Equinox Gold Corp.
Q3 2021 Financial Results and Corporate Update Conference Call Transcript

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Speakers:

Rhylin Bailie
Vice President, Investor Relations

Christian Milau
Chief Executive Officer

Peter Hardie
Chief Financial Officer

Doug Reddy
Chief Operating Officer

Scott Heffernan
Executive Vice President, Exploration

Operator's Opening Script:

Welcome to the Equinox Gold Third Quarter 2021 Financial Results and Corporate Update Conference Call and Webcast.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions.

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 today for the Q3 call.

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

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

Christian Milau:

Thanks, Rhylin, and welcome, everyone, to our Q3 results.

It's been another active quarter for us, and I just wanted to quickly summarize where we're at right now. We've got the seven producing mines here in the Americas, and it's soon to be eight with Santa Luz in quarter one when it hits production. Also, we've now got the five growth projects. They're nicely distributed amongst our regions, and we'll go through those a little bit later in the presentation. We're working really hard in the fourth quarter here to hit our sort of target of around 600,000 ounces of gold for the year. It will be a big quarter in quarter number four. We've got our balance sheet in good shape right now with available liquidity of about $500 million and some investments on the balance sheet. We're funded to achieve our long-term growth objective of about 1 million ounces a year, so we're working hard on executing on that growth strategy, as we've articulated in the past.

When I turn the slide to number four, the recent highlights, I want to mention these. There's been a lot happening corporately. Santa Luz construction is progressing well. At the moment, we're on schedule, on budget. Greenstone construction is starting to ramp up now. We've had a good summer of work, and we'll highlight a bit of that later on in the presentation. Aurizona expansion has been demonstrated through the pre-feasibility study, and we've almost doubled the mine life through that. Also, there's more to come there. We think the exploration potential is fantastic as we move forward, and we'll keep drilling. We're also completing a drill program in Bahia, and those drill results will come out when we've got all the results in.

Corporately, we keep continuing to focus on the ESG front, and you'll see our data on our website is being updated and enhanced on almost a quarterly basis now. One thing that we're really pleased with, we've been able to complete the new water treatment plant at the Aurizona village, so that is basically done here in November and we're able to provide an enhanced water system for the local community. As I've said, there's a strong start to Q4. We mentioned that we produced over 65,000 ounces in October and on track for guidance, and we'll be pushing hard towards that 600,000-ounce mark for the full year.

Peter, I'll hand it over to you for the quarterly results.

Peter Hardie:
Thanks. With respect to our health, safety, and environment, our loss time injury frequency rate remained low at 1.29 per million hours worked. With respect to environment, our significant environmental incidents frequency rate also ran low at 0.86 per million hours worked. As to COVID-19, it continues to have low impact overall in our operations. That's primarily due to vaccine roll outs in the jurisdictions mitigating the impact of COVID and starting to eliminate it, hopefully. But we continue with our proactive measures at the mines, doing testing and education.

With respect to our operating results, it was our highest quarter for production to date. We produced 140,000 ounces of gold, sold 137,000 at a realized price of $1,780 an ounce. Our cash comp came in at $1,109 an ounce, and that reflects the upward pressure that everybody is seeing across the world, and I'll comment on that in a minute further. Our mine all-in sustaining cost reflecting the investment that, as we've previously reported, we've been doing through the first half of the year and into Q3 what came in at $1,327 an ounce. Coming down from prior quarters but still reflecting overall investment in our assets.

Included in our cash cost is $3 million of write downs that we don't expect to reincur. About half of it came out of Los Filos. It's a very large mine that takes a while to ramp up, and we see it doing that now. We don't expect that to reoccur. RDM was an unfortunate timing of mining sequence. When the quarter came to an end, they were in a lower grade area of the mine, which led to an NRV write down there that we, again, don't expect to see again.

We're on track to achieve our 2021 guidance on the back of a stronger Q3 of production and look forward to a strong Q4. We should be overall in about the midrange of the guidance, which is 560,000 to 625,000 ounces for the year. On a cost basis, we actually expect to come in on a higher range of the cash cost and all-in sustaining cost. On a mine by mine basis, we expect Los Filos to come in at the higher range of that, of the guidance we have there. Mesquite could be in the lower range and Aurizona and the other mines to come in about midrange overall on an annual basis.

With respect to the costs that I just mentioned, like everybody else we're seeing pressure on consumables, especially cyanide and lime. We're seeing a lot of pressure on diesel. As an example, we've seen diesel costs in the U.S. go up over 50%. Brazil experienced a period of high cost of power due to a lack of rainfall. Most of our power there comes from hydroelectric. It's settled back down, but overall, we're seeing upward pressure. Year to date, we're up about 4% or $4 to $6 an ounce compared to last year. To help blunt or mitigate the cost escalation that we're seeing, now that we're a bigger, global company, we're putting in place global supply chain measures, A, to help with economies of scale and reduce cost, and also of course to help with the logistics and supply chain disruption that we're seeing that are leading to some of the cost increases.

With respect to our financial results, on the back of the sale of the 137,000 ounces of gold sold, we had revenues of $245 million, mine operating earnings of $49 million, and Adjusted EBITDA of $62 million. We had a net loss for the year of about $5 million, which is about $0.02 a share on a basic basis, but net income on an adjusted basis of about $7 million or $0.02 a share on a basic basis. Cash flow from operations was $48 million before changes in working capital, and $65 million after changes in non-cash working capital. Year to date, $142 million before changes and $165 million after changes in non-cash working capital.

The balance sheet remains strong, $300 million of cash on the balance sheet and net debt of $245 million, and liquidity which is when you take our cash and add our undrawn debt of $500 million. This leaves us in a good position to fund Greenstone construction, which we announced last week. And in addition to that we have investments with a market value well in excess of $400 million should we need to help bolster cash flow from operations undrawn debt. We're in a strong position to fund Greenstone.

Over to Doug to talk about operations.

Doug Reddy:
Thanks, Peter. On the operations side we had a real focus on stripping programs in the first three quarters of this year. That would be especially at Mesquite, RDM, and Los Filos, and now we're getting the benefits. This was foretold in our guidance that we would have a back ended weighted year, and that's what we're seeing.

During the quarter we produced our millionth ounce, so that was a good milestone for Equinox. Then as we look at the individual mines, Mesquite, we transitioned from waste stripping over to mining oxide ore in the Brownie Pit. We're now placing ore on a new pad area, and that means that we're providing quick ounces, quick recovery of gold, because the solutions don't have to go all the way through the pad, so we're benefitting from that. We're also continuing to work on taking that exploration success where we've had an increase in the resources of 65% and building that out into more reserves and adding to the mine life in Mesquite mine. We produced 23,264 ounces at Mesquite at an all-in sustaining cost of $1,402 per ounce. Mesquite has been a consistent producer. It's done 135,000 ounces for over 13 years, and interestingly, it's going to produce its 5 millionth ounce as we get into 2022, so a good, steady performer for us.

At Castle Mountain, we had higher production, and that's reflected in the optimization efforts that have been done on the leach pad and in the plant. Q3 production was 7,873 ounces at an all-in sustaining cost of $1,067 per ounce. The team continues to work on optimization efforts of the feasibility study, so that includes various studies that we'll work on met test work and other ways to approach that to make it more efficient overall. We're preparing to submit for the permitting for phase two. That's an expansion that will take this mine to around 218,000 ounces a year for over 14 years.

Looking at Mexico, at Los Filos we resumed full operations in July. We ramped up very quickly, so we benefited and were able to through that ramp up get production of 32,837 ounces for the quarter at an all-in sustaining cost of $1,647 per ounce. The ore has been coming from the Guadalupe open-pit, Los

Filos open-pit, and Los Filos underground, and we continued drilling in the Guadalupe and Los Filos underground areas. Los Filos underground has had annual drilling programs that are focused on reserve replacement, and given the higher-grade nature of that ore, it's always a benefit for us to be able to extend that life, so we continue working there.

On the expansion projects, that will take production overall to about 350,000 ounces per year. I have already mentioned that Guadalupe has now transitioned from stripping to being part of the ongoing operations. Bermejal underground, we are continuing with primary development. We did produce the first ore from there, 2.5 gram per tonne. But the real focus is getting the development down to the central zone, which is the highest-grade portion of Bermejal underground. We continued to work on the CIL plant, especially on the front-end engineering and design. That's an 8,000 tonne per day plant, and it's being incorporated in the rest of the production schedules for that mine.

Over to Mercedes, work is underway on a large development program that will increase access to multiple ore bodies. We currently produce from Diluvio and Lupita and we're going to add in Marianas and then the Rey de Oro area, and that will enable us to increase the plant throughput, which is currently working on a campaign basis. In Q3, Mercedes produced 9,722 ounces at an all-in sustaining cost of $1,261 per ounce.

Going to Brazil, production at Aurizona was 34,583 ounces at an all-in sustaining cost of $957 per ounce. Really good production at Aurizona in the quarter. During this quarter, we delivered the pre-feasibility study on the expansion. That saw the mine life get extended to 11 years. It was six before, so it's a real nice result, and that will be by mining the underground and additional satellite open-pit deposits. Production will peak at 160,000 ounces a year and total production will be 1.5 million ounces going forward. We continue with additional drilling that will look to add more on the underground, especially adjacent to the mine design. We saw the opportunities to do in-fill and on strike extensions within Piaba underground, so we're looking forward to that coming into the underground next year. Our next step will be applying for permitting for portals, and we'll probably apply for more than one location and just continue advancing on that project.

At Fazenda, production was 15,598 ounces at an all-in sustaining cost of $1,098 per ounce. Exploration success offset mining depletion. That was shown by the delivery of a technical report that was filed in the quarter, which showed almost three years of production was totally offset by resource reserve replacement, and so net unchanged on the reserves. For Fazenda, it's been a very good result, but we've also ramped up exploration in a big way in the Fazenda/Santa Luz district. At Fazenda, it's really three parts to the exploration and resource reserve work. We do a resource to reserve conversion program. We do drilling for near surface deposits that are near the mine, because we're seeing a shift at Fazenda towards not just being an underground mine but underground combined with open-pit feed to the plant. Plus, this big effort in the belt between Fazenda and Santa Luz, which ultimately, those targets could contribute to either one of those mines.

At RDM, the stripping program continued. It goes right through this year. We were mining higher volumes of low grade at the end of the quarter that did ultimately end up with a $1.5 million write down. That's been reflected in the cash costs. Production was 15,880 ounces at an all-in sustaining cost of $1,733 an ounce. Importantly at RDM, we restarted the exploration program, focused on strike extensions from the open-pit area. That's the first exploration program that's been done on this program in several years, so we're looking forward to seeing results come out of that and work on doing more exploration in the RDM area.

Okay, looking at Santa Luz, construction is on budget and on schedule to pour gold in Q1. This is a past producing mine, which means refurbishing existing infrastructure, so we benefit from that and retrofitting the process plant, but there's lots of additions that are happening. There's a new ball mill, a new resin and leach circuit, gravity circuit, primary crusher, and conveyor is totally being redone, and ultimately, we end up with a 2.5 million tonne per year plant. The cost of that will be $103 million on the initial CapEx. We have spent $51 million to date. We're committed at $84 million to the end of Q3. This mine will be delivering 110,000 ounces per year for the first five years, and it averages out over almost 10-year life at 95,000 ounces a year with an all-in sustaining cost of $877 per ounce.

Construction is 70% complete. Mining commences in June. We are well ahead of schedule on the mining. All major concrete pours have been completed already. SAG mill refurbishment is 95% complete. Ball mill is complete, and for the installation, both of them are in commissioning now. Secondary grinding has 85% of equipment in place. The work on the TSF and the water storage dam will be finished this quarter. I would encourage you to have a look at the photo gallery on the website and check out the timelapse video that goes right to the end of September, and you'll see the advance on all the work that's been done at the—all the work on the process plant at Santa Luz.

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

Christian Milau:
Thanks, Doug. I do want to stop here and sort of pause as we look at Greenstone a little more closely. It's the big news for the quarter, the announcement we made, I guess it was last week. We're building one of the largest gold mines in Canada. It will be the number three or number four gold mine, and we're doing that alongside our partner Orion, who own 40% of the project. Just as a refresher, it's a 5.5-million-ounce gold reserve and there's significant exploration upside, both underground and some satellite potential deposits there. We start out with a great 14-year mine life and about 400,000 ounces of annual production.

Just as a refresher, the infrastructure there is excellent. We spent a bunch of time the last few weeks out there with the team. We're right along the Trans-Canada Highway. We've got good communities right in the nearby region. We're really looking to integrate into those communities and not be sort of a permanent camp for people to live in. It's a real opportunity to become part of that region. We'll have about two years of construction and six months of commissioning, so that will put us in place to pour gold in the first half of 2024. This will be a cornerstone asset for Equinox, and it's something we're really excited about and really excited to get going on.

As we turn the slide, you can take a good look at a few of the early works projects that we've progressed along very nicely, particularly over the summer months. You can see there the temporary camp is open and actually in place. We got to have our meals there in the last trip and actually use the facilities. You look also at the water treatment plant, the temporary water treatment plant, that's now operational. Great to see and it's a key factor for getting the project up and running. It will allow us to get the mining and the excavation work going in due course here. We're also starting the road building and tree clearing, which will allow us to get into the tailings facility, which that work is just underway. Also, the engineering is about 85% complete.

Turning over to the next slide, the ground breaking ceremony was just a fantastic event and opening we had last week at the site. We had full participation from all the local communities, the mayor, the First Nation chiefs were there, as well as the Minister of Mines for Ontario. There's a real groundswell of support for this project. It's been a long time coming. I think it's a project that's been on the radar for this region for many years, and it's really not had a quick start, a ramp up, until basically this April when the two new partners came into place. I think the real feedback we got was there's been excellent, significant progress since April when they closed the actual acquisition of Premier. Really pleased to see that support and the ceremony really just highlighted it. If you do want to see it, we did livestream it actually online, so you should be able to get access to that on our site.

Looking a little more at the project, on a 100% basis, it's 5.5-million-ounce reserve, 7.1-million-ounce resource, which is on an inclusive basis. We'll be doing between 360,000 and 400,000 ounces. In the early years we'll be at the higher level there. Really nice, large-scale producer, and it will be a low-cost mine. We expect it around that $700 all-in sustaining cost. Really good cornerstone asset for this Company going forward. Construction cost, we'll go through the detail a little bit later, but just over $1.2 billion USD. Expansion potential I mentioned, there's 3.5 million ounces in inferred resources but lots of potential underground and in the near mine deposits.

Looking more closely at the capital, the updated capital costs. We did take the time since the acquisition in April to actually update these costs. The $1.23 billion initial capital, that's a U.S. dollar figure, about 80% of that is in Canadian dollars, just as a reminder. We've got $177 million contingency in there, which is approximately 14% of initial capital, so a healthy number. We've obviously factored in the recent escalation in that that we've seen as well. We have about $125 million to the mining fleet, and we hope to lease up to $100 million of that, which would reduce our upfront cash spend. We haven't factored in, we've excluded actually, all the upfront pre-production revenue, which is about $70 million. This is gross capital that we're talking about.

The key changes from the 2020 estimate, which was about $1 billion when you grossed it up for the $50 million of preproduction revenue. Our foreign exchange, we've actually used a more conservative rate and more basically the spot rate right now of 1.25, which has increased it by $50 million. Inflation and escalation we've added $80 million, and our contingency has increased by about $90 million, which also includes COVID-related costs. The total increase is about a 20% increase from that original number, which is kind of in line with a number of other projects that you've seen out there. We've had the benefit of seeing other projects and how they've reacted to the escalation and inflation.

On Page 17, just looking at the timeline, we thought it would be worth highlighting this, because this project will be new for some people, but this is an area that was mined in the '30s, '40s and onwards. It was very interesting being out at the site, meeting some people where their actual parents had worked at the mine. There's a real understanding of mining in this region and a real excitement to see the mine coming back up in the near term here. In 2018 and '19, the environmental assessments were approved. In 2020 there was the updated feasibility, and really, from there we've seen a real or quick move towards construction, obviously under the Equinox and Orion ownership. I think the real feedback we got was they were amazed at how quickly we were able to move it from sort of a concept and a mine that we hope to build in the next few years to actually being in production and actually seeing activity on the ground.

Page 18, just quickly touching again on our ESG. We do publish our data quarterly on the website, so I do encourage you to look at that. We try and enhance it on almost a regular basis and adding new data regularly. We just awarded a chairman safety award to Castle Mountain. They had an LTI-free construction at the site, so kudos and well done to them. We're also planning on our long-term strategy under ESG as well. We've been gathering data. We've been setting up our baseline information and we do need to be looking at our long-term opportunities around ESG.

We really do look at ESG as something that's a fundamental part of our business. What's smart in terms of our business? What will save us cost but also what's good for the environment and what's good for our footprint going forward? You'll start to see more and more data, more information coming out on that. I think I've mentioned, previously, we're looking at things like independent power sources in Brazil that could come from full solar and wind power, but it will save us potentially $10 million a year in cost. That kind of initiative we see as really a perfect mix of what we want to see as a smart business decision but also good for the environment for our footprint.

Then stepping back and looking at the Company again on Page 19, we're now a diversified four jurisdiction, four country, mid-tier gold producer with an ambition to be in that sort of top 10 to 15 in the world very soon. We continue to advance the diversification in the portfolio. We've got an opportunity also to have these growth projects in all of these regions, and we do have to phase them. We're focused obviously on Canada after Santa Luz is done and looking to ramp up Greenstone. Then we also have the Castle Mountain phase two, which we'll be looking to permit over the couple years where we're building Greenstone. We also have the expansion down at Los Filos. Lots of growth coming from all four regions.

When you step out, on Page 20, and you look at the three right hand side graphs here on this page, we're near the top in terms of production over the next few years towards 1 million ounces or just over 1 million ounces. We're by far at the top end of growth with over 90% growth in that period from 2021 to 2024. We've got just an excellent reserve base of 16.4 million, and again, we're targeting reserve and resource growth through all the exploration programs that we have in place.

We're still working on, obviously, the left-hand column, which is the price to net asset value multiple. It's trading at just under 0.6 times at the moment, and we really do need to just continue to execute on that growth platform, keep delivering the ounces, and the on time, on budget projects. We've been building basically a mine per year over the last three years. Greenstone will be a slightly longer build, but we just have to keep executing on that, and we'll start closing that valuation gap towards one times multiple.

On Page 21, just stepping back. I know Pete touched on this previously, but I do want to hammer it home here in a really simple way. We have about $500 million in liquidity. It's cash and undrawn revolver. We have almost $0.5 billion in market investment, so it's almost $1 billion of available liquidity investments that actually will support our growth, as well as the ongoing operating cash flow. Next year we should be well over 700,000 ounces a year, and so we'll be starting to see also the operating cash flow starting to increase as well, as we grow the production base.

In summary, on the final slide there are a lot of catalysts that we've been working on this year, and there's a lot more to come. Operations and development have had a lot of activity, obviously, with all the construction builds and the focus on integrating the new mines into the portfolio. Execution is the key in that area, and we'll be working very hard to get towards that 600,000 ounces of production for this year. As Peter said as well, we're working on various programs to manage the inflation across the board. It's something that we're definitely starting to see in Q3, and we'll be working hard on our 2022 budgets to try and manage that as well. Exploration, we've had good results. That continues to be ongoing. You should expect to see more news from that this quarter.

Just in summary, that 600,000 ounces of production growth from the five projects that we have, we'll be working on that over the next three, four years to bring that into our portfolio, and that 1-million-ounce mark is within eyeshot here in a couple of years as we get Greenstone up and running. A lot on the plate, a lot happening, and Q3 was a nice improvement over Q2 results in terms of production. In Q4 we're really looking forward to seeing the results from that. Obviously, we gave you a preview of that with the October production at over 65,000 ounces.

I think I'll end it there and open it up for questions.

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

Operator:
Certainly. Once again, to join the question queue, you may press * then 1 on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question please press * then 2. 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:
The only question we've got online right now is, "When is Greenstone going to go into production?"

Christian Milau:
Yes, Greenstone, it's about a two-year construction build. We started obviously here in October, and we expect to be pouring gold in that sort of first half of 2024. Construction completion will be done around the end of 2023 and the early part of '24 so we can get it up and running and get first ore into the mill in quarter one so we can be pouring gold in the first half of 2024.

Rhylin Bailie:
Thank you. We can go to the phone lines now, please.

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

Kerry Smith:
Thanks, Operator.

Christian, maybe just kind of a general comment. The contingency that you raised for Greenstone, it's $177 million, which is, on a percentage basis and an absolute basis, up pretty significantly from the old study. I'm just wondering how you think about that as it relates to Santa Luz. You're 70% through that build. Are you expecting to use all your contingency on that project? That contingency was actually quite a bit lower on a percentage basis. Then also how that might relate to the contingency that you've put out in the studies on Castle Mountain phase two and which you might use for this Los Filos updated study which is coming out by year end.

Christian Milau:
That's a fulsome question there. Well, let me start with Santa Luz. I guess Santa Luz, it's a past-producing project. A lot of the infrastructure is there. We also have the team that was building Aurizona, and to be honest, we learned a lot from that process, and this is a slightly different environment. It's not the wet, Northeast of Brazil. It's a slightly dryer environment, obviously. We just felt that a much smaller contingency was warranted there and we're tracking really nicely.

Do we expect to spend it all? Yes, probably we'll spend most of it. I think and that's probably a fair assessment. I think we should assume that it will hit the $103 million; but tracking really well. Even some of the challenges that we experienced at Aurizona, we've been obviously keeping a very close eye on, and we seem to be ticking those boxes as we go along, so we're feeling pretty comfortable with that smaller contingency on that one.

With Greenstone, you know, it's a big greenfield project in a new area. We just felt that with the current sort of supply chain logistics issues that are being experienced around the world, an escalation that it was better to have a slightly larger contingency. We think it's maybe at the upper end of things, but in this environment it's more prudent to have that in place. Love to over deliver on that and, obviously, build it under budget, so that gives us much better chance. There's a lot more that we need to do on that project. Yes, there's good infrastructure there but we are building a lot of it from scratch, in a sense.

We don't have a tailings dam in place like we did at Santa Luz. We don't have the power lines set up. We have to put in place the power plant and all that. There's more to do, and I guess in a different environment where when we were ordering equipment and that for Santa Luz, we found the supply chains were a lot easier. We had a lot of equipment on site as well, which were actually ordered pre, I guess, the merger, and so we benefitted from that. We're here, obviously we're ordering everything brand new pretty much.

You kind of asked a little bit about Castle and Los Filos. That's a little bit further down the line, I think. As we go into, call it, construction at Castle and hopefully a couple years time here after Greenstone is built, we'll obviously look at that a little more closely in that environment, that time. But one of the things the guys are looking at right now is how to enhance that project. The operators are getting very involved in that study and the permitting process and looking at ways to maybe reduce capital and also speed up permitting. A lot of that has got to do with how we actually present ourselves on the environment in terms of permitting, what kind of footprint we have. We're doing everything we can to keep it as tight as possible, look at any kind of cleaner sources of energy, less emissions, anything that makes it more amenable to quicker permitting, obviously.

Does that answer your question?

Kerry Smith:
Okay, okay. I guess that's helpful. I'm just a bit nervous, I guess, that the contingency that we might see on Los Filos could be bigger than maybe what we expect, I guess.

Christian, or maybe Doug, just a second question on Los Filos. You mined I think it was about 100—just slightly over 100,000 tonnes from the underground in Q3. What might that number look like in Q4? And perhaps you could also comment just on the whole labour relation situation at Los Filos. You seem to be able to keep it operating now. Just wondering how things are with everybody.

Doug Reddy:
On the production side from Los Filos underground, it's probably going to be a little bit lower than it was in Q3 but pretty consistent through into next year. Eventually, we'll be shifting most of the effort towards the north side of Los Filos underground, as it's more giving in regard to resource reserve replacement than the south side. But otherwise, the next quarter should be just a bit off of what it was in Q3.

Christian Milau:
Yes, in terms of the community, maybe I'll just take that. It's still fairly raw and recent and we need to continue to work on building that trust and those relationships back. We are back and operating, and

we have seen good enthusiasm from the workforce to be back. We're hoping to actually go down and visit in the near term here and actually speak to the communities as well. But we've been pretty straight up here. You know, this mine, we need to have a partnership like we're experiencing excellent partnership in Ontario with the communities and the local government there, and we need to see the same sort of thing in Los Filos.

We've said, you know, we'll focus on Greenstone right now, put our capital into that mine, and when we're ready and things are stable, we'll go back to investing in a bigger way at Los Filos, but not at this stage. It's a process of repairing those. We've got to go through union negotiations in the latter part of this year. That's something that's on our radar and something that we need to work through, but that's something that's had a reasonable track record in the past. They're always hard negotiations, but the mine has always got through them. They're more straightforward in a sense that it's a contract and an ongoing relationship that needs to be resolved and worked out. We're seeing an inflationary environment we've got to manage as well, in terms of the labour relations as well.

Kerry Smith:
Okay. Okay, that's helpful. Thank you, Christian and Doug.

Christian Milau:
Thanks, Kerry.

Rhylin Bailie:
Since we're on the topic of Los Filos, I'm going to ask an online question. "When do you think Los Filos costs are going to come back in line with previous cost levels?"

Peter Hardie:
Well, because of Guadalupe going through a stripping program and actually Los Filos open-pit also had stripping that that's elevated it, as we go through Q4 and into the new year it should start to become more normalized.

Christian Milau:
But I do think there's going to be a period of time next year as we're still working to get into the higher grades at Bermejal and we don't have the CIL plant in, so I'm expecting also some elevated costs.

We're not going back to where they were as quickly next year. There may be another higher, a little more elevated year next year.

Rhylin Bailie:
Thank you. Operator, we'll take another question from the phone, please.

Operator:
Sure. The next question comes from Anita Soni with CIBC. Please go ahead.

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

With respect to the capital guidance that you guys have for this year, I think you reiterated with this release the $186 million for sustaining and $251 million, and I noticed in your disclosure that you've spent I think about half of that, $102 million, on the sustaining capital out of the $186 million and about 60% of the non-sustaining at $150 million-ish out of the $250 million. Does that imply a really big CapEx spend in Q4? Will you be underspending? I would assume at Los Filos, as you mentioned, you're not really going to be catching up on that non-sustaining capital that you had originally guided to, but some of the other assets as well on sustaining capital are being underspent.

Then second question, again, a long question, would be, what kind of implication does that have going into next year? Because obviously underspending is not cost savings in this environment, it's just a matter of, you know, not being able to get the work done. I'll pause there and listen.

Peter Hardie:
Hi Anita. It's Peter. I'll take the first half of the question.

Q4 is traditionally a high-sustaining cap expenditure period for us. That's in part driven by seasonality in Brazil, where they do tails lifts in the fourth quarter. We do expect a high Q4 sustaining CapEx spend rate, which is why in the earlier comments I mentioned that we expect to come in at the higher end of our guidance on sustaining costs.

It's also in part driven by operator behaviour. They start to realize, you know, our budgets are annual.

They don't get to carry over into following periods, and so they tend to take a look at where they're at the end of Q3 and realize some of those projects that had been lagging need to get done in Q4, because otherwise they don't get to do them. Yes, we do expect that rate to be high for Q4 but, as I mentioned earlier, in line with guidance.

Christian Milau:

To finish what Peter's saying. I'm just going to add, you know, we're doing a TSF raise, particularly in Brazil. We see a higher stripping rate because they're able at Aurizona to move double the tonnes in the dry season, so you're going to see a lot more stripping in the second half and into quarter four particularly. The other thing on the non-sustaining piece, we're ramping up Greenstone very significantly in this quarter.

We're also seeing Santa Luz is hitting its peak probably right now, and it's a lagging capital. A lot of work has been done during Q3, and you're going to see a lot of that capital sort of flow into Q4. We're kind of at probably almost peak manpower right now. Quarter four is pretty heavy. I think you're probably right. There is usually a little bit of a lag, and a bit of it will slip into next year. But we don't feel that we won't achieve what we need to achieve this year in terms of capital spend and the work on the ground per se.

Peter Hardie:

Except for Los Filos, where disruptions obviously cause us to have to restart on capital development programs.

Christian Milau:

Yes, that's a good point.

Peter Hardie:

It just pushes things out. You're quite right. It doesn't mean it's being done cheaper. It's just being shifted. Unfortunately, you don't get the work done, and it pushes into 2022 for some of the CapEx work.

Anita Soni:

Thanks. That's it for my questions. Thank you.

Christian Milau:

Thanks, Anita.

Operator:

The next question comes from Arun Lamba with TD Securities. Please go ahead.

Arun Lamba:

Hi, guys. Sorry if you already mentioned this earlier, but is the Los Filos study still coming by year end, or do you think because there's still some negotiations going on it might kind of push over into early 2022?

Doug Reddy:

I would say, no. We're essentially. We've been through the front-end engineering design work on the CIL. That went really well, but then we also have to update all the production scheduling and everything. When there's a disruption we have to go through and update all of that. It's a delay not just on things like CapEx spend but also on the study work. But we continue working on it, and it will be into 2022.

Arun Lamba:

Great, and just lastly, I know you've got the several organic growth projects in the pipeline, so M&A is not really a focus. But is there any interest in divesting some of your smaller mines to kind of focus more on the growth, or are you just happy with your current portfolio?

Christian Milau:

No, I think we still consider that as an opportunity to really enhance the portfolio. It's a healthy process, so we will entertain and consider, you know, maybe selling one of the small assets along the way here. We haven't stopped that process, and you're right, we absolutely want to focus on those bigger sort of development projects, and that's our focus in terms of internal growth at the moment. Probably more the external M&A from an acquisition perspective is secondary to that internal growth and development of our key projects.

Arun Lamba:

That's great. Well, thanks a lot. That's it for me, and appreciate you guys giving the October production. It was a nice little boost. Thanks again, guys.

Christian Milau:

Thanks, Arun.

Operator:

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

Wayne Lam:

Good morning, guys. Just curious. In Brazil, you had noted higher power costs, but I was just wondering if you've seen any risk of power outages or blackouts in terms of impact to operations as well.

Peter Hardie:

Yes, Wayne, it's Pete.

The higher costs were driven by low rain drought conditions. Interestingly, they've actually had quite a bit of out of season rain since. The reservoirs and dams are full again and we've seen the power costs come right back down. You know, costs are back down. Supply is back on. There's been no interruption. We don't anticipate any going forward.

Wayne Lam:

Okay, great. Thanks. Then just wondering at Santa Luz, in light of the inflation you've been seeing in Brazil, I guess two questions. The first is, have you been experiencing any impact in terms of hiring as you ramp up the operations? The second is, I guess how should we think about the costs in relation to the technical report, in terms of operating costs, as you guys move into production here?

Doug Reddy:

For hiring, we've had most of our ops team coming on board for a while now. We've actually deployed a lot of them to go to some of our other mines for training. We've consistently had a group working on our pilot plant. That has been well in the works for a long time. Proximity to Fazenda meant that a lot of our team that had worked at Santa Luz previously had moved over to Fazenda, so we were able to have them come back over to Santa Luz. I think we're in good shape there. We've got the full project team working with the ops team right now, as we will enter through commissioning and then ultimately the hand over as we get into Q1.

On the cost side, yes. There is inflationary pressure. Obviously, consumables will be going up, so we've initiated a program several months ago where we're looking at how we can improve our group purchasing, leverage that towards trying to bring some cost benefits. But also being more proactive with our suppliers, ensuring that we're getting the quality and delivery, and timing on delivery. That is part of the overall thinking to make sure that we're taking that into account. We'll do everything we can to ensure that the costs as we come on stream are as low as possible, but we do acknowledge that, obviously, costs have been going up.

Wayne Lam:
Okay, got it. Then maybe just lastly, at Mercedes, is there any guidance that you guys are able to provide on the level of capital needed for the underground development program? How are you thinking about the level of spend there in relation to how the asset kind of fits in the portfolio?

Doug Reddy:
Well, at Mercedes, everything that's being done on owner mining teams, and what we knew is that eventually we needed to do the primary development to get into additional mining areas. We brought in a contractor. They've been set up. They've been doing development for I think about a month and a half now. We're getting to the development levels where they should be. We know they're bringing in Marianas and Rey de Oro, but that's going to be an ongoing thing. It's all about taking advantage of availability in the plant and being able to bring in additional mining areas so we can fill it up, because we can get more ounces out of it overall rather than having an idle plant for a few days each month.

Wayne Lam:
Okay, got it. That's it for me. Thank you.

Christian Milau:
Thanks, Wayne.

Operator:

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

Mike Parkin:

Hi, guys. Thanks for taking my questions. Mostly just focused on Greenstone. Can you remind us what percent of engineering is complete on that project?

Doug Reddy:

It's 85% complete.

Mike Parkin:

Okay, and then we have been hearing from other peers about some labour tightness in Australia and in Canada with Greenstone in Canada and Ontario specifically with a lot of other activity on the mining development side going on in this province. Can you give any colour in terms of what you're seeing? You are at least, you know, removed jurisdictionally a bit from where some of the other activity is focused, but are you finding labour availability both on workforce and contractors good?

Doug Reddy:

Well, we already had a team in place at Greenstone. That's the benefit. It wasn't just picking up a project that had a stale feasibility study. It was an active team that just delivered the feasibility study and was raring to go. It's been a matter of augmenting their team. They added a lot of people very quickly. Then also, we have a salt and pepper arrangement with G Mining, where they are putting in probably it's about 30% to 40% of the overall team, so a team that's already experienced with the project because they worked on the feasibility study and the engineering. I think, overall, it helped us to be able to come up the curve in regard to staffing for the project faster than if you had to build up your team from scratch and then bring in the BCM contractor or something like that.

In regard to operations, there are a couple areas where they're hunting very actively, but a lot of the key positions have already been filled. There's a lot of interest in this project due to its location being not too far of a drive from Thunder Bay and being in Northern Ontario, so they've had good interest overall in the project.

Christian Milau:

We're doing our best, obviously to bring in the local First Nations and communities into the workforce, train them up. Some of them have other experience that's related to forestry or mining. There's some local contractors as well that we're trying to engage as much as possible. So far, I think we've had a pretty good experience. There are certain key roles maybe that are tougher to find at the moment, but generally it's been not too bad.

Doug Reddy:

I'd say they're more ultimately going to be on ops side, but we have time for that for this project where they've been filled.

Mike Parkin:

Excellent. Thanks very much, guys. All the questions I've had have been answered.

Christian Milau:

Thanks Mike.

Rhylin Bailie:

Thanks, Mike. We've got two questions from the webcast. "Does your long term million-ounce production target include Greenstone?" and "Where could the portfolio peak out over the next five years with all your projects and exploration underway?"

Christian Milau:

Yes, the million ounces does include Greenstone, and so that's why we sort of indicate probably call it second half, later in 2024 when the run rate starts to hit that million ounces on roughly a quarterly basis. It could peak out at a little bit higher than that. I think we have 1.1 million ounces in there as an estimate. It could peak out a little bit higher, depending on the timeline of all these growth projects. A couple of them might come down a little bit, but then we've got obviously Castle coming in a couple years later as well, which is another 150,000 ounces. It's a little bit higher.

Rhylin Bailie:
One of our investors has been very impressed with Mesquite step out. "It seems like the gift that keeps on giving. Do you foresee an expansion of operations from Mesquite given the relative inexpensive production and exploration costs versus your other assets?"

Doug Reddy:
I think it's going to be a twofold answer here. From my perspective, it's been really rewarding to see all the investment and the drilling that's been done over the last few years that saw Mesquite progressively increase their resources. There's a lot of work underway towards turning that into reserves. Obviously, year on year, it's been adding into the reserves and extending the life. What we want to do now is to try to make a big jump and show big steps in how we're going to increase the reserves overall.

I'm going to ask Scott Heffernan to make a few comments about exploration and the opportunity potential there.

Scott Heffernan:
Yes, the exploration has been focused inside the fences, we like to say, growing the deposits. Brownie was in particular a big driver behind that resource growth, and that deposit continues to grow along strike and at depth. Certainly, when one looks at the gold price environment we're in, there's much more opportunity at Brownie, as well as at VE2 and Rainbow as well. Then bigger picture, you have the real blue sky, which is the distal strike extends where they do project across the highway, and that's blue sky for medium term, five-plus years down the road. It's been a real success story; real turnaround story. And we've had the asset for three years. We bought it, we had three-year mine life. We've still got three-year mine life and have a couple hundred million tonnes in measured indicated inferred on the books now, and the drills are still turning. Pretty great story.

Doug Reddy:
Another way to view our or to look at our view of Mesquite is we transitioned the mining fleet and put in a new, more efficient mining fleet. We did that because we can see the long-term opportunity here for that mine. Clearly, as it's produced over the last 13 years 135,000 ounces a year, and we're looking forward to the 5 millionth ounce next year. It's the gift that keeps giving. It's a great mine.

Christian Milau:

The one thing I don't think we expect to really expand it in terms of higher production rates or anything. I think it's probably going to be more consistency. It's ranged from 100,000 to 140,000 or 150,000 ounces, and I think that's still a consistent sort of range that it will be working within.

Doug Reddy:

Yes, it has a tonnage per year cap that we can deal with. Keeping within that means that it makes for consistent production in that kind of 130,000, 140,000 ounce per year level.

Rhylin Bailie:

Perfect. We have no further questions and we're closing into the one-hour mark, so I'll turn it back to Christian for closing remarks.

Christian Milau:

Well, thanks, everyone, for joining, and again, another active quarter. We're really looking forward to the fourth quarter and sitting down with you after year end, and this should be our best quarter ever. I think October is a great preview, as mentioned by one of the callers. Sixty-five thousand ounces in one month is a heck of a month, and so we're really looking forward to finishing this year strong and keep updating you on our growth projects, because Santa Luz should be in production in Q1 and Greenstone is off and running now. We're seeing real activity on the ground, so stay tuned on that front.

Thank you again for joining, and we'll speak to you again soon.

Rhylin Bailie:

Thank you for joining us today. Operator, you can now disconnect 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.