter Hardie:
We've increased and strengthened, I would say, our community relations team at Los Filos, including in the last few months. The informal feedback we're getting is that communication has improved quite a bit, this coming from the communities. It's been a good five or six months so far. We're putting a lot of effort into that relationship, that communication and as Doug said, making sure that everyone acknowledges and recognizes that we're partners in this project.

It's been good so far, Kerry, but we've had those challenges in the past and I can't necessarily say they won't manifest in the future, but we're certainly working hard with the communities to mitigate that.

Kerry Smith:
Right. Okay. I'm assuming, Greg, that the communities were told a while ago that the Bermejal underground was going to be shut down, so there was some jobs that were going to disappear. That's not new news today for them, right?

Greg Smith:
It's officially news today, I suppose, but there's been more informal conversations around the cost profile of Filos and that it can't persist indefinitely under this basis and that some changes are going to need to be made. So action's going to need to be taken.

Kerry Smith:
Okay, got you. Okay. Thanks, guys. Appreciate it. Great quarter.

Operator:
Our next question comes from John Sclodnick of Desjardins. Please go ahead.

John Sclodnick:
Thanks, guys. Most of them have been answered. Just a couple from me. Impressive gold collar

contracts, and just wondering what changed your stance on gold hedging, and if there was maybe a push from the lenders and finally if Mubadala was good with that?

Peter Hardie:
It's Peter. Good question, John. At the end of October, in October gold was below 1700. It had, as we all saw, a very rapid rise right through the end of January. We have a capital-intensive year again this year, especially to fund construction at Greenstone. With the way gold had continued to rise through January, as a management team, we just wanted to take an opportunity to lock in some cash flow.

That was the change in the thinking, particularly given the floor and the quite high ceiling, and that was just kind of a function of the curve as a result of three months of steady uptick in gold, I suppose. Given that large spread that allowed us to, or will allow us to enjoy a higher gold price through the end of Q1 next year with those collars, we just thought it was a really prudent thing to do and the fiduciary, really responsible thing to do.

With respect to lenders, and with respect to Mubadala they, of course, were quite supportive. Generally speaking, they like to see hedges in place during a capital intensive period.

I think, John, if you kind of look back over the last four months or so, it's just one more action we've taken of many, maybe incrementally smaller actions, but collectively designed to ensure that we've got enough resiliency in our cash flow profile, our balance sheet to absolutely ensure we get across the line on Greenstone, and get to commercial production next year.

We've done a number of different things. That's one more part of it. It wasn't without consideration. We had just rolled off all of our hedges from the legal transaction, and we're kind of high fiving on the back of that, and gold was going up, and then when we looked at what that collar looked like and rationalizing it, we're like, well, listen, if we put this in place in gold runs, then hurrah anyways, right? It's going to be great. If it doesn't, at least this introduces some risk mitigation and cash flow and EBITDA protection over the next year and a half while we complete this build.

That was kind of how we rationalized it. It was opportunistic. I think if we had waited one day later, we would've got maybe a slightly higher collar. But since that day we kind of printed the top of that recent bump and we're sitting here pretty happy that we put those in place.

John Sclodnick:

Yes, no, makes sense. Great levels to get in that. That was impressive and nice risk mitigation there. Last one for me, just at Castle now, I'm just curious how long kind of the status for the Phase 1 operation could continue before additional permits are required.

Peter Hardie:

Probably 10 years plus. Because you could just keep—once you get through the dump material, you can get into in situ. It's a pretty small operation given the size of the overall resource there. We've got plenty of headroom. I think in the past we've communicated around nine years or so, but we have no intention of riding it out that long.

Again, it's impossible to pin down exactly the timing of receiving that permit. I like to say mid next year plus or minus six months, maybe it's more plus six to eight months than the minus. But we're certainly pushing and trying to target having that permit sometime in 2024 so that we can get busy on expanding that line.

John Sclodnick:
Great. Okay, that's great. Appreciate you taking my questions.

Operator:
Our last question is from Mike Parkin of National Bank. Please go ahead.

Mike Parkin:
Hi, guys. That actually brings up a bit of a good question is how would you rank order your project pipeline in terms of assuming this kind of gold price environment? Where would you look to deploy capital after Greenstone first? Is it Castle Mountain Phase 2 or something else?

Peter Hardie:
Yes, I mean, it does come down to capital allocation decisions. In the context of the gold price and cost environment in the future we've made those decisions. But it's pretty fair to say, you look at our portfolio, you've got some smaller assets and then we've got some bigger, longer life chunkier assets and that would include Greenstone, obviously, Castle Mountain, Phase 2, Aurizona, especially with the addition of the underground and of course Los Filos.
As mentioned earlier, we're very keen to get underground at Aurizona and start to build out that mine. That's something I think, we're actively working on being in a position to start after Greenstone is back up and running or is up and running. Castle Mountain absolutely is one we want to get into the expansion of. The only one that is probably ranked lower right now is Filos. It's a big nut to crack. Its had a higher risk profile and we've got to do more work there.

As we've continued to say before, we're ready to start investing heavily at Filos. Greenstone's happening, Castle Mountain I think will happen as soon as we get the permit. Aurizona, subject to results of the feasibility study and where we stand in terms of available capital by the end of this year, is something I think we'd like to get into as quick as we can.

Mike Parkin:
Okay. Maybe just one last question back to Los Filos with the Bermejal underground suspension. Does that impact any of three communities far more than the others?

Doug Reddy:

Yes, it would affect Carazolio more than the other two communities.

Mike Parkin:

Okay. Thank you, that's it for me.

Rhylin Bailie:

Thank you everybody. We're actually out of time and didn't have a chance to get to any of the online questions, unfortunately, so we will get back to you later today by email. My apologies for that. Greg, do you have any closing remarks?

Greg Smith:

No. I think, just thanks again everyone for attending the call, and for the well-considered questions. Again, you can always reach out to any of us by email or by phone if you have additional questions or comments to make.

Rhylin Bailie:

Thank you very much everybody for joining us today. Operator, you can now close the call.

Operator:

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