Equinox Gold Corp.
Third Quarter 2023 Results & 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 Third Quarter 2023 Results and Corporate Update.

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

After the presentation, there will be an opportunity to ask questions. 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, then zero. If you are participating through the webcast, you can submit a question in writing by using the textbox in the lower left corner of the webcast frame.

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, Cherise, and thank you, everybody, for joining us this morning to discuss our Q3 results.

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

I will now pass the conference over to our CEO and President, Greg Smith.

Greg Smith:
Thanks, Rhylin. Good morning, and thanks everyone for joining the call today.

On the line 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.

Again, today we're discussing Equinox Gold's 2023 third quarter financial and operating results, but I'll just start with a broad overview for the quarter and then turn the call over to Pete and Doug for more details.

This was a record third quarter for the Company in terms of gold sales and revenue. It was just over 148,000 ounces of gold sold, at a realized gold price of $19.17 per ounce. Cash costs per ounce sold was $13.63, with all-in sustaining costs per ounce sold of $16.03. I would note that these costs do include a write-down of inventory at Los Filos, which totalled approximately $70 per ounce on a consolidated basis.

For the first nine months of the year, we sold 409,000 ounces at a cash cost of $13.57 per ounce, and all-in sustaining costs of $15.95 per ounce. These also take into account the inventory write-down at Los Filos. These results also reflect record sales for the Company for the first nine months of the year, and we remain on-track to meet our 2023 production and cost guidance.

In September, we had a site visit to our Greenstone mine in Ontario. That included our analysts, our lenders, and some of our shareholders. Just a reminder that Greenstone is being developed as a joint venture in cooperation with our 40% joint venture partner, Orion Mine Finance. Again, the site shows very well, and it was a great opportunity for all the visitors to see the site and the progress in-person. All of our analysts attended, so there are fairly recent analyst reports out there, and you can get in touch with Rhylin if you'd like to see any of them. The full site tour deck is also available for download on our website, and you can track progress in the Greenstone photo gallery which we update weekly.

Greenstone continues to progress very well. As of September 30, we were 93% complete overall, with construction 92% complete. Doug will have more on Greenstone, but the punch line is, the project remains on budget and on schedule.

I want to take a quick minute now to talk about the convertible note financing we closed in September. To remind everyone, we announced $150 million convertible note offering on September 18 with an annual interest rate of 4.75%, a five-year-term, and a conversion price of US$6.30 per share. With the overallotment being exercised, we closed the total financing of $172.5 million.

As many of you on the call would've noted, the market did not react positively, but we strongly believe in the merits of this financing. The new notes have a lower interest rate, a higher conversion price, and a longer term than the existing convertible notes that mature in April 2024. We've secured better terms for the Company and mitigated the risk of having to cash settle the April 2024 notes if they mature out of the money.

In the interim, in early October, we did use the proceeds to partially pay down our revolving credit facility. This results in substantial interest savings to the Company while ensuring the funds are available to settle the maturing note in April, if needed. With that financing closing just prior to quarter-end, we finished the quarter with an unrestricted cash balance of approximately $357 million.

Before I hand the call over to Peter Hardie to run through our financial results, I want to take a moment and thank François Bellemare for his contributions to the Company as a Director of Equinox since January of 2022, but François has actually been in the mix at Equinox since several years before then. At the same time, I'd like to welcome Fraz Siddiqui to the Board of Directors as the new Board appointee through Mubadala Investment Company.

With that, Pete, I'll turn it over to you to discuss our financial results.

Peter Hardie:
Thanks, Greg. We're now on Slide 5 of the presentation.

For Q3, for the 149,000 ounces sold, we received an average realized price of $19.17 per ounce, generating $285 million in revenue. We had $201 million in operating expenses in the quarter, which has increased compared to the $193 million of operating expenses from Q2, and an increase compared to last year's quarter, which was $189 million. The increase is primarily due to the contribution of operating expense at Santa Luz and higher operating expenses at Aurizona and RDM as a result of higher production, with RDM achieving its highest quarterly gold production since Q4 of 2020, offset partially by lower operating expense at Mesquite as a result of lower production.

On a per-unit basis, our cash cost per ounce of $13.63 is consistent with the previous quarters of this year. Our all-in sustaining cost per ounce of Q3 is in line with Q1, and it increased as planned from Q2 thanks to additional sustaining spend at Aurizona and deferred stripping and tailings facility work, which is a typical Q3 activity at that operation. When compared to last year, cash cost per ounce decreased in Q3 to $13.63 from $13.91, and all-in sustaining cost per ounce decreased to $16.30 from $17.51.

One of the trends we've seen this year is an increase in leach pad inventories. We've seen a year-to-date increase of $130 million in those inventories related to an increase in ounces on the pads at Mesquite and Los Filos. For Mesquite, most of the increase occurred during Q3. At Los Filos, the increase occurred in the first half of the year. During Q3 at Los Filos, we saw an overall drawdown of pad ounces. Doug will speak to leach pad dynamics during his review of the operations.

We're seeing decreases in input costs in Brazil and Mexico from Q2 of this year. There was an increase in the U.S., though, which was driven by higher fuel prices. In Mexico and Brazil, some of the benefits of decreases in unit input costs are offset by stronger performance in the local currencies against the USD.

Equinox manages its foreign exchange exposure with a corporate hedging program. Year-to-date, the Company has realized gains of $26 million on its peso and real risk management. Those gains are recorded below the line in Other Income and are not included in our Company's mine operating earnings or cash and all-in sustaining cost metrics. Had those realized foreign exchange gains been included with mine operating earnings, they would've decreased cash and all-in sustaining costs by $76 an ounce for Q3 and $63 an ounce on a year-to-date basis. Those savings are attributable, about 60% to Los Filos and 40% to the Brazilian operations.

Our EBITDA in Q3 2023 was $65 million or $81 million on an adjusted basis. We had net income of $2 million for basic and fully diluted earnings per share of $0.01. Included in net income is an income tax recovery of $8 million.

On an adjusted basis, we had net income of $29 million or $0.09 a share. The differences between net and adjusted income include $18 million for unrealized losses on foreign exchange contracts, $11 million in unrealized losses recognized in deferred taxes, and $6 million for unrealized gains on gold contracts.

Cash flow from operations before changes in noncash working capital was $83 million or $0.26 a share, which is entirely in line with our Q2. With respect to our remaining sustaining spend, year-to-date, we spent $77 million and we expect to be a little under our guidance for the year by the end of the year, of $136 million.

Moving to Slide 6, in terms of liquidity and capital position, we ended the quarter with $357 million of unrestricted cash, which includes the net proceeds of the convertible bond that Greg already discussed. Yesterday, we closed a $75 million long-term prepay arrangement with funds provided by Sandbox

Royalties and Regal Resource Royalties in exchange for delivering 90,000 ounces of gold over 15 years, with monthly deliveries the greater of 500 ounces a month or 1.8% of Greenstone gold production. The gold deliveries can be satisfied with production from any of our mines, and they start next month. We will receive 20% of spot gold price for every ounce delivered, and we have the option, at any time, to buy down as much as 75% of any undelivered gold ounces for spot gold, assuming a minimum price of $2,000 per ounce.

With respect to Greenstone, we are ahead on spend. Our guidance for the year was $277 million and we've spent $270 million through Q3, with $90 million spent during Q3. Based on construction progress to-date, we believe construction spend will decelerate, and our share of the remaining construction budget is about $80 million to $85 million, which is about $140 million on a 100% basis.

We expect to fund our remaining share of the spend through our cash at the end of the quarter, our operating cash flow, and the proceeds of the $75 million long-term prepay that we just closed. Additionally, we have the $100 million accordion feature on our revolving credit facility that remains available and undrawn. Finally, we have other levers in our inventory portfolio and ATM, should they be needed. I will note we have not drawn on the ATM since January. With those sources of liquidity, we believe we are well-funded to complete Greenstone construction.

I'll turn things over now to Doug for a review of the operations.

Doug Reddy:
Thanks, Pete. We're on Slide 7 in the presentation.

At Mesquite, during Q3, the mine switched from waste stripping to ore movement and stacked 7.6 million tonnes on the leach pad. The strip ratio reduced from 2.0 in Q2 to 0.6 in Q3. Those stacked ounces began to come under leach during the quarter, so now we're waiting for them to start coming off the pad in Q4.

Early in the quarter, actually the end of Q2 and into the start of Q3, there were issues with precipitation of a magnesium silicate, and also low pH levels were caused by a re-leaching of some older areas of the pad. Both of those were addressed and resolved during the quarter. The site has also been working on a plan to mine the Ginger deposit, which is a new zone that's next to the Brownie pit. We look forward to seeing how Ginger can come into our mine plan going forward.

At Castle Mountain, crushing and agglomeration throughput continues to improve. We were at 67% of the ore being crushed before it's being stacked. We continue to make up the difference with a run of mine ore which does have a slower percolation rate and a lower overall recovery. We are working on additional modifications to the crusher that will end up with improving overall throughput. Scaling and the drip lines on the leach pads did occur at Castle Mountain in the quarter, and those have been addressed and resolved.

At Los Filos, a productivity improvement program in the open pits and the underground mines has been underway from Q1 onwards. That program has seen a strong increase in the total tonnes being moved year-on-year and a reduction in dilution from the underground, and at the same time delivering more ounces overall to the pads. Eighty percent of the ore is coming from Los Filos, Bermejal, and Guadalupe open pits, and the underground ore is from the Los Filos underground only.

On the leach pad, we had delays in gold recovery, as noted in Q1 and Q2, but we're starting to see those ounces drawdown in Q3. One of the areas was a previously reported problem with broken leach pad piping. That was fixed, and we believe all of those ounces have now come off the pad in that area.

We also had some areas with carbonate precipitation in an area where the pH had gotten very high. That was in preparation for the rainy season, where there was a drawdown of the overall solution on the pad. The area with the carbonate precipitation has now been turned and is being re-leached, so that's been addressed.

Then, the higher-grade ore with copper content continues to be separated. That receives a higher cyanide dosage and a long leach cycle time. For clarity, this impacts less than 14% of the recoverable ounces that have been stacked year-to-date.

More recently, the mine sustained no damage as a result of the hurricane that devastated the coastal region around Acapulco. Our employees at Los Filos have initiated a voluntary donations campaign. That's in an effort to support the affected families in Acapulco and other impacted areas, and Equinox Gold will be supporting this effort.

On the next page, in Brazil, all of our mines have had tailings storage facility construction either recently completed or currently underway. As Pete noted, this is the time of the year where we do the big push on all of our tailings facilities. That's reflected in our sustaining capital expenditures for each of these mines.

At Aurizona, Q3 production was higher than the prior quarter as they mined more tonnes and had access to higher grades. We continue mining with a second contractor on the site. That's to help move more waste and help build up an ore stockpile for the coming rainy season. Currently, we're at over 400,000 tonnes on the stockpile. We've largely caught up on waste movement, with almost 8 million tonnes being moved in the quarter.

Fazenda was mining from a combination of open pit and underground sources. Underground mining was up on both tonnes and grade in the quarter, and the feed grades going into the plant, plus the plant throughput was above plan, so a very good quarter at Fazenda.

Drilling was over 16,000 metres in the quarter; this is in the underground. That brings our underground drilling to over 39,000 metres year-to-date. That's focused on reserve replacement. That's been a successful program for the last half-dozen years and is looking to be the same for this year as well. Exploration overall in the Fazenda, Santa Luz, Greenstone belt continues on several promising targets.

At RDM, the mine achieved its highest quarterly gold production since Q4 of 2020, primarily due to sending higher-grade in situ ore to the plant. You'll recall that much of the previous year we were supplementing feed to the plant with low-grade stockpiles, so we've been able to focus more on the in situ ore. The RDM team has been doing a great job in mining with owner-operated equipment, and that's a combination of our trucks plus additional rented trucks.

RDM has also been in the permitting process for a filtered tailings storage facility that was submitted at the start of the year, so we're looking for that to come through sometime the end of the year or into the new year, but it doesn't have an impact. We have sufficient space to carry on, in any case.

Santa Luz continues to work on changes to overall recoveries. They were running at 67% in the quarter. We've been running just shy of 70% in October, so it's the small changes that make a difference at Santa Luz. I'll note that, in the quarter, the total organic carbon content of the plant feed was running higher than planned, but we did have recoveries well into the mid 70s when the total organic carbon levels were being fed in.

Our work continues on increasing overall recovery, increasing the throughput, and being able to feed ore with higher total organic carbon into the plant. One of the initiatives that we're currently working through engineering work, and we've done a lot of test work on it already, is the impact of de-sliming of carbon from the ore that's currently being fed. We see that this will result in an overall enhancement to recovery. Essentially, it's removing the highest carbon portion of the ore, and the remaining mass, therefore, ends up with the improved overall recovery.

Moving on to Greenstone on Page 9, full-scale construction of Greenstone was announced in October of 2021. Two years later, the project remains on budget and on track for H1 2024 production. We are fortunate to have a very experienced and focused, diligent team at the site. This is a great photo showing the progress in the last two years. In the foreground is the ore storage dome. On the left-hand side is the primary and secondary crushing building feeding into the HPGR building that's near the centre of the photograph. Behind the HPGR is the truck shop and warehouse building, and on the right-hand side is the mill building, process plant building, with the thickener in the foreground of the building and the leach tanks to one side. In between the thickener and the ore storage dome is the onsite power plant. The project had one LTI in the quarter and has had over five million hours worked so far.

Moving on to Page 10, progress at the site as of September 30, the overall project is 93% complete, with construction at 92% complete. Procurement's 90% complete, and then mechanical piping and electrical, those are the big focuses at site as we reduce the personnel onsite in the fourth quarter. This is how the Construction team will start to ramp down as our Ops team has been building up towards pre-commissioning and commissioning. The capital spend is at 89% complete.

On Page 11, process plant is 91% complete. Both ball mills are mechanically complete, conveyers installed, belt installation underway, crusher, reclaim, and HPGR substantially complete, and the hydro testing and leach tanks has been underway. Our pre-commissioning activities are underway in several areas. The power plant is already complete and has been pre-commissioning. It's fully operational. The pipeline is commissioned and operational. We will be switching over to powering portions of the plant during Q3; the full transition happens in Q4.

The tailings facility is 94% complete. The South portion is complete to the final elevation, 340 elevation. Buttress work continues. It is on schedule for a completion and ready for use in Q4. There's a list of additional infrastructure over to the right. I'm not going to read that through; suffice to say that the key areas that remain are the tailings storage facility and the process plant. We've already done the realignment of Highway 11; that was open for traffic in August of this year, and we've relocated the Ministry of Transportation petroleum.

Going to Page 12, looking at key milestones, as noted, the highway is open. The process plant is 90% complete and we've moved into pre-commissioning, so our Operational Readiness and Commissioning teams are in place and very active onsite. In Q4, the big focus is the mechanical piping and electrical installation, and then we move into wet commissioning on the process plant. The TSF, as noted, will be ready for use and pre-production mining ramps up, we'll have 800,000 tonnes on the stockpile. Currently, it's over 400,000 tonnes on the stockpile. The mining fleet will be augmented in Q4 with six additional trucks, bringing our fleet to 14. Then, we'll continue adding trucks to the point where we're at 22 trucks by Q3 of next year. H1 2024 will see hot commissioning, first gold pour, mining at 145,000 tonnes a day and the build-up of the ore stockpile.

Looking at our other expansion projects, Castle Mountain is in permitting. The application was submitted in March of 2022. In the meantime, we continue with our optimization work. We're doing additional met test work and we continue with frontend engineering.

The Aurizona expansion will see concurrent mining of Piaba underground, along with Piaba open pit and other nearby open pits such as Tatajuba and Genipapo. The engineering work continues on supporting infrastructure, for example additional power that's required for vent fans and supporting the underground. The underground portal development will happen in 2024. The ramp provides drill stations. We will be doing test mining, and it provides the basis for future production.

At Los Filos, the CIL plant would add life and improve overall recovery. We're looking for the conditions that are conducive to investing in the construction and the extension of the mine life. In the quarter, we have met with communities. We've started the dialogue, and that needs to involve all parties. We'll need everyone to be involved so that we can—all stakeholders to be involved so we can put Filos on the path towards being able to invest in the CIL, additional stripping, and ultimately extending the mine life.

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

Greg Smith:
Yes, thanks, Doug.

Rhylin, why don't we move on to Q&A?

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

Operator:
Certainly. Once again, 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 speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. If you are participating through the webcast, you can submit a question in writing by using the text box in the lower left corner of the webcast frame. We will pause for a moment as callers join the queue.

Rhylin Bailie:
Sure. I've got a couple questions online, and we'll take one of those while we're waiting for people to queue up. First question here, why do the convertible notes now? Why not wait until the spring when the 2024 note was coming due?

Greg Smith:
Yes, I'll handle that one, Rhylin. As you noted, in April 2024, we had a $140 million convertible note that was maturing. The Company has been involved in a large capital program for the last two years in building Greenstone, and we did not want to be in a position just as we're in the heat of commissioning and ramping up Greenstone, where we had to make a $140 million debt payment. We've been pretty clear in the past that we wanted to get ahead of that maturity, effectively refinance that note, and so we've been looking at a number of options to do that.

Why now, why September? In a large part because the market was cooperating, the terms were very attractive in the context of the note that was maturing. Again, much higher conversion price, lower interest rate, and of course you get the extension of the term. We were able to do it in market conditions that were favourable to the Company at a period where we were able to then park those funds on our revolving credit facility and save a fairly material amount of interest, the delta in the interest between our revolver and the convertible note over the period of time between now and maturity of the April 2024 notes.

From our perspective, we're focused on the things we can control. We don't know where the gold price is going to be, where the market's going to be in April 2024, and so to mitigate having to make that payment in cash, if those notes matured out of the money, we wanted to get well ahead of that. That's why we executed on those notes in September.

Rhylin Bailie:
Perfect, thank you.

Operator, can we go to the phone lines now, please?

Operator:
Certainly. The first question comes from Wayne Lam with RBC. Please go ahead.

Wayne Lam:
Yes, thanks. Good morning, everyone.

I'm just wondering, maybe at Los Filos, just wondering what the expected leach cycle is now for those delayed ounces beyond the 60 days? I guess, given that it's been a couple quarters now, should we be expecting a big catch-up in ounces coming off the pad in Q4?

Doug Reddy:
For example, the longest leach time is on the high copper ore, so that's 120-day overall leach cycle. Yes, it's a longer, call it drawdown of those ounces will go through Q3, probably into Q4 for those ounces. We had hoped that it would be quicker and it would all come out in Q4, but it's likely going to drag into 2024.

Wayne Lam:
Okay, great, thanks.

Then maybe related to that, it looks like the heap leach inventories have built up by quite a bit this year. What proportion of that number is related to Los Filos versus, say, Mesquite and Castle Mountain? At what point in time would you have to consider taking a bigger write-down on those inventories if they don't come off the pad? Would that come with impairment testing at year-end?

Peter Hardie:

Yes, Wayne. About two-thirds of the build-up is at Mesquite, and most of the build-up at Mesquite occurred during Q3, which was frankly planned with the stacking activity and our budgets for the year. I'll note that, at Los Filos during the year, we saw a net drawdown overall of the ounces. The ounces that we had expected a little earlier in the year, we have started to see those come through during the year, and as Doug just mentioned, we hope of course that that continues. It's just taken longer than we expected.

Doug Reddy:

One of the things to note at Mesquite is we saw an opportunity to optimize our mine plan a little bit, which meant a bit more stripping to get more ore. That pushed us out a little bit. We knew it was a risk that some of the ounces would push into 2024, but you see the large number of tonnes that we've managed to stack in Q3, we were opportunistic and took that opportunity to optimize the mine plan.

Peter Hardie:

Yes, I guess a final note on the Mesquite stacking is it's typical of the operation where you do your big push backs followed by periods of stacking and then leaching and recovery.

Wayne Lam:

Okay, got it, thanks.

Then maybe just last one, at Greenstone, can you give us a sense the timing of spend through the completion of the project into next year? Then, how should we kind of think of CapEx into Q4 given the spend this quarter seems to be quite elevated, and to-date looks like it's pretty close to the full-year guide?

Greg Smith:

Sure, Wayne, this is Greg speaking. Yes, to your point, we've spent about $270 million of the $277 million that we planned for the year. For the most part, this is a timing issue. The overall budget in aggregate is still valid. What we're seeing at this stage is a fairly rapid deceleration in construction burn, and that is everything from, obviously the installation of equipment, but also just the number of people onsite is starting to drop fairly significantly. Most of the major work in terms of construction is coming to completion here, including the tailings facility, which we said Q4, but really we're weeks away from that being entirely complete.

Most of the big burn that we had through 2022 and 2023 is now coming off pretty significantly. There's about $140 million at 100% left to spend in total, 60% of that related to us, which would be about $85 million. I think for the rest of 2024, we're going to be in that sort of $30 million to $40 million range. Then, obviously, we're moving into hot commissioning here in Q1, and as quick as we can to gold production.

No change to the overall budget; things are moving quite quickly at Greenstone, and like I said, the overall burn is now coming off quite significantly. Really, the spending is starting to orient more towards just mining.

Wayne Lam:
Okay, great, thanks. Thanks for taking my questions and best of luck in the months ahead.

Greg Smith:
Thanks, Wayne.

Operator:
The next question comes from Kerry Smith with Haywood Securities. Please go ahead.

Kerry Smith:
Thanks, Operator.

Greg, does that $80 million to $85 million, your share of the remaining CapEx, does that actually include the working capital build-up?

Greg Smith:

In terms of stockpiled ore and first fills and all that?

Kerry Smith:

Yes, yes.

Greg Smith:

Yes.

Kerry Smith:

Okay, that's great. Are you having any issues, for the operating side, because I know you're adding equipment as we move into every quarter here going forward. Are you having any issues sourcing equipment from the suppliers, or maybe any issues sourcing people as you build up your staffing levels, or is all that kind of running in line with what you expected?

Greg Smith:

Yes, so on the equipment side, no, because everything had been previously acquired. We haven't had any issues around that, or certainly not at this stage in the game. In terms of hiring, things have accelerated quite significantly. We're working toward having, I think, around 360 people onsite by year-end. We're at about 300 now, and that'll continue to increase—and I'm talking about the Operating team, which'll get us to 550 at some point next year.

The number of people onsite in terms of construction is coming off, as I said, quite rapidly. We went from over 800 people just a few weeks ago; that's now dropped to 500 and continuing to drop.

Kerry Smith:

Okay. Can you remind me what the peak employee levels are once the operation's running, if you're at 360…

Greg Smith:

It's about 550.

Kerry Smith:

About 550.

Greg Smith:

Yes, it's about 550, yes.

Kerry Smith:

Okay, okay. Just for Mesquite with this build-up of inventory, do you have even a directional comment on the production in Q4 from Mesquite that you would expect? I mean, do you think it's going to be 10% better than Q3; I'm just thinking about how we try and model this.

Greg Smith:

Yes, no, I hear you, Kerry. We've actually stacked a lot more ounces and recoverable ounces in the year than we budgeted, but we did it a bit later, as Doug mentioned, because we extended the stripping program. We've seen this in the past with Mesquite where the recovery starts to incrementally increase, then all of a sudden it starts to really increase and reach the levels that we anticipate.

It's one of these situations where we're totally comfortable reiterating our guidance. We're going to be within our guidance for the year. Whether we're in the back end of that guidance or closer to the midpoint of that guidance, that could be a matter of a couple weeks at Mesquite just based on the recovery of those ounces. We're sort of in the same position as you. We anticipate those ounces starting to accelerate significantly over the course of the quarter, which we've seen every year that we've been mining Mesquite. But the exact timing, right around that year-end time, could have some effect on the overall production for the year. It obviously will.

Kerry Smith:

Okay, okay.

Doug Reddy:

Remember, the large number of tonnes, it all doesn't go under leach at the same time. We had to finish leach cycles on other areas as it was coming on, and then you've got your normal leach cycle, plus it's a very high pad, so the pad height means that the percolation takes quite a while to work its way through, so all that combined. We've done lots of discussions and analysis on that. It means that any day now is when it starts to happen.

Greg Smith:

Yes.

Doug Reddy:

That's it, through Q4.

Greg Smith:

Kerry, the Mesquite—it's a good story at Mesquite. We had very positive reconciliation in the pit this year. We've had a lot more recoverable ounces available to mine, put on the pad. We also are, as Doug mentioned, integrating this new Ginger deposit, working on mine plans that are going to extend mining at Mesquite into 2026. We're very happy with what's happening at Mesquite. The timing of recovery of these ounces, again, we're talking about a difference of a couple weeks, right around that year-end, that could affect 2023 production. But still, we'll be well within our guidance.

Kerry Smith:

Okay, okay. Then just one last question for Doug on Santa Luz is, I know when you started the resin project, you were kind of thinking recoveries in the low 80s. But is 70% maybe the best that we can ever hope to expect for this project, or how are you thinking about it now?

Doug Reddy:

I mean, obviously, the team at site is very optimistic on the additional modifications that they're doing. We have to do it in a stepwise fashion so we can understand what works and what doesn't. I'd say de-sliming is the big one that should have a step change for us on recovery, and we're doing the engineering at the moment. We look to be able to implement that in 2024.

We're looking at around the mid 70s, around 75% as being a realistic target that we should be able to push up to, but it's incremental. What I will say is 84%, the original target, is not doable. We will acknowledge that scaling up from bench scale to pilot plant to industrial scale just did not follow through on the overall recovery, but we can see getting to the mid 70s. Blending has been a big item for us, and obviously the opportunity to be able to bring in and blend down the TOC is another thing we're looking at long-term. But that takes quite a while to be able to develop other areas that we might be able to blend with the ore to be able to bring down the total organic—the TOC levels in the product.

Kerry Smith:
(Multiple speakers 38:27).

Peter Hardie:
Yes, and Kerry, we expect to have more on the addition of that de-sliming circuit, when we can expect that stepwise change and recovery thanks to that circuit as part of our year-end call next time we chat on results, which will probably involve guidance as well.

Kerry Smith:
Okay. Is it the de-sliming that you think could get you to the mid 70s recovery range, or is it…

Doug Reddy:
Yes.

Kerry Smith:
Oh, so that—and then there are some other…

Doug Reddy:
Yes.

Kerry Smith:
…step change opportunities that you would have to look at, but they have to be done in sequence, is what you're suggesting?

Doug Reddy:
Exactly, yes. I mean, basically de-sliming would bring us up to probably around 73%, and then continued work on a couple other areas would give us another couple percent. Hence why I'm saying around 75%.

Kerry Smith:

Okay. Okay, that's great. Thanks for (multiple speakers 39:26) my questions.

Doug Reddy:

The site's going to stay focused on 73% for now, but I think long-term, we're going to continue working on it. It's a long-term target.

Kerry Smith:

Okay. Okay, yes, thanks very much, guys.

Rhylin Bailie:

A quick question from online; what are you thinking for timing of the Castle Mountain permit?

Greg Smith:

Yes, that's a tough one. We submitted the permit in March 2022, and we did have fairly rapid engagement from the state and the county. The BLM, the federal authorities have been a little slower. If you'd asked me a year ago, I would've said we should have that permit sometime near the end of 2024. I think it's more likely at this stage, just given the progress, sort of later 2025, give or take. It's a hard question to answer specifically. The permitting, or the process is going well. There's no drama, there's no significant issues, but it has been slower than we anticipated.

Rhylin Bailie:

I guess with Q4 halfway through, people are already starting to think about next year, so I've got about five questions about sustaining capital spend next year and costs next year and Greenstone costs. Do you just want to remind people about when guidance is going to come out?

Greg Smith:

Yes. We'll be issuing our 2024 guidance in connection with our year-end results, which will be sometime in February, mid-to-late February.

Peter Hardie:

Which is typically when we do release our guidance, in the second half of February, yes.

Greg Smith:

Yes.

Rhylin Bailie:

Thanks.

Okay. We'll take questions from the phones, please?

Operator:

The next question comes from John Sclodnick with Desjardins. Please go ahead.

John Sclodnick:

Yes, thanks for taking my question, guys.

Just looking at the covenants for the revolver, the credit facility there, it looked like the coverage ratio was 4.1 in Q3. Just wondering if you see this remaining tight moving forward? Obviously, it depends on the gold price and production, but just kind of wondering how you're thinking about it internally and managing that.

Peter Hardie:

Yes. As we mentioned on previous calls, we worked with our lenders to loosen covenants during the construction phase of Greenstone. We do expect them to remain tight until construction is complete, but we're very comfortably onside with our covenants.

John Sclodnick:

Okay, perfect. Yes, no, appreciate that. Just in reference to Doug's comments on removing some of that higher carbon material from Santa Luz, what kind of grade is associated with that? Is this going to impact the head grade in any material way?

Doug Reddy:

You're asking what the mass pull is of the carbon material?

John Sclodnick:

Yes, and really if that change in your planning there, removing the higher carbon material, if that's going to impact your planned head grade?

Doug Reddy:

No. I'd have to double-check; I believe the mass pull that we're looking at is 10% to 20%, but the gold that's lost there is tied up intrinsically with the carbon, so what we're removing is the most refractory, as it were, material. We're allowing the remaining mass to be able to be properly leached. We've done test work on it, it worked quite well, it gave us a good bump. It depends on the TOC of the material that goes in on how much of a bump you get. The grade that we're looking at is about 1.3 grams that ends up getting lost, but that's okay, because that gold wasn't coming anyway and it gives us a bump on the remaining material.

John Sclodnick:

Perfect, yes, no, that makes sense.

Greg Smith:

(Multiple speakers 43:38).

John Sclodnick:

Yes, no, definitely. I know it's different when you're actually operating versus working a spreadsheet, but appreciate that colour.

Doug Reddy:

Yes. There's no single answer on that one.

John Sclodnick:

No, fair enough. I mean, obviously, the balance sheet looks like it's in good shape for the cash to get through the rest of the Greenstone build. Just curious how you're thinking about divestitures at this point? At one point in the past there was a bit of discussion on maybe divesting a smaller asset there, just curious of your thoughts at this point.

Greg Smith:

Yes, I mean, we've always said that we're commercial. We've sold mines in the past, sold assets in the past when it's made sense and when there's been a reasonable offer on the table. I'd say we're always open-minded. I never want to comment on any specific mines. I would say that it's a pretty challenging environment to try to sell assets, especially if you're looking for cash. There's not a lot of financing out there. Interest rates are high. You've got a high gold price, but with equity values depressed and high interest rates and tight conditions, it's just not the best time to try to sell assets.

Even on some of our smaller operations, where we've really been focused is looking at mine plans where we can sort of optimize our cash flow and optimize value. We do get comments on having some of these smaller assets, but to the extent that we can mine them for more value than we can sell them, which I think right now is absolutely the case, that's going to be the focus. Not to say we wouldn't be commercial, John, but this is just a tough environment to look at those types of transactions.

John Sclodnick:

Yes, no, I appreciate that. Also, I know public forum questions on M&A are every CEO's favourite question to get, so I appreciate that colour. That's it for me. Congrats on the great quarter. Thanks, guys.

Greg Smith:

Thanks, John.

Operator:

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

Anita Soni:

Hi, good morning. Thanks for taking my questions.

The first one relates to Los Filos' operation. Just looking at the grades, they've come off in the open pit. Is that what you can expect going forward, or is that just a temporary sequencing issue?

Doug Reddy:

It's a sequencing issue. We did pivot at Filos between two areas. We had a delay in finalizing an archaeological review of one area. We've got the permit for it, but we need to sign off on the archaeological review at Guadalupe. We pivoted to an area in Bermejal and another in Los Filos, a little bit lower grade, required a bit more strip to get back into them, so we had to pivot.

Anita Soni:
Okay, and (multiple speakers 46:48)…

Greg Smith:
Year-to-date, Anita, actual open pit grades at Filos are quite higher than they were last year, in aggregate. It's just the sequencing within the year.

Anita Soni:
Okay. Then, moving, I guess, so Los Filos confused me a bit. Maybe the cash flow from operations question that I have is related to Los Filos, but in your last slide, I think it's Slide 17, you still reiterated this 55% of production and more than 85% of operating cash flow expected in H2. Eighty-five percent still? Is that the case, or is this, these write-downs that you're taking at Los Filos moving—and the inventory build-up, is that affecting that forecast and you just haven't updated that 85%?

Greg Smith:
Well, the big push, or the big driver of that is as you start to pull, especially in Mesquite, you start to pull ounces off these leach pads, right? You've already spent the cash to get those ounces up there, and now in terms of cash, you pull those ounces off in the fourth quarter. That really drives that cash flow number. We haven't changed that guidance; I'm not going to refine it on the call, but that's really where that number comes from. You go through a big strip campaign, you stack a bunch of ounces, we saw that at Mesquite, and then you start to recover them off the pad.

Anita Soni:
Okay. Maybe we'll take this offline, because on the first half, you're around $200 million, so 85% in the back half would be a significant number. Maybe we'll follow-up on that one.

Then, another question with Santa Luz, just in terms of—you mentioned something about—sorry, it'll come through with the reserve. Is there any impact to reserve given the fact that you're not delivering or expecting now to deliver the prior recovery rate than you previously were looking for?

Doug Reddy:

We've been working that through, and because we're still working on things such as the de-sliming, we're not ready to concede any change at this point, essentially. We've also been looking at opportunities to blend down, so hence why I talk about it. It's not just a matter of improving the recovery, improving the throughput, it's also improving the ability to deal with the higher TOC ores. We're meeting that head-on.

Anita Soni:

Okay. Then just pivoting back to Los Filos; the delay in the ounces, you're going to get some in Q4. Am I still right to think that, perhaps, your accounting costs at Los Filos will be higher than anticipated in Q4, or will they end up taking an NRV write-down as well? I'm just trying to figure out where you guys are in 2023 costs. Is it more—right now you're tracking to the bottom end of the guidance range. Will it trend up more towards the middle, or should we be sticking to the bottom end of the guidance range after accounting for a potential write-down in Q4 as well?

Peter Hardie:

Yes. Anita, it's Peter. I'll answer that question kind of twofold, I'll address the cash cost at Filos, good question. Yes, we do expect to see an increase as those ounces are realized.

Anita Soni:

Mm-hmm.

Peter Hardie:

Then, I'll just reiterate it as well, with respect to sustaining spend, we have some to do in the quarter, so that's going to affect all-in sustaining costs as well with the increased spend in Q4. On both counts, we're expecting things to be higher in Q4, and as a result, year-to-date, and yes, for the whole year than for the first three quarters year-to-date.

Anita Soni:

Okay. All right. Thank you guys (multiple speakers 50:40)…

Peter Hardie:

Sorry, I'll just finish, but still in range.

Anita Soni:

Yes, okay.

Peter Hardie:

Yes.

Anita Soni:

Sorry to cut you off there. Thanks. That's it for my questions.

Operator:

The next question comes from Mike Parkin with National Bank. Please go ahead.

Michael Parkin:

Hi guys, thanks for taking my questions. Most of them have been asked.

With Greenstone, are you tracking ahead of budget on the total tonnes mined out of the pit, and could that—and if so, I guess that would explain some of the CapEx spend versus maybe what you originally budgeted at the start of the year?

Doug Reddy:

For tonnes mined, no, we're on track.

Michael Parkin:

Then, can you just speak to, you mentioned how many people you have hired, at about 300. Are you already making the transition to owner-operated with, say, mining, or did you always start owner-operated?

Doug Reddy:

Yes, it's owner-operated from day one. We started mining in August, I think it was, of 2022, a couple months ahead of schedule. Yes, and then we switched to 24/7 in November or December of last year. It's been owner mining all the way along.

Michael Parkin:

Okay, thanks very much. That's it for me.

Peter Hardie:

Mike, there's other aspects of the project that have been transitioned to owner-operated. All the ancillary buildings were transitioned, and other aspects have been as we advance here through construction.

Michael Parkin:

Okay, excellent. Thanks very much, guys.

Rhylin Bailie:

All right. If there's questions online that I haven't got back to yet, I'll get back to you by email. There's no further questions on the phone. Greg, do you have any wrap-up comments?

Greg Smith:

No. Just once again, thanks everyone for attending the call today. You know where to find us if you need information. You can reach out to Rhylin or myself. The website has, again, all the updates on Greenstone, including the site tour deck. Thanks again, and we'll talk to you in the new year.

Rhylin Bailie:

Perfect. Thanks everybody for joining us this morning. Operator, you can now conclude the call.

Operator:

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