Equinox Gold Corp.
Third Quarter 2024 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 2024 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're 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.

I would now like to turn the conference over to Rolin Bailey, Vice President, Investor Relations for Equinox Gold. Please go ahead.

Rhylin Bailie:
Thank you, Operator, and thank you, everybody, for joining us here this morning.

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

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

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

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.

Today, we are discussing Equinox Gold's 2024 third quarter financial and operating results. I'll start with a broad overview of the quarter, and then I'll turn the call over to Pete and Doug for more details.

I'm going to start with safety. Our safety performance this quarter was good. Six of our sites had no lost time incidents, with two recorded for the quarter overall, and our 12 month rolling total recordable injury frequency rate stands at 1.79 per million hours worked. We also had no significant environmental incidents in Q3.

With the increasing production from Greenstone and the strong gold prices, this was a record third quarter for the Company in terms of gold sales, revenue, Adjusted EBITDA, and other metrics, with just under 174,000 gold ounces produced and sold at a cash cost per ounce sold of $17.20 and an all-in sustaining cost per ounce sold at $19.94 per ounce. Note that cash costs and all-in sustaining costs per ounce do not include costs per ounce for Greenstone, as Greenstone was not yet commercially producing in Q3.

However, revenue and operating costs in the financial statements do include sales and costs from Greenstone. For the nine month period, we produced approximately 408,000 ounces and sold approximately 406,000 ounces at cash costs of $16.78 per ounce and all-in sustaining costs of $19.94 per ounce, again, excluding the cost per ounce for production from Greenstone.

On to Greenstone itself, the ramp-up of mining and milling has progressed well since our first gold pour in May, though at a slightly slower pace than we initially expected. During Q3, Greenstone produced just over 42,000 ounces of gold, bringing total production to just under 59,000 ounces since the first gold pour in May. We undertook three multi-day shutdowns in the process circuit in Q3 and another in the first half of October to address wear and other process issues that surfaced during startup. We also meaningfully advanced the expansion of the footprint of the first phase of the open pit through September and also October. We've seen good results from this work with mining rates increasing and with process throughput increasing, particularly over the last half of October and into November, and we were very pleased to announce yesterday that Greenstone is now in commercial production.

We will continue ramping up mining rates and plant throughput through Q4 toward design capacity. To reflect the pace of the ramp-up, in October, we reported adjusted production guidance for Greenstone of 110,000 to 130,000 ounces in 2024, which updates consolidated guidance to production of 590,000 to 675,000 ounces for the full year.

In mid-October, we had an analyst tour at Greenstone. This was a great tour. Most of our analysts attended, and so there are recent analyst reports out there. Get in touch with Rhylin if you'd like to see them. The full site tour deck is also available for download on our website, and there is a lot of detailed information in there on the ramp-up so far, so feel free to reference that slide deck as well.

During the quarter, we also celebrated the grand opening of the Greenstone mine and the completion of the Ride to Greenstone fundraising initiative. The grand opening was attended by many local stakeholders. This was a great event, and there were some great comments made by a number of speakers, and I'd encourage you to watch the video of the event on our website.

The Ride to Greenstone fundraiser ended in August. This was also a major success. We raised over CAD 1.3 million for the Geraldton District Hospital, which is the local hospital at the Greenstone mine. We also raised $200,000 for charities and other communities where we operate. The donation to the Geraldton Hospital is going to make a big difference in the local communities and also for our employees at Greenstone. We really appreciate all the support we received from all the donors and others that supported this endeavor, and particularly our gold sponsors, which are some of our industry peers and associations.

Finally, we had a change in our Board of Directors in October, with Fraz Siddiqui stepping off the Board. Fraz was an excellent Board member and a great guy, and I'd like to take the opportunity to thank him for his contributions over the last year.

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

Peter Hardie:
Thanks, Greg.

We're now on Slide 6 in the presentation. During Q3, we realized $2,461 per ounce on 174,000 ounces sold for revenues of $428 million. The increase in revenue for the quarter is driven by higher production and the higher gold price. The increase in sales was driven by the contribution of 44,000 ounces sold by Greenstone. Keep in mind, last year, Greenstone was in construction, and so it had no sales.

For the quarter, income from mine operations was $101 million, an increase of $76 million from Q3 last year. That's primarily thanks to the increase in revenues.

We had $268 million in operating expenses in Q3 2024, an increase compared to Q3 2023, primarily due to Greenstone ramp-up. As Greenstone was in construction last year, it had no operating expenses. We also had some high operating expenses at Los Filos. Our open pit and underground cost-per-tonne mine were less than last year, as was our cost-per-tonne process. However, we stacked and processed more ore tonnes in Q3 this year than in Q3 last year which led to higher overall operating costs.

On a per unit basis, we had a Q3 2024 cash cost of $1,720 per ounce, which is an increase of $357 per ounce compared to last year's Q3 cash cost of $1,363 per ounce. Keep in mind that while Greenstone's revenues and related costs of sales are recorded in our income statement as required by FRS, I'll reiterate, as Greg mentioned, those results are not included in our cash and all-in sustaining cost metrics for Q3 as Greenstone wasn't yet in commercial production.

Our increase then for cash and all-in sustaining costs for the quarter is primarily volume-driven, with 24,000 ounces in lower sales in Q3 this year at Arizona and Mesquite compared to Q3 last year. For Q3 2024, our all-in sustaining cost of $1,994 per ounce decreased from Q2 of $2,041 per ounce and is up from Q3 last year of $1,630 per ounce. The increase in all-in sustaining cost per ounce compared to last year is volume-driven and due to the reasons I just noted for cash cost per ounce.

Now that Greenstone is in commercial production, we expect it to significantly reduce our cash and all-in sustaining cost metrics. I should also note that Castle Mountain was moved to residual leach at the end of August, while that continues with the permit amendment process. Castle is now reported in our MD&A as a development project and as after August 31, its results are no longer included in our cash or all-in sustaining cost metrics. We will continue to record ounces sold from Castle as revenues and the related costs will be included in the income statement.

Our EBITDA on Q3 2024 was $114 million. Our Adjusted EBITDA was $142 million. It increased $91 million compared to Q2 this year and $61 million compared to Q3 last year. Last year's Adjusted EBITDA of $81 million. The increase in Adjusted EBITDA compared to prior quarters is driven by the increase in revenues.

For the quarter, we had net income of $300,000 and on an adjusted basis, net income of $37 million or $0.09 per share. Cash flow from operations for changes in non-cash working capital was $130 million or $0.30 a share.

With respect to sustaining expenditures for Q3, we spent $36 million. Non-sustaining expenditures for the quarter were $82 million, $65 million of which were for Greenstone. Note that Greenstone wasn't in commercial production through the end of September, so all capital expenditures there for Q3 are considered non-sustaining. This includes amounts spent on fleet expansion, tailings lift, removal of historic contaminated soil, camp upgrades, etc.

Moving to Slide 7. With respect to our available liquidity at September 30, we had $168 million of unrestricted cash on hand and $105 million available to draw on a revolving credit facility. In October, one of our debt maturities came due with convertible noteholders converting all of a $140 million note at the conversion price of $525 per share. The Company issued 26.7 million shares to noteholders, preserving our liquidity and retiring $140 million of our outstanding debt.

Also in October, we amended certain gold prepay arrangements to defer the first five monthly deliveries of 3,900 ounces per month, originally due October 2024 to February 2025, to deliver 4,200 ounces per month from May through September 2026. The purpose of the deferral was to provide a little more cash liquidity. It's about $10 million a month at current gold prices while Greenstone finishes ramping up.

In early October, we filed a short-form base shelf prospectus that permits the issuance of the Company's securities over a period of 25 months in the U.S. and Canada. It effectively replaces the one set to expire in November. As discussed in the past, you can expect Equinox to maintain an active base shelf prospectus going forward.

Moving to Slide 8. With Greenstone commercial production achieved, our financial focus switches to deleveraging as free cash flow produced by the mines will be used to pay down debt. For the past few years at Equinox Gold, we've been acquiring and building mines and have been using debt as one of the funding methods for doing so, including an additional $500 million term loan to consolidate 100% ownership of Greenstone during Q2.

This slide demonstrates Equinox Gold's historical leverage as measured by net debt-to-EBITDA ratio from Q1 2020 through Q4 2023 and pro forma leverage through 2026 as per analyst consensus. The general trend we see is that leverage in the Company increased as acquisitions were completed and mines were being built. This is a natural consequence of using debt as one lever for funding acquisitions and construction.

Leverage peaked in Q1 2020, a few months after construction of Arizona was completed, and again in late 2022 as construction of Greenstone was ongoing and construction of the Santa Luz mine was completed. Another trend we see in the charts is that our mines are commissioned and ramped up. Leverage decreases as Equinox Gold has the benefit of EBITDA and cash flow generated by the new mine.

Retirement of the first of the $140 million convertible notes this October marks the beginning of the deleveraging cycle for Equinox. In this high gold price environment, we look forward to Greenstone continuing its ramp up to full capacity and the strong resulting cash flows to continue deleveraging.

With that, Doug will lead us through a review of the operations.

Doug Reddy:
Thanks, Pete.

We're now on Slide 9 of the presentation. As noted, we had a very good Q3 for overall gold production, and we look forward to Q4. We should get about one-third of our annual production coming in in Q4.

At Greenstone, the mine produced 42,448 ounces with a all-in sustaining cost of $938 an ounce. Throughput achieved a rolling 30-day average of 60%, that's 60% of the nameplate, of 27,000 tonnes a day as of August 28. The ramp up continued through October, and as of November 5, the 20-day average was 76% of capacity. Recovery is still being addressed. It was 79% in the quarter. We've been addressing issues with screens, pumps, and conveyors in the mill, typical of a ramp up. All of these have been resolved or are being addressed as we went through October, and we have had throughput over 27,000 tonnes a day. The fleet's now 25 haul trucks with four shovels on site, and we'll be adding to that fleet through the end of the year and into Q1.

At Mesquite mine, gold production was 15,223 ounces with all-in sustaining cost of $1,421 an ounce. Waste stripping continued in the Ginger pit, and the majority of the ore from that pit goes on to the leach pad starting in the latter part of Q1 in 2025. We also rehandled, stacked, and began leaching the old Vista leach pad material during the quarter. For the rest of 2024, our production will be mostly drawdown of the leach pad inventory, side slope leaching, and leaching of some additional ore that comes during the stripping of the Ginger pit.

At Los Filos, the mine has the second highest quarter for gold production since Equinox acquired the mine. Production increased during Q3 to 48,462 ounces, and this should continue into Q4. The all-in sustaining cost was $2,153 per ounce. Underground mining continued to improve in Q3 as we added a second contractor in the Diego's underground area of the Los Filos underground mine.

Our dialogue with our community partners continues. We've met with all three communities, as well as the Mayor of the municipality and the state representatives. We're working towards establishing new agreements so that we can ensure long-term economic viability and stability for the mine.

On to the next page. In Brazil, at the Aurizona mine, production was 17,181 ounces, with an all-in sustaining cost of $2,145 per ounce. In July, we restarted the plant after a suspension of about eight weeks following lack of ore coming out of the Piaba open pit, and we transitioned to processing Tatajuba ore, which is lower grade on average compared to the Piaba pit. Current mining is mostly from the Tatajuba open pit, and towards the end of the quarter, we began mining in the eastern and western ends of the Piaba pit and in the Boa Esperança pit as well.

We are coming to the completion of the work that we've been doing on re-contouring of the pit wall in Piaba in two areas. We've drilled most of the dewatering holes that are part of our program, and we've been through external reviews of geotechnical and hydrogeological information.

At the Fazenda mine, production was 15,280 ounces, and the all-in sustaining cost was $1,831 per ounce for the quarter. Plant feed is currently 40% from open pit, 60% from underground, and recovery is 90%. Underground development rates are now catching up to the mine plan as we have had a modification of our underground shift duration, and we've added additional equipment to the underground fleet, and production overall is increasing at Fazenda.

At RDM, gold production was 13,472 ounces, and the all-in sustaining cost was $1,817 per ounce. We changed the rental mining fleet and have increased mining productivity. We also established a new dry stack tailings facility, which is now fully in operation, with cyclone tailings being dried and then placed and compacted in a storage area.

At Santa Luz, we had our second best quarter of gold production. Production was up at 16,650 ounces with an all-in sustaining cost of $2,203 per ounce. The new trunnion that was installed at the tail end of Q2 started up in Q3, and that's enabled us to increase our throughput by about 10%, and that gave us a record for tonnes throughput in the quarter at Santa Luz.

However, recovery was below plan at 58% for the quarter, and that is in part due to the commissioning work that we've been doing with the de-sliming circuit. The de-sliming circuit was to remove some of the organic carbon that comes in the ore, removal of the carbon which finds works, but we've been removing also too much of the contained gold, so additional work is required before we bring that back online. In the meantime, we operate without de-sliming, and the recovery ranges from 64% to 75% in October.

With that, I'll hand it back over to Greg.

Greg Smith:
Thanks, Doug.

I'm just going to make a couple of closing comments before we move on to Q&A. On the last quarterly call, I noted that we were at an inflection point at Equinox Gold with Greenstone coming online. Even though we really just started production at Greenstone and are still ramping up, you can see here on the slide the effect Greenstone is having. We had record gold sales for a third quarter, and with the strong gold prices, we also had the all-time highest revenue and Adjusted EBITDA and adjusted operating cash flow for any quarter. At these current gold prices and with increasing production, Q4 should be another strong quarter for us, and we should be in a great position to further de-leverage over the coming quarters, as well as investing in our mines for the future.

I think, Rhylin, I'll wrap up there, and we can move 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'll hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. If you're 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:
Thank you. While you'll queue up, I'll take the first question that we've got from online here. It says, congratulations on achieving commercial production at Greenstone. I noted that your calculation of how you calculate that is different than what you had initially said in Q2. Could you explain?

Greg Smith:

Sure. Yes, our internal criteria for declaring commercial production was more conservative, certainly than many of our peers, and certainly from where we ultimately announced it. The reality is, over the third quarter, the mine generated a substantial amount of all-in sustaining cost contribution margin. We've seen throughput rates increase meaningfully over the back half of October and into November. It becomes very hard to argue you're not commercially producing when the mine is producing gold at sub-$1,000 cash costs per ounce, and it's increasing every week. It made sense from an accounting perspective, from an operating perspective, to declare it. What that means is, over the last two months of the year here, the costs for Greenstone will be incorporated into the cash costs and all-in sustaining costs, and we'll have depreciation, etc., being reflected in our financial statements. The reality is, Greenstone is our largest and lowest-cost mine now, even in this ramp-up period, and really there's no debate that it's commercially producing.

Rhylin Bailie:

Okay. Thank you. Operator, we can take a question from the phone, please.

Operator:

Our first question comes from Anita Soni from CIBC. Please go ahead.

Anita Soni:

Hi. Good morning, Greg and team. First off, congratulations for swinging to free cash flow positives this quarter and declaring commercial production at Greenstone. Secondly, I was just hoping if you could give us some colour on how the unit costs at Greenstone are trending. I was hoping to get some data from my model on mining and processing. I know it's not a full quarter or it's early days, but I just want to see where it's pegging at right now.

Peter Hardie:

Okay. We're just going to dig that up and come back to you in a minute.

Greg Smith:

Anita, I think we do have some of that data, or we went through some of it at the site tour. From a mining cost perspective, we're effectively on plan, as we anticipated, but we'll pull that data and maybe this is a conversation we can have offline.

Anita Soni:
Okay. The second question was with respect to Santa Luz. I think Doug addressed it a little bit, but is the go-forward expectation on recovery rates perhaps into next year as well, like more along the lines of 60% recovery rate, or are we still trying to target something higher? If so, when do you expect to achieve the higher number?

Doug Reddy:
Without de-sliming, we're operating around, like I said, 64% to 75%. We're actually averaging about 68%. As a default, we'll consider without de-sliming, but we do intend to continue to work on the de-sliming because we see it works. But the problem is doing the increased throughput that comes with the trunnion at the same time as doing the de-sliming meant that we have to readjust our cyclones to be able to properly do the feed. The guys are working through testing that to try to bring it back and try it again. We do intend long-term to do the de-sliming, but without de-sliming, we still get a decent recovery, albeit not where we originally intended.

Greg Smith:
Anita, if I could just add something to that. What I would say with Santa Luz, we have periods where the recovery is excellent and exceeding our targets, and then we have periods where the chemistry changes in the plant and recovery plummets. The word I would use is that recovery at Santa Luz is quite volatile, and that's something that we're continuing to struggle with and something we're continuing to work on is trying to get some stability.

As you can see just through all of our calls this year, it's been very challenging for us to forecast recoveries at Santa Luz because of this volatility. I think we're making some good headway, and the trunnions worked out great for us. The recoveries over the last three or four weeks have actually been probably the best we've seen all year and relatively stable, but I don't really want to project that into the future because we've seen this volatility at Santa Luz multiple times. But as Doug said, we're going to refine this de-sliming circuit, and I think that's going to help going into 2025. By February, when we release our 2025 guidance, we'll have a better handle on this hopefully and can give you more details.

Anita Soni:
Okay. Then last question on Aurizona and the Piaba pit. I'm not sure if it was a reiteration of the expectation or if it was a little bit different. I had a lot of companies report last night, but is this a change

at Piaba? I think it said you're expecting to get into that in Q4. Were you expecting to get into it earlier, or was Q4 always the target?

Doug Reddy:
Q4 was always the target, but we had the opportunity to start in on the eastern and west end of Piaba in October. Well, actually, it is Q4. Yes, we're doing exactly what we said. Sorry.

Anita Soni:
That's how I feel, too, today. Okay. Thank you.

Doug Reddy:
We're very much on track with our expectations, and bringing on Boa Esperança as well, we did indicate that we would do that, so we're in there as well. It gives us a lot more flexibility than we had last year going into the rainy season, and we continue to have essentially four areas that we can be mining.

Anita Soni:
All right. Thank you very much. That's it for my question.

Greg Smith:
Thanks, Anita.

Rhylin Bailie:
We'll take one from online. This is for you, Peter. Are you able to give any more clarity on your plan or potentially the timeline for deleveraging?

Peter Hardie:
I think you'll see us do a combination of things. One is, as some of the debt matures, as for instance, the second of the $140 million convertible notes, which matures next year in September, we'll likely retire that. That will either get converted because of the share price, it's in the money, or we'll just outright retire it from treasury. The revolving credit facility will be opportunistic and aggressive in paying that down with cash flow from mines.

Then with the term loan that we took out to consolidate ownership of Greenstone, I think you'll see us optimize debt maturity as well. We'll take a combined approach to it of outright retirement and then also maturing our debt ladder maturities, if you will, or extending it to work on the deleveraging.

Rhylin Bailie:
Thank you. Operator, go ahead.

Operator:
The next question comes from Jeremy Hoy from Canaccord Genuity. Please go ahead.

Jeremy Hoy:
Hi, good morning, Greg and team. Just a quick one for me. Previously, I believe it was mentioned that you thought there could be a resolution to the discussions with most of those communities by the end of 2024. Is that still the expectation, or could that drag into 2025 as well? Is there any more colour you guys could provide on that?

Greg Smith:
Sure, Jeremy. You have to appreciate that this is a commercial negotiation, so I can only give so much colour. There's a few things I can say with some certainty, and that is we do need to renegotiate these agreements to secure the long-term future of Los Filos. If we're not able to do it, then in 2025, we would move toward a suspension of operations, and the timing of that would occur through the course of the first quarter effectively.

That being said, we've had constructive discussions with the communities. I think it's fair to say that all stakeholders, government, community members, obviously us, we all want that mine to operate. I think the goal of everybody is to get to an agreement. Nobody wants to close this mine. But it's a negotiation. We don't have a line in the sand as to a date, but if we're not somewhere by the end of this year or early Q1, we're going to have to move toward that because we're not going to run this mine for the long term with these agreements in place. Also, we need new agreements anyways because these agreements are expiring.

It is a critical time for us, and we're very engaged in this, and I would say everybody involved is very engaged, and we're all working toward a resolution. Certainly, we hope we get there, and we'll continue working on that.

Jeremy Hoy:

Okay, great. Thank you. I realize it's tough to provide specifics, but I do appreciate the colour.

Rhylin Bailie:

Are you all done, Jeremy?

Jeremy Hoy:

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

Rhylin Bailie:

Perfect. Thank you. We have a couple of questions online about Castle Mountain, just for an update on the permitting timeline and our expansion plan.

Doug Reddy:

Castle, as we've said, we've suspended mining and crushing the agglomeration of the low-grade material that we were doing as part of Phase 1. That was all the contractor provided, so we've reduced to a minimum team on site, and we continue to do residual leaching. We continue to do well on drawing off ounces from the pad, with iso-leaching and re-leaching areas that have previously been under irrigation. That will continue as long as possible through the permitting phase.

We have had good interaction with BLM and the county. We've already dealt with our notice of completion of documents, and we're looking forward to the notice of intent. We hope to see that coming into the new year. Then we'll be working through, we've already engaged, agreed on a formula or way for having a contractor provide support to BLM for the review of the EIS, and then we'll work through the whole permitting process. It's advancing well.

Rhylin Bailie:

Okay. I have no more questions online, and we have no more questions from the phones. Greg, did you want to do some closing remarks?

Greg Smith:

Thanks, Rhylin.

Yes, I think just to reiterate this third quarter was really a record quarter for Equinox in a lot of ways. We're looking forward to a very strong fourth quarter, and of course as Greenstone ramps up here into 2025, a very strong 2025. Obviously very much enjoying the strong gold prices, and so we'll talk to everyone again here in February for year end.

If you have any questions, feel free to reach out to Rhylin. You can reach out to me, and we'll be doing a little bit of marketing over the next couple of months. Of course, our website has any other information you might want to take a look at.

Thanks, everyone. Appreciate it.

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

Operator:
This brings to a close today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.