Equinox Gold Corp.

Q4 and Full-Year 2020 Financial Results and Corporate Update Conference Call Transcript

Date: **Thursday, March 4th, 2021**

Time: **7:00 AM PT**

Speakers:

Rhylin Bailie
Vice President, Investor Relations

Christian Milau
Chief Executive Officer

Peter Hardie
Chief Financial Officer

Douglas Reddy
Executive Vice President, Technical Services

Operator:
Welcome to the Equinox Gold Fourth Quarter and Fiscal 2020 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.

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, Anastasia, and thank you everybody for joining us today for the Q4 Call.

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

I'm now going to turn the conference call over to our CEO, Christian Milau, for opening remarks.

Christian Milau:
Great, thanks, Rhylin, and welcome everyone today.

Just looking at Slide 3 and running through this past year, we had a heck of a busy year and lots on the go. Strong finish to the year and a good performance on the health and safety front with very good mine integration and work on the safety front during a very taxing year when COVID was a key impact on the business. We tested over 15,000 people for COVID during the year and our workforce is just under 6,000, so multiple tests per person on average. I think we've done an excellent job, so kudos to the mines for managing through that difficult year.

We had the highest production quarter to-date and good cost performance, so we're pleased with the end to the year as we go into a big investment year this year. We had very good, solid cash generation, and Peter will talk about that in a few slides here, so good end to the year.

When we turn over to Slide 4, busy on the development and corporate highlights front; development was extremely busy during the year with Castle Mountain Phase I going into production and then hitting commercial production in the fourth quarter. The feasibility study for Castle Mountain was ongoing and we've been optimizing that, and ready for release in the next few weeks so keep an eye open for that coming out. Los Filos' feasibility study update is also underway, and a little bit behind, will come out quarter two, during the mid-part of quarter two, so just behind Castle Mountain Phase II. We're expecting some good results from that in terms of reserve and resource expansion. In addition to that, we've finished off the underground drilling at Aurizona and there's a PFS study underway which we expect to give out to the market in the second half of this year, so lots on that front, lots of new information; some exciting additions coming to both reserves and resources, so a big year on that front.

We've also saw a nice increase last year in the reserves and resources at Mesquite, and kudos to Scott and the team who did a great job of basically increasing reserves and resources substantially there. Also, really pleased with Mesquite's performance overall. We've owned it for just over a couple of years, just over two years now, paid just over $150 million for it and we've generated free cash flow of almost $140 million, so almost repaid that purchase price within two years' time, so excellent performance.

Also, the Santa Luz feasibility release with strong results, really good high return project, $100 million in capital. Construction started and we're now about 25% complete. We've also appointed Sally Eyre to the Board so welcome to her, this past year, as well. We integrated the Leagold merger; the teams are now in one office in Vancouver, and we also announced the Premier Gold acquisition, so very busy on the corporate development front as well.

I'll pass it over to Peter to walk you through the financials on the next couple of slides.

Peter Hardie:
Thanks, Christian.

On Slide 5 you can see we had a good year. We sold 135,000 ounces of gold at an average realized price of about $18.71 per ounce, which generated revenues of $253 million. On the cost front, our cash costs for the quarter were $848 an ounce and just under $1,100 an ounce for all-in sustaining. That led to earnings from mine ops for the quarter of $95 million.

Income for the quarter was $89 million, for an EPS of $0.37 a share. When you adjust out a number of non-cash charges, our adjusted income is $34 million at an adjusted EPS of $0.14 a share, fully diluted, that's $0.12 a share. Most importantly, we generated a lot of cash during the quarter; it was our strongest quarter for that, generating $87 million in operating cash flow before changes in non-cash working capital.

That continued to strengthen our balance sheet, which is with cash of $345 million at the end of the year, which is up from $310 million at the end of Q3. In addition to the strong balance sheet, we have $200 million of net debt, which, if you assume the in-the-money (phonetic 5:22) converts our equity is $55 million of net cash. Our net liquidity, after you include the CAD$75 million financing, is about $600 million. In addition, our investment in Solaris has performed really well. We equity account for it, so it only has a book value of $22 million in our balance sheet; however, the fair value of the shares that we own there are about US$150 million. Good, strong balance sheet for the pathway ahead and the development that we need to do.

Moving to Slide 6, you can see here our quarterly results by mine. Mesquite, we had a strong quarter, as you can see, with an increase in ounces sold from Q3 of 125,000 ounces to the 36,000 ounces produced and 135,000 ounces sold. Mesquite, Aurizona, and Fazenda had particularly strong quarters. Mesquite benefited from an increase in recoverable ounces stacked in Q3, which came out in Q4. Aurizona benefited from higher throughput and stronger grade, which we always love to see, with the 37,000 ounces it produced during the quarter.

Moving to Slide 7, which highlights our earnings and operations results; here you can see in the comparison to prior-year, really the increase in scale from the Leagold merger. One item I would point out is we finalized our purchase accounting for the Leagold merger in Q4. Unfortunately, that created a bit of noise because we updated our assumptions on the gold price to use to fair value the heap leach pads at Los Filos. When you make changes in your purchase accounting, IFRS requires you to apply that back to prior quarters, which is why previous quarters are updated as if those changes had been made on day one. I do want to emphasize, though, that none of those changes affect cash.

Looking forward to 2021, while we had a very strong Q4, it is a year of investment; we have a lot of sustaining expenditures you would've heard from our guidance call and our guidance news release from February. To help understand a little bit of the structure of what our expectations are for the year, 61% of our sustaining expenditures in the first half of the year, but only 40% of our gold sales, meaning that we expect to have higher all-in sustaining costs in the first half of the year versus the second half of the year. That's mostly going to affect Castle Mountain, Los Filos, and Mesquite.

My final point before handing things back over to Christian is that all of the financial results that we're reviewing today and that are in our press release are unaudited. It's our first year of SOX and we're in the process of just finishing up the control side of the audit, and with respect to our financial statements. We expect that to be done in the next couple of weeks and you'll see our audited financials and MD&A about then.

I'll turn the time back over to Christian.

Christian Milau:
Great, thanks, Pete.

Just looking at Slide 8, just want to run through the operations and a little bit of a look back and a little bit of a look forward in 2021.

Looking at Mexico and California first, Los Filos and Mesquite are, as Pete said, in an investment phase here, particularly during the first half of this year. Los Filos, we're opening up the Guadalupe open pit. We're also ready to start the Bermejal underground once the social collaboration agreement is signed with the community, which I'll comment on in just a second here.

We restarted the Los Filos mine in December and it poured about 13,000 ounces of gold last year and is on-track to be ramped up to full production here as we speak, so pleased to see that back and operating. As we said last year on our last conference call, we've been working on an updated social collaboration agreement with the local leadership of the Carrizalillo community. Their key areas or sticking points, basically, were around employment and contracts for this future growth and the operation, particularly around Bermejal. We have agreed those clauses around employment and sharing between the various communities and ultimately contracts and awarding certain contracts or tendering into the local communities.

We're pleased that we were able to come to a resolution on those; we're still working on the final dispute resolution mechanism in the contract, and hopefully we'll have that resolved here in the next few weeks. We're getting very close, we've made progress since last time we spoke to you and Ross and I were on the call a few weeks ago here, so good progress being made, and we plan to see that finished here in the near-term and get back to normal business in Los Filos and get the mine expanded.

At Mesquite, it's a big heavy stripping period during the first half of this year, as Pete sort of alluded to. The Brownie pit is being stripped. There's very little new ore going to the pads during this period, so we are residual leaching and adding some supplemental ore to the pads. We're also spending about $9 million this year on exploration at Mesquite. It's been an outstanding performer over the last couple of years and has been a key area of focus to continue to extend the mine life. As I said earlier, it was a good job with increasing resources and reserves and we want to just keep doing that this year as well; opening up the new area of Brownie, looking to expand the resource and reserves and investments mine. We've also leased a new fleet from Caterpillar because we have such confidence in the future of this mine continuing on for a while. So, lots of investment there in those two mines this year.

When we look at Castle, we've been ramping that up. We hit commercial production later in the fourth quarter last year. We're still working on some niggling points around solution flow and leach pad management. One of the key investments this year really is in expanding the leach pads and actual spending the capital to build out the Phase I leach pad to cover the whole period of Phase I, so we're going to put all that investment into this year. That'd give us a lot more flexibility, and the operating team a chance to work on increasing the flows and having more flexibility on the leach pad. We'll see production, sort of a little bit lower the first half of the year and it'll ramp-up in the second half of the year.

Turning to Slide 9, looking at the Brazil operating mines; extremely good year last year, very satisfying to see all those mines perform well. Obviously, the currency was a key impact and help on the costs, but performance-wise, in terms of production, all the mines performed well last year. We expect a pretty steady performance this year, quarter-over-quarter, so you'll see less variability than you'll see in the other mines in Mexico and California.

Aurizona, I do want to point out, has just had an outstanding end to 2020, as Pete said, about $100 million of free cash flow last year. That's only its second year of operation, so very good results there.

Twenty-twenty-one has a large stripping program and a TCF lift, so sustaining capital's a little bit elevated this year, operating costs are basically in line with last year, but they'll be slightly elevated. All-in sustaining costs, we'll continue to allocate exploration dollars as well, with that underground pre-feasibility study coming out in H2 and continued work on satellite extensions, as well as looking at some new potential deposits which are within a 10 or 20 kilometre radius of the mine. We're really excited about the future here and we're allocating the capital to extend that mine life.

Fazenda kind of continues business as usual. It's been going on and off for about 25 years, so business as usual, it's had a good start to this year.

RDM, again, another good start; the mill is performing very well. The mining contractors continue to perform. We got that large pit expansion permit late last year; we're spending almost $35 million on stripping this year, so that's a key portion of our capital for the growth capital this year. Interestingly, there's been quite a rainy period during this rainy season this year, and as you remember historically, it always was challenged with having enough raw water in the raw water dam to get through a full year of production. But this year, the actual raw water dam is overflowing and we probably have two years' worth of water, so really, really pleasing pictures to see over the last week or so.

Pilar just continues on, a smaller scale, delivering free cash flow, just sort of steady state.

Turning to Slide 10, just a refresh on the guidance we put out a few weeks back; 600,000 to 665,000 ounces, that's a 30% increase on 2020, so continuing our move towards that million ounce target. Cash costs are up slightly, as mentioned earlier. Fuel, reagents, labour, and FX have slightly more conservative assumptions this year going into the year, although we're actually seeing almost the opposite on the FX front. I think both the peso and the Brazilian real have actually been much weaker than we expected early this year, so getting some benefit from that at the moment.

All-in sustaining costs increased a little more substantially due to the CapEx programs at Los Filos, Mesquite, Castle, and RDM. We'll be improving those substantially in the second half of the year as Pete alluded to, and quarter four looks to be a really good quarter as we open up new ore sources at both Mesquite and Los Filos.

Growth CapEx, basically, the key components of that are the $100 million investment in Santa Luz restart, I'll comment on that in a second here; $35 million on the pit expansion at RDM; and also, opening up the Guadalupe open pit and the Bermejal underground at Los Filos. Those are the key components that make up that $200 million, so we're spending about $400 million on CapEx this year in total including the sustaining, but it really does set us up for a strong 2022 and beyond. Next year, in 2022, we should be producing up to 900,000 ounces of gold.

Turning to Slide 11; looking at the development projects. Los Filos' expansion, the plan there is to move that towards 350,000 ounces of annual production on a fairly steady basis from 2023 onwards. We've selected an 8,000 tonne per day plant, and that new feasibility study, as I said, will be out in Q2. We won't start that investment until that social collaboration agreement is signed for Bermejal underground, but we hope to have that up and running fairly soon here. We should be in a position to launch into construction on the CIL, the carbon-in-leach plant, later this year as well.

In terms of Santa Luz, we did start construction, as we announced in the second half of last year. It's about 25% complete. Just seen pictures on the concrete pours for the mill foundations, also for the tank foundations; resin's been ordered. Steel work is well underway and mining is expected to start in May, so making a really good start to the progress there. It'll be constructed by year-end. The physical construction will be done, so we should be pouring gold in early 2022. At the moment, the mine is on-time and on-budget, so great to see, and some of the team that helped build Aurizona are down there spearheading this one.

Looking at the Castle Mountain Phase II feasibility; that'll be ready imminently. We expect that out in the public domain in a few weeks' time here. That should show a nice increase to the mine life, to the annual production, to the reserve base. On the back of all that, we'll also be looking at a slightly larger mill. Then, what this feasibility will allow us to do is start the permitting process to amend that permit in the summer this year when we make a submission to the regulators. We expect that'll take us up to three years to permit, which works in really well with our current development pipeline; we get Santa Luz done by around this year-end, Hardrock potentially could be started in that second half of this year and completed around the end of 2023, early '24. Then you could be starting construction on Castle Mountain, so a nice sequencing of our projects.

Looking at Page 12, the Premier acquisition, we announced that, I think it was December 16. The vote happened last week. We got 99.9% in favour for the Premier shareholder vote. We're just waiting on the Mexican antitrust approvals; we expect that in the next few weeks here, similar to what we had last year with Leagold. It took us until mid-March, so we expect probably second half of March, we should have that. Also, the i-80 spinout that Ewan Downie will be running. It's had a nice visibility in the Premier share price; it's probably moved up to about $250 million of implied value. Our 30% stake then will be just under $100 million, so nice to see that value creation happening already and a focus on that pure Nevada-based company.

Looking a little more closely on Slide 13 at the Hardrock asset. As we announced earlier this week, we will hold a 60% stake in Hardrock. We bought the 50% through the Premier acquisition and we've negotiated a deal to buy another 10% which will close just after closing of the Premier deal. We'll acquire that 10% from Orion for just over $60 million. We're really pleased to have that majority stake to really be able to say that we're behind this project 100%, and we actually got a chance to visit it last week and put our feet on the ground and actually see the excitement in the local region for this project. They're really keen to see it up and running, and all the stakeholders are behind it, so nice to start with that support.

As well, just a quick reminder, this is a permitted project, it has social agreements in place with the First Nations. It's truly construction-ready and has a project team that's been there, that's done the feasibility study, that's built a few mines for Agnico Eagle in fairly remote locations in Northern Canada, so really got all the pieces in place to get going later this year. We're pretty excited to get this acquisition completed and do a bit of work before we can launch into construction, but really get this thing moving later this year.

This asset will be a cornerstone asset for us for years to come. It's a 5.5 million ounce deposit, so great scale to it. It'll produce over 400,000 ounces in the early phases. There's lots of exploration upside potential, I was really pleased to see that last week. There's potential for an underground eventually. The 14-year mine life is only focused on the open pit. As well, there's some potential satellite deposits to the West of the property, some really exciting drill results come out of there as well. We see this as a multi-decade mine, eventually. It's got a great starting project, and we plan to get into construction there hopefully later this year.

If I hit the other assets, on Slide 14, of the Premier acquisition; Mercedes, it's a 50,000 ounce producer currently. It's producing good cash flow, it's about $1,000 all-in sustaining costs, so generating good cash on a quarterly basis. Hasaga is an exciting Red Lake property. It could be a mine one day. We plan to do some exploration there in due course, but we're really excited about that one. Rahill-Bonanza, it's a bit of a smaller project. It's sitting between some Evolution properties, and is a logical part of that complex in the long-term for sure. Then i-80 Gold, as I mentioned earlier, Ewan Downie will be running that out of Reno, Nevada. It's three focused assets in Nevada, one producing, one that can be put back into production fairly easily, and a high-grade exploration project effectively. I think Ewan and the team will be able to create some real value there, and as we've done with Solaris, we think we can support them and help them surface that value as a focused U.S.-based gold mining Company.

Turning to 15, just to kind of bring it together, when you look at this portfolio of assets with the Premier acquisition completed, it really does create a nice balanced portfolio. We're happy with the diversification; you've got almost a quarter in each of these jurisdictions, being Canada, the U.S., Mexico, and Brazil. Reserves, the net asset values, the upside and expansion potential and all the exploration that sits in this portfolio, it's just fantastic. We're really pleased that we are able to balance it now, almost 25% in each of these regions. I think this year will be exciting because you'll get a number of studies out, you'll have some exploration results, and what we'll be able to do is expand a couple of the assets and really show that there's growth and potential in all of these regions. We're not reliant on any one; it's actually nicely balanced going forward.

Turning to 16 and just pulling that all together, what does that really translate to? Well, this is the leading growth Company in the sector right now. I'm not sure there's anyone with that kind of growth rate, as you can see in the third column there. We plan to be hitting that million ounce mark in a couple of years' time here. We also have a nice reserve base of almost 16,000 ounces and we see that growing in the near-term here, so at the leading end of all the peer comparable categories here on this slide, except for at the valuation end. Our key job here is to move that multiple of price to net asset value up from 0.5 to 0.6, up into that sort of range like our peers, of that 0.8 to 1.0 times. Really over the next 12 to 24 months, as we execute, as we expand the portfolio, as we become a 900,000 to a million ounce producer, we really think that re-rating has got a really good chance of achieving that. The balance sheet's in place to deliver on that growth.

Just in summary here on Slide 17, it’s been a busy year in 2020, a long list of catalysts for 2021. We’re going to focus on delivering on the production and the cost base that we have. That production will have a 30% growth factor built into it, and we’ve also got a $37 million exploration program which will be mostly focused on extending the mine lives around the mines that have shorter than 10-year mine lives. It’s nice to see that we’re actually reinvesting in our own portfolio this year. It’s more inward-looking than it has been probably in the last couple of years. We’ll be looking to close and integrate the Premier Gold acquisition. We’ll be looking to support Solaris and i-80 Gold as they create some value. Really, on the M&A front, it’s a little bit more subdued. I think going forward right now, we’re focused on basically expanding our assets, delivering on the value of all the great assets we have internally here, and simplifying the portfolio.

What we think we’ve done here is we’ve created a Company who has all those pieces to create value, that’s well-positioned in this gold cycle, diversity, scale, we’re in mining-friendly jurisdictions in the Americas, the growth is all owned internally at the moment; we don’t need to go out and buy it. We’ve got a strong balance sheet, $600 million of liquidity, another couple hundred million dollars in investments, and a very low net debt to EBITDA ratio of well below 1.0 times. With that and our long-term common vision with our core shareholder base, we’re really excited about the future here and we think that Equinox is really set up for a strong future, and 2021 will be a fun and exciting year.

With that, I think I’ll end the formal part of the presentation and maybe turn it over for question-and-answer.

Rhylin Bailie:
Thank you, Christian.

We do have one question from an investor in the United Kingdom. You’ve just outlined, Christian, some very impressive growth plans for the coming years. What do you think the market is missing? What does the market need to do to believe in Equinox Gold and have that reflected in the share price?

Christian Milau:
I think one of the key things that, certainly, in the feedback we get, is we do have a lot on our plate, so really focus on your core projects and the opportunity to create value in those core expansion projects in areas where you can expand the reserves and deliver on what you say you’re going to do.

I think it's all about the execution here. We've gathered all the pieces to the puzzle, now we just have to put them together and be on-time, on-budget, and execute. I hope that we've done a good job of building a mine per year over the last few years, of doing some M&A and integrating cultures and companies and creating some value already. I just think that it's a matter of executing is the key thing, and I think the balance sheet's in a strong place to allow us to do that, and again, the shareholder base has got a common vision with us of delivering something that has a long-term vision, not just a short-term vision.

Rhylin Bailie:
Thank you.

We'll take a question from the phone now, please?

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

Kerry Smith:
Thanks, Operator.

Maybe Doug can answer this question. Just for these big pre-strips you have at Mesquite, Filos, and Aurizona, and I guess RDM, would that pre-strip be happening sort of equally over the year, or is it front half weighted, runs through three quarters, just a bit more clarity on how it's going to be scaled out or scheduled out over the year?

Douglas Reddy:
RDM's through the year. Los Filos is more frontend-weighted as we strip down Guadalupe and get into the ore. Mesquite is, again, frontend-weighted as we open up the Brownie pit to access the ore in the Southern part of that pit. Aurizona stripping is a bit of a holdover from last year, it just continues into this year, and it will go through most of the year as well.

Kerry Smith:
Okay.

Christian Milau:

Yes. I think with the rainy season there, Kerry, we tend to move more tonnes, obviously, after sort of April, May, so probably pretty evenly distributed.

Kerry Smith:

Yes.

Douglas Reddy:

Yes. Aurizona built up a very big stockpile coming into the rainy season, I think it was over a million tonnes. We take advantage of that as we work through the rainy season and then get back into the stripping for the rest of the year.

Kerry Smith:

Right, okay. Doug, while I've got you, just on RDM for the production, that mine's been doing sort of 18,000 ounces, 19,000 ounces a quarter for the last few quarters at least, and your guidance this year is 55,000 to 60,000. Do you want to maybe just talk a bit about why that production's actually a bit lower than what you kind of expect on a quarterly annualized rate?

Douglas Reddy:

We were waiting for the permits to be able to do the pit stripping, which came through the middle of last year, and that's why we're pushing it through this year as we're actually, I would say, delayed in getting go with that strip. Now that we're into it, we're focused on that. It means that we have a more modest grade through 2021. That said, it's been doing pretty good so far this year against our expected grade. Maybe we'll get a little bit of a bump, but it was kind of expected that when we got into the stripping, we would have a more modest grade going into the plan, so that we can get access to better grades in the remaining life of the mine.

Kerry Smith:

Okay. Then, does all that stripping finish by the end of the year, does some of it roll over into…

Douglas Reddy:

It rolls over.

Kerry Smith:

Okay. Okay. Christian or Peter, could you maybe just let me know what the book value will be for your i-80 position once the deal closes, the financing closes, and the company starts trading, just what your dollars, millions will be for your allocated book value there?

Christian Milau:

I think that one's for you, Peter, if you know that.

Peter Hardie:

Yes. We're going to have to—so a, we'll have to do fair value accounting for it. So, the short answer is it'll be at whatever the shares trade at, initially, at inception. The fair value of that is going to be in and around call it $100 million, $80 million to $100 million.

Kerry Smith:

Okay.

Peter Hardie:

But I mean, that's a "wait let's for Q1" question, really, Kerry.

Kerry Smith:

Right, right, okay. But if I just took the average price it trades at in the first week and just multiply by the shares, that's kind of going to be your book value?

Peter Hardie:

Correct, yes.

Kerry Smith:

Got you. Okay, that's great. Thanks very much, guys.

Christian Milau:

Thanks, Kerry.

Rhylin Bailie:

Thanks, Kerry.

We'll take another question from the phones, please?

Operator:

The next question comes from Lawrence Danny, a Private Investor. Please go ahead.

Lawrence Danny:

Morning, gentlemen, and thank you for all your hard work.

Christian Milau:

Morning.

Lawrence Danny:

As a CPA, I'm a tad bit concerned on the all-in sustaining cost numbers. With the acquisitions and streamlining, are you going to be able to cut costs, and are those numbers going to fall in the coming quarters?

Christian Milau:

The bigger trend here is, obviously as we expand and develop the longer-life, larger assets, those will naturally bring down our costs, but also we have the—call it the short-term impacts of these stripping programs and less ore going on the pads, etc. at Mesquite and Filos in the first half of this year. We have an elevated period here in the first few quarters of this year, then you start to see that downward trend.

I think as we get into next year, you're running at almost 900,000 ounces and we've got some expansions that have already come to fruition, you start to see those costs starting to come down. Gradually over time, as we get Hardrock into production, as we expand Castle, and as well, as we expand Filos to its full capacity, those will all be lower cost. It's a process here that we're going through of bringing costs down over time, for sure.

Lawrence Danny:

Will that lend itself to the potential of dividends? After those things happen, will that be more—lend itself to maybe the potential of dividends, maybe in 2022 or 2023?

Christian Milau:

Yes, I'm not sure the exact timing yet, but absolutely, we're heading in that direction. The goal here really is to get this portfolio humming and spend some of this development and growth capital where we think we can get some great returns on it, and then we'll move to more of a dividend model and probably be able to allocate some capital back to shareholders as well as invest in future growth. But I think you're right, 2022 maybe, but 2023 is much more likely for that.

Lawrence Danny:

Yes, that should help valuation too. Thank you very much.

Christian Milau:

Yes, thank you.

Rhylin Bailie:

Thank you, Loren.

Another question from the phones, please?

Operator:

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

Michael Parkin:

Hi guys, thanks for taking my questions.

Christian Milau:

Hey, Mike.

Michael Parkin:

Can you speak to how Santa Luz's development budget is kind of tracking? Are you seeing any wins on certain kind of cost items? Wherever you can give some colour.

Christian Milau:

Yes, maybe I'll start there, but Pete and Doug, please jump in as well. So far we've seen it pretty much tracking, I think it's a percent or two behind where we expected it to be in terms of at this stage, I think around 25% and should be at 26% or 27%. I think it's tracking, basically, on-plan for the budget as well, and we're obviously getting the tailwinds from the FX rate. It's a slightly better environment than we had to work in up in Northern Brazil there with Aurizona; as you know, the rainy season and that doesn't have as much of an impact.

We're finding that contractors in the area are probably a little more qualified. So far, we've had a really good start to it and really encouraged, and it is a fairly short build because a lot of that infrastructure's in place. When we get asked, "What's the critical path and what are the key issues that could cause any issues or delays", it's not about waiting for a mill to come from China or from Europe or whatever. Those are there on-site. It's more about executing on concrete pours, getting that early mining going, getting the steel work erected, etc. There's less areas for things to go wrong, although of course, it's a construction project and you can't be totally certain, but so far it's tracking really nicely.

Doug or Pete, I don't know if I missed anything?

Peter Hardie:

No, I…

Douglas Reddy:

No, I think you summarized it well. Oh, go ahead, Pete.

Peter Hardie:

No, I was going to say the same.

Michael Parkin:

All right, excellent. On Hardrock, could you just give us an idea of, once the deal closes, it's already permitted for construction; can you give us an idea of what kind of activity we should expect on that project this year? Do you have a percent of engineering completion on the project that you could share with us?

Christian Milau:
I'll comment on maybe the first part there, Doug, I don't know, maybe you can comment on the second part. But yes, the idea here is to close. We have been out to site, we've sort of started the process of getting up to speed with the team. We have a few questions just to answer and a few points we want to explore and look into, but overall we were very happy with the work done to-date and the project team in place.

Premier's given the go-ahead, I guess, on just getting some early works done, like tree cleaning and that that has to be done during the, call it the summer months. It's a lighter end of early works and I can't predict the exact timing, but hopefully in the second half of this year we're in a position to be able to launch in the construction. You're going to see, call it, the lighter end of works where you're hiring a few project team members, maybe doing a bit of tree clearing, ordering a few things of some deposits, but you're not going to see a big capital spend, certainly for the next three to six months. If you get into construction later this year, you could see us launch into a bit more detail. At that stage, we can give a full budget and timeline and be able to articulate the capital, but a small proportion of the capital would be spent in the second half of this year, of course.

Michael Parkin:
Okay. On the timeline…

Christian Milau:
(Cross-talking) engineering.

Michael Parkin:
Yes, sorry, (cross-talking).

Christian Milau:
I was going to say on the engineering, I don't know if you know…

Michael Parkin:
(Cross-talking).

Christian Milau:
…the exact percentage there, where they're at?

Douglas Reddy:
Well, part of the work in the latter half of the year is updating all the costs. The majority of the costs for all the equipment was based on firm quotes, so there is an updating phase and completion of additional engineering. The variable's between about 50% complete on some of the detailed engineering on the plant, up to closer to 90% complete for TSF and the highway rerouting. I will add that part of the push for the second half of the year is establishing the camp and the supplement water treatment plant that are needed to be in place prior to being able to initiate the main construction for the project.

Michael Parkin:
All right, that's very good colour. Thanks guys very much.

Christian Milau:
Yes, thanks, Mike.

Rhylin Bailie:
Thanks, Mike.

I'll take a couple questions online now. The first one I get asked all the time by email, so I'm going to let you answer it, Christian. Are there any plans to employ synergies at Mesquite with Kore Mining's Imperial Gold project?

Christian Milau:
Not at this stage, that's for sure. We're pretty happy with what we've got going on at Mesquite there, and we do find the best investment dollars we have at the moment is actually going to exploring and adding ounces, recently cheaply, through the drill bit, or the work that Scott and the team and Tom are doing down there. That's what we're focused on.

Because of all the upside and the potential there at Castle, and because we think of them not quite as one complex, but we certainly share some of the people, the skills, the systems, we tax consolidate, we're able to smelt all the gold at Mesquite and have a somewhat symbiotic relationship. We think of that as not just one complex, but a link set of two mines. We've got a long mine life and lots of opportunity there. At the moment, we're really focused on that. In the last year, I would say we haven't—we've probably done a lot in terms of the acquiring side of things and we've got a good portfolio now. We're really focused on our own assets and not really in acquisition mode at the moment; we need to execute and deliver on what we've got on our plate.

Rhylin Bailie:
Thank you.

Another question from a shareholder, in Estonia; do you see any political or union-related risks from any of your mining locations?

Christian Milau:
I think, I would say more generally is that you see political risks around the world, anywhere you are. With today's environment and COVID, I think there are certainly some moving shifts in terms of, obviously government and public spending, and maybe some tax risks. I think a lot of governments are looking at increasing taxes; I believe the U.K. government did so yesterday or the day before, so that's something we certainly keep an eye on. But, I do think that the jurisdictions we're in are very mining-friendly. I mean, Ontario's one of the top, I think three in the world. The U.S. is fantastic. Where we are in California, I know people say you can't mine in California, but Mesquite's been going for 30 years, Castle went for 12 years before, and we're having a good go at it right now, so we're very happy there.

Mexico's got a long tradition of mining. There's a little bit more left-leaning government at the moment, but it's a key engine to the economy there. Brazil, honestly, when we got back involved in 2016, Brazil has really, really improved. We've seen the labour relations, the government policies around permitting, also contracting, it actually improved. Maybe it's all marginally, but we've seen an incremental improvement across the board, and tax rates have stayed very amenable in Brazil as well.

I think we're prepared now; we've got a diversified portfolio, and if there are changes, we can withstand that. That's one of the key things and part of our story is being diversified and evenly split amongst our four countries rather than being reliant on one or two assets that are much more at risk.

In terms of unions, I think we've got unions at a lot of our sites, we have good relationships. That's something just like communities that you have to work on, it's a long-term partnership, and I do think we have pretty good relationships with all of them. There's always risks in those kind of partnerships; they need to be cultivated and managed well, and certainly at Los Filos is an area that we learned a few things after acquiring it, and we'll do our best to improve that partnership, and it's the same with unions. But so far, I'm seeing no major issues jumping out at us.

Rhylin Bailie:
Thank you, Christian.

We've got another question online from one of our institutional investors in the U.K. At current levels, the equity is extremely discounted. Is Management open to considering a small buyback that doesn't materially impact cash levels?

Christian Milau:
Yes, it's a question we get. I mean, the dividend and the share buyback question is always on the radar and it does get raised in this market. I think with our growth profile and the ability to invest and the need to make sure that our balance sheet remains solid, I'm not sure it would send the right signal necessarily to do a buyback at the moment and take some of that capital away from all the expansion projects we have on the go. There's some really low-hanging fruit in our portfolio and I think we wanted to focus our capital on that.

I think we're more likely to look towards a sustainable dividend when we get to that stage, and sometimes share buybacks can be fleeting and momentary because they are, by definition, effectively finite. You just can't keep continuing on with them. We want to do something that's got a more sustaining, long-term view here. Of course we worry about the share price; we're all owners of this Company, Ross, myself, and all the management team, we have an 8.5% stake, so we're very attuned to the low share price. But really, it's the long-term vision that wins out here, and we do believe that we've got the right vision to deliver on value over time here, and we don't necessarily just want to do a short-term buyback. We'll focus on getting to that point where you have a sustainable dividend first.

Rhylin Bailie:
Thank you.

Operator, can we please take a question from the phone lines?

Operator:
Certainly. The next question comes from Andrew Weekly with SmithWeekly Research. Please go ahead.

Andrew Weekly:
Thanks, Operator.

Well, I wanted to extend the appreciation for the work you guys have done in this pipeline. This is really good, and I don't think the market's paying attention to anything other than 10-year rates and a little bit of a gold price here at the moment. Christian, can you add any colour as to some of the highlights of the forthcoming community agreement at Los Filos, and if you could share maybe just vaguely, what things do you think will keep this relationship aligned longer-term?

Christian Milau:
Yes, thanks, Andrew.

I want to be careful. I don't want to go into all the granularity of an agreement, but I think I was pretty forthcoming the last few calls and even a little bit earlier where the goal here is to set a social collaboration agreement with the community that makes sure that we look after areas of concern and where we can help. That includes things like improving the water distribution system, which we committed to previously and we will continue to commit to, and we'll make sure we upgrade that; things that involve, we'll call it scholarships and medicines and other areas that we can contribute to the wider community and make a positive difference.

The key areas that obviously we're—that the local community leaders were pushing for is making sure that there's a reasonable and fair distribution of employment and contracts. For us, it's absolutely vital that it's reasonably split between the three core communities there, like it is for any other communities we affect in all the other mines as well. Those are the key areas that we're focusing on, because we plan to be there, hopefully for a long period of time, and there's lots of investment to go in. We want it as solid as possible, we want it as understandable as possible. Particularly, as we said, the dispute resolution mechanism, our grievance mechanism, is as clear as possible, so that blockades don't happen in the future and that they feel they can come to us. As an institution, we're able to work with them and deal with things, and it's not one individual or one person that builds that relationship, we're actually a Company.

With Ross' background and certainly ours, this kind of stuff is critical, vital. It's something that we've all had good experience in over the years. We're disappointed with how this played out; we didn't get a good chance to go in and build those relationships on a personal level as well, amongst senior people in Vancouver and at the mine site level, because of COVID and because the transaction happened just before that. We're looking forward to, when I think—I'm pretty optimistic that sometime later this year, in most of the countries we're in, COVID will be under control and we'll be able to start building upon those partnerships and relationships. Part of it, having the agreement in place, having it well understood, managing it well, having a regular dialogue and grievance mechanism.

But also, it's about building those personal relationships that stem all the way up to Ross and all the way down to the local team that's working with the community. It's hard work, it's a regular thing that you have to keep up, just like exercise, you have to keep your body in shape, you've got to keep your local relationships in shape. It's an ongoing multiple touch point relationship, and I think it's just about that hard work on that front. I think the agreement is the foundation of it and the relationships are the key that keeps it going and keeps the machine oiled well.

Andrew Weekly:
Yes, I appreciate that, Christian, and I think it is important for the ESG part of it that's happening in this market, which has been largely unexpected. Of course, you guys have been servicing ESG for many, many decades here, but just wanted to bring that back up, and I'm sure you guys are listening to what the community wants as well and trying to find a common ground. I appreciate that. You guys keep up the good work, keep up the efforts, and take care.

Christian Milau:
Yes, thanks, Andrew.

We have a lot of personal joy and pleasure from actually making a positive difference to communities, to regions we operate in, so we take it really seriously and we'll invest in that. I think COVID—and I'll just touch on that, because you kind of alluded to that, COVID's been a big impact last year, as much mentally and morally and just the impact it's had on testing and the way we operate and protocols. But we do see that the case levels have been reducing across probably the portfolio of mines.

The mines have done a wonderful job of managing COVID, and obviously in the U.S., we're seeing a big rollout of vaccines. I think everyone will have a chance to be vaccinated in the second quarter this year. We've even been approached in Brazil about, do we want, as a Company, to order vaccines, which—something that we would have to consider, I don't know if we want to do that. But we're seeing the vaccines starting to come out and I do believe that this year, hopefully, we'll be turning a corner on that front.

Andrew Weekly:
Thank you.

Rhylin Bailie:
Thank you, Andrew.

One more question online from a brand new shareholder as of this week. You've got your first project in Canada now. Are you thinking of expanding in that country?

Christian Milau:
Well, we were always keen to add Canada, and I think Ross was saying when we were on-site last week, it was his first time back in Canada in a few years. I mean, I was here, obviously, with New Gold, a few years. We're really excited to be back in Canada. There's a lot of good reasons to be here, a great mining jurisdiction, lots of people who know what they're doing in mining, and it's really prospective. Obviously, rule of law, the social relationships are very strong at this project as well.

A number of shareholders said to us, one of the key pieces that would round out our portfolio would be adding a good scalable Canadian asset, so we hope that we ticked that box. We're really excited about that project as a part of our portfolio and think that we can add some value to it.

Yes, I mean, why not? We'd love to be a little bit bigger in Canada, it wouldn't hurt, but we're not actively out there looking for more projects at the moment, particularly development-stage. Our pipeline is full. We've got Santa Luz, Hardrock, and then Castle, and then there's a bit of work, obviously, to go on Filos that overlaps a bit. We want to focus on what we've got in-hand and we're not in a rush to look for something.

If we do ever do anything in the next year or two, it would certainly have to be an accretive deal, and we've got to get our multiple and our valuation up. Our focus on delivering value and having people realize that this portfolio is well undervalued right now and getting that re-rating.

Rhylin Bailie:
That is the end of our questions for the day. Thank you everybody for joining us.

If you do have questions that you think about after we're done, please don't hesitate to get in touch. I will hand it back now to Christian for closing remarks.

Christian Milau:
Great, thank you, and thanks for that group of questions from key shareholders and supporters who have been around for a long time, and patient here. We're building a great pipeline and portfolio in this business; we've got the best growth, I think, maybe globally, for a good-sized mining company. As you see us execute over the next couple of years here, it's going to be an exciting ride as we creep up in that re-rating in terms of our valuation, and glad to have you along for the ride now, and thanks again for all the questions. We'll speak to you again soon.

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