Equinox Gold Corp.

First Quarter 2021 Financial Result and Corporate Update

Conference Call Transcript

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Speakers:

Ross Beaty
Chairman

Christian Milau
Chief Executive Officer

Doug Reddy
Chief Operating Officer

Peter Hardie
Chief Financial Officer

Scott Heffernan
Executive Vice President, Exploration

Rhylin Bailie
Vice President, Investor Relations

Operator:
Welcome to the Equinox Gold First Quarter 2021 Financial Result and Corporate Update Conference Call and Webcast.

I would now like to hand the conference over to Rhylin Bailie, Vice President, Investor Relations for Equinox Gold. Please go ahead.

Rhylin Bailie:
Thank you, Amanda, and thank you, everybody, for joining us today. Some of you were just with us at the AGM, which we've just wrapped up, and now, of course, we're going to walk through the Q1 results and our Corporate Update

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 that are available on SEDAR and on EDGAR.

I'm now going to turn the call over to our Chairman, Ross Beaty, for opening remarks.

Ross Beaty:
Thank you very much, Rhylin, and good afternoon, ladies and gentlemen. Thank you for joining us today.

As Rhylin said, we just wrapped up our AGM, and the very first slide I'm going to show you here in our presentation that's on our website is our wonderful Board of Directors.

All of the motions before the meeting were passed, and I, of course, appreciate all the support we have from our shareholders.

All of the Director nominees were voted in, as well, to serve on the Board for another year, and I want to thank all of the Board members who you see here today for their service to the Company. Obviously, the Board runs our governance, and major strategy. We spent almost all day yesterday in committee meetings. We had a Board dinner where we talked strategy and cybersecurity and various issues like that that come up, and I have to say every single Board member made a significant contribution, and we certainly are well, well led on that front, and our shareholders should be very proud of the Board as it is right here. So thanks to the Board.

As you all know, this is the third year, really, that we have done this [update following the AGM], and I like to kind of give a bit of a report card on what we've achieved in the three years we've been in existence since we began right at the beginning of 2018, and this kind of says it all.

2018: we didn't have any operations at the start of the year. We decided to build the one mine we had under development. We had a pre-feasibility study on the Castle Mountain mine as well, which we did. We spun out and sold some of our non-core assets. We spun out Solaris Copper to Equinox shareholders, and we acquired the Mesquite mine late in the year, which gave us production of 25,000 ounces in 2018.

In 2019, on our mission to have increased scale and diversification and production, we completed construction of Aurizona, started producing there. We had a full year from Mesquite, produced 200,000 ounces of gold, and at the end of the year, we announced that we were going to merge with Leagold. We also listed on the New York Stock Exchange and graduated to the TSX from the TSXV; another great year of growth.

In 2020, the year just passed, we also had a quite extraordinary year. We added four producing mines and a development project with the Leagold deal, increased trading liquidity from what was less than $1 million a day to about $40 million a day on average, and our liquidity and scale attracted new institutional investors. We were added to the big indexes. We extended the Aurizona and Mesquite mine lives, commenced production at Castle Mountain, started Santa Luz construction in Brazil, and at the end of the year, we announced the acquisition of Premier Gold. As well, Solaris Resources listed on the TSX, and in 2020, we ended with production of 477,000 ounces; not bad for three years of growth. So what's ahead?

If you look at us today, here's what we look like. We have seven producing mines, four growth projects, those four being the Santa Luz mine development in Brazil; expansion of Los Filos; the expansion of Castle Mountain; and finally, underground work at Aurizona, as well as, of course, the Greenstone mine in Ontario.

We have tripled our reserves. We were at 5.8 million ounces of reserves at December 2017. Today, we have 16.1 million ounces; again, not bad. That's our capital resource base, don't forget. That's what's going to drive our continuing production in the future, and including those reserves, we have 29.4 million ounces of total gold resources, which is really going to be an extraordinary endowment for future production. We produced 470,000 ounces, as I said, in 2020, we're guiding for 630,000 ounces this year, and are very much on the path to produce more than 1 million ounces in just the next couple of years.

We have a target of $1,230 an ounce for all-in sustaining costs [this year], and our liquidity is quite incredible. We've actually got nearly $1 billion of liquidity when you combine our cash, our credit facilities, and our investments, so just an amazingly powerful financial base to add to this growing production base and this tremendous story that I think is just in the middle of being executed.

These are some examples [of what we've done over the last three years]. It's not just growth for growth's sake. What we're trying to do is also create real value, and yes, we get real value through growth, but we also get real value through just good execution of a fairly simple business plan to provide investors fantastic leverage to the gold price and build a really significant in scale—a world-class Company, really—and our motto right now is to build the premier America's gold producer, and we mean premier in the biggest sense.

We mean premier in not just size, but in quality; something where, in the short time we've been going, we have already built up a tremendous reputation for quality, and that's what we want to have, quality in engineering and exploration and management, generally; financial management; but also, in environmental management; and in environmental and governance; in social matters. We want to be a complete Company, and really give value in all of these things, because each one of those boxes of value gives things to our shareholders, and these three examples here are just examples of what we've already done that can be kind of quantified.

We bought the Mesquite mine in late 2018. We paid $158 million for it. We've already produced 316,000 ounces of gold, and we've generated $139 million of free cash flow. We've also added 670,000 ounces of gold in discoveries, so we've extended the mine life. We're going to really have fundamental value there that's being created.

We then built the Aurizona mine. This was a mine that had actually gone bankrupt with prior operators. Well, it cost us about $160 million to build. We've already generated $175 million in free cash flow from this asset, while, at the same time, producing 238,000 ounces of gold and discovering another 820,000 ounces. We've also got the underground preliminary feasibility study in progress because we think we're actually going to extend this mine life literally by decades. That's real value creation.

Another example is Solaris. We spun out Solaris back in 2018 to our shareholders for about a $33 million value. Equinox kept 40%, and we spun out 60% to all of our then shareholders. Well, under the sterling management of Richard Warke and his team, who've taken on management of Solaris, they've developed the Warintza deposit in Ecuador into a really world-class discovery and copper development project.

So, even though it's not gold for us, our shareholders are benefiting from that in two ways; from the shares they got on the spin-out and from the, now, 30% or so [equity interest that Equinox Gold holds]. Or now it's being diluted [to 17%] because we raised US$66 million on the sale of a partial interest just a month or so ago, and we still have $200 million in value from that asset, so that's real wealth creation through—to me, it's almost like financial engineering, where we did the spin-out, so we didn't have any additional costs or exposure or liabilities, but we've had this wonderful windfall of value thanks to the successful efforts of Richard Warke's team in Solaris, and we've got a whole abundance of opportunities yet to deliver in terms of wealth creation.

Santa Luz; that's going to come at the end of this year. Castle Mountain; that's a couple of years out. Los Filos; that's in progress. Aurizona underground; very much in progress as well, and i-80, which is this new company that was spun out from Premier, which Equinox Gold owns 30% of, and it's doing great things in Nevada under the leadership of Ewan Downie. We expect good things to come from that, great returns for the Equinox shareholders as well, and we're very, very pleased with all of this real wealth creation that we've achieved that is so tangible in such a short period of our growth.

Well, with all of that, we've had share price performance, which has, generally speaking, been pretty good, although we've had a rather rough quarter in the last quarter with the decline in gold. If you look, however, at our share price appreciation since we started the Company at the end of December 2017, we've outperformed gold, all the indices, and all of our peers, and investors holding Equinox Gold shares in August 2018 when we spun out Solaris have also enjoyed this great trajectory of that copper focused company. I think the last quarter—we are in all the indices now. We are with ETFs, of course, and as the gold price goes up, there's natural buy-in coming from those. As the gold price goes down, there's natural selling, and we've had to suffer some of that.

I think we've had some overhangs, quite frankly, from the Premier deal, which just closed a few weeks ago, and we, I think, have yet to prove to shareholders that this great growth we've got in front of us has—it's not yet been delivered—it's right in the middle of execution right now. We're a bit of a show me story right now. Even though we're producing over 600,000 ounces of gold, we're making lots of money, we've got a great balance sheet, we've got excellent exploration upside, we've got all of this stuff built in, but I think to some degree investors are also saying, you know what, I'm just going to wait until you execute on some of these projects.

My point would be, you could wait if you want, but by the time we've done it, it's going to be too late. I mean, the stock is going to run, and we're going to get to a great price for net asset value, more multiples, more like our peers, and this next page shows that on Page 8. This is why we are building a major gold company, why we're so focused on growth. Because the markets reward scale today. As you get bigger, your multiple goes up. It is wealth creation simply by getting bigger. You have less risk, you have broader investor appetite, overhead costs are lower on a per-ounce basis, you have a reduced cost of capital and more funds available for shareholder returns, so it's just good business to get big.

The other thing you do, of course, is you have even more leverage to the gold price, and with a big company, you have leverage in two ways. You have leverage on the income statement. With every ounce you produce, if you've got $100 more per ounce with a gold price run, that's real wealth creation to the bottom line for instant value leveraged to the gold price.

You also have what I call balance sheet leverage with the gold reserves and resources, so right now we have 29 million ounces of gold reserves and resources. Every time the gold price those up, every dollar it goes up, that's fundamentally an increase in real value to our shareholders because those are going to be long-term returns to us, and we have such a huge resource base now, we can really think long term and build this long-term store on value that I think always creates value for shareholders.

I'm expecting that over the next year or two, we will outperform the market because we now have this large-scale, we have diversity. The Premier deal gave us a really nice stool—the fourth leg to the stool.

We have one leg in Brazil, one leg in Mexico, one leg in California, and now we have this big leg in Canada. We have all of these catalyst-rich investment plans, year-on-year growth.

We're going to produce over 600,000 of gold this year. We'll be well over that next year, well over that the following year. We're going to blow through a million ounces in the next two or three years, and I can see going to 1.3 million, 1.4 million ounces without too much difficulty based on the Los Filos expansion, the Santa Luz mine development, the Greenstone project in Ontario, and, of course, Castle Mountain, and eventually, Aurizona as well. We've got all of this built-in growth, which is going to deliver fabulous returns to shareholders, and all of this is going to be self-financed with our strong balance sheet. We don't need to raise any more equity money at all.

All of this begs the question what about gold? Gold's had kind of a rocky start to this year. It came off its high from last August. Is the party over? Well, to me, there's nothing that is different in the gold equation than existed a year ago, absolutely nothing. There is a natural tendency for runs to be—they don't go straight up. There's a natural up and down. There's bear rallies inside bull markets and vice versa, so I just think, currently, we are in a secular bull market that started in 2016, and it remains intact today. If anything, I think it's even more powerful today than it was even a year ago.

We've had all this stimulus. We've had this explosion in sovereign debt debasing all global currencies. Negative interest rates still exist. We have even greater prospects for higher inflation, and higher inflation always drives the gold price up. The U.S. dollar is beginning to crack, and it should continue to weaken. That's always good for gold, and of course, you have so little global assets held in gold, and I think any change in this allocation is going to be very salubrious for the price of gold.

On the supply side, there are bullish factors. Exploration funding is constrained. Reserve replacement is slow. New gold mine development is slower and more difficult than ever. Just look at what's going on all over the world. Governments are getting more demanding. Environmental activism, social activism is making more difficulties for mine developments, and it's just a tough, tougher business. It takes a lot longer for gold mines to be developed, and actually, you saw that in 2019 and 2020. The global gold mine supply actually decreased, so there's not just demand—these powerful demand factors for higher gold prices. There's also all sorts of supply reasons why I think gold is going to continue to go higher, so I expect gold will shoot through its previous high sometime later this year, maybe 2022, but the party is certainly not over. If anything, it's still going in a very solid and substantial way, and Equinox Gold will benefit from that every single step of the way.

Not only are we building a great gold company in terms of production and sort of people and finances, but part and parcel of every responsible company today, be it a mining company, or really, any company, is that companies look after their environment, the social aspects of their business, and general governance; diversity, equality, those kind of principles.

I'm very proud to say that today, we published our first ESG report. We just published it this morning. You can find it on our website. Christian's going to talk a little bit more about it, but I just want to tell every one of our shareholders and interested parties on this call how very important this stuff is to me personally. I feel you can't have a successful mine if your workers are unhealthy, if your workers don't have good safety records, if you can't deliver good quality employment to them, if you can't look after diversity in your workforce. You've got to do this sort of stuff. If you can do that, then you're more successful.

You can't have a successful mining company unless you look after your environment as much as possible. We all know that mining is tough on the environment generally speaking, but it can be minimized, and at the end of the mine life, you can reclaim a mine, and once reclaimed, many mines, such as, for example, the Castle Mountain mine in California before we took it on and rebuilt it or re-developed it. You can do reclamation these days where you hardly even know there was a mine there in the first place, so this is the nature of mining today. It's not like it was done 20 years ago, and today's responsible mine is one where you really try to minimize your impact as much as possible on the environment.

Then finally, of course, you have to look after your communities. We strive very hard to look after our communities. We put a lot of effort into this, a lot of money, a lot of time. You've got to work with your communities. After all, they're the ones who are creating your social license and creating your ability to work in these far-flung places in the world, so it means a lot to us. We spend a lot of effort on this. We just spent half of yesterday with our full Board, actually, going through our environmental, social governance reporting, and I think every one of our Board members is signed on to this, and every one of our Management team as well. It's very important stuff, and I look forward to good dialogue with our shareholders about how well we're doing, and some places where we could do better.

We certainly had a hiccup in late last year at the Los Filos mine with what I think was a legacy issue that came out of Leagold and the prior operators of that mine, and we've really tried to spend the time there to fix the problem for the long term, so hopefully, that won't happen again, and hopefully, we won't have that kind of situation anywhere else.

With all of that, I'm going to end this preamble about the Company, and just finish off by saying how proud I am of what we're doing, how very appreciative I am of our Management team, our Senior Management, right down to the people at the face, working there underground, and our open-pit operations, our Administration team, our Exploration team, our whole team, our ESG team, and so on; our whole 6,000 strong team that are building this Company for great results in the future for all stakeholders and all interested parties, all people who are affected by our operations.

With that, I think I'll turn the call over to Christian now to talk about our Q1 results and give you an update on the projects. Over to you, Christian.

Christian Milau:
Great. Thanks, Ross. It's a good segue into our Q1 operating results, and we'll start with health and safety on Page 12, and I do want to recognize and congratulate Tom, Doug, and the team in California with getting Castle Mountain built and that first phase [into production] with a zero total recordable injury frequency rate, and that's a heck of an achievement for a brand new mine build, so well done to the team there.

We did have three LTIs in the first quarter during our 4 million work hours; a little bit higher than our average, so obviously, we'll be working to bring that down over the year, but still, a decent performance. One event that's worth just noting, we did have very heavy rains. As people know, it rains pretty heavily at Aurizona in the northeast of Brazil, and we had a 1-in-10,000-year rain event, so quite an event at the end of March there. There was regional flooding of rivers and freshwater lagoons, and we've seen that there before when we were constructing the mine, and it's a thing of the future where there will be sort of ongoing events that we need to manage, but I'm really pleased with the team and how they performed during that.

The tailings facility, the plant and the mine were basically unaffected and managed through that rain. The team also stepped in to help the community when the community water treatment plant struggled to perform during that period, and we'll be making investments to continue to improve that infrastructure locally. So really pleased to see that reaction to things that do happen at mine sites.

Then, in terms of COVID-19, I don't want to dwell on this one. I think we've seen a drop in cases across all the countries we're working in, being Brazil, Mexico, and the U.S., and even though Brazil has obviously been a hotspot in the news over the last little while, we've seen the caseloads drop very significantly around our mine sites, and even with the people at the mine sites. We've done 18,000 COVID tests, so we've done a lot of testing, and I'm really pleased to see the workforce really abide by some of our strict protocols around this, and it makes a big difference going to work and feeling safe in this kind of environment. I sort of hope that we're starting to turn the corner with the vaccine rollouts across the world, and it is in different sort of levels of rollout, but very positive developments happening in all these countries now.

In terms of the operating results, we produced 129,000 ounces; a little bit weaker than Q4 at the end of last year, and we do expect the first couple of quarters of this year to be a little weaker than the average for the rest of the year where we expect a nice uptick.

The all-in sustaining cost was $1,480. I do want to highlight, that includes about $12 million in a net realizable value write-down of inventory at Los Filos and Pilar, so if you were to take those two numbers out, you'd be below $1,400 an ounce, and I think pretty much in line with consensus expectations there for the quarter. We did guide towards higher costs for the first half of this year.

When you turn on to the next slide, it's just a plethora of things that have happened in terms of Q1, and also recent corporate highlights, and a lot has happened even since quarter-end.

Good positive drill results at depth at Aurizona. We'll be seeing sort of the fruits of that when that underground study comes out around Q3 this year, so I'm looking forward to that. The updated feasibility study for Castle Mountain Phase 2 came out. Santa Luz construction is advancing very nicely, and Doug will probably talk about that a little bit more in-depth later.

Los Filos optimization studies are ongoing, and we hope to release that study, give or take, around mid-year, and then corporately, a lot of activity in quarter one. We closed the acquisition of Premier. We helped Ewan spin out i-80 Gold, and we're supportive in terms of investing in the company just like we did with Solaris. We acquired the additional 10% in the Greenstone project for just over $50 million. Now, we'll have a 60% stake going forward, so really pleased to be the major partner in that alongside Orion.

We also sold the Pilar mine for $38 million plus a royalty and an equity interest. We commenced the Los Filos Bermejal underground development, which obviously has been on hiatus or pause for the past year or so, so we're really pleased to be getting going there again, and I think we're expecting first blast this month, so that's underway. And then, as Ross said, we published the ESG report, which I'll comment on in a second here.

In terms of the Q1 2021 financial highlights, slightly weaker quarter, as I mentioned. Adjusted EBITDA was about $60 million, down slightly from expectations, but most of that difference is related to that NRV write-down on those two inventory items at Los Filos and Pilar.

Net income was a healthy $50 million, although it did include a large non-cash gain on the change of fair-value to warrants, and also the gold collars and swaps that we inherited from Leagold had a gain on them as well.

In terms of liquidity and capital position, we ended the quarter with almost $320 million in the bank. Our net debt was about $230 million, but if you were to take out the heavily in-the-money convertible notes, it would be a net cash position. Net liquidity, as Ross said, at the end of April, [we had the] $200 million of revolver available plus $350 million of cash; a nice low debt-to-EBITDA ratio, and so the balance sheet's in a great place right now.

Ross alluded to the investments, and a little bit more detail on them. We obviously own about 30% in i-80 Gold. We invested C$24 million, and retained and maintained our position. I'm really pleased with that and the launch of i-80 Gold into the market. The market value's about $100 million to us currently, and also, we sold the 10 million shares in Solaris for about C$82 million, and also some warrants as well that may turn into $50 million of proceeds over the next 12 months, but the market value of the remaining interest there overall is still $200 million, so we have $300 million in investments there.

Turning over to the guidance, and just a quick update. This page looks a lot like we issued earlier in the year, but we swapped in Mercedes in Mexico, which we acquired with Premier, and we've taken out Pilar, which obviously we sold and closed on that right after quarter-end.

The main change, ultimately, then is we've added in early works construction of about $40 million at Greenstone, which is our 60% share. They've already started clearing trees in Ontario. They're looking to do some equipment procurement, finish off detailed engineering, get a camp set up, build a water effluent treatment plant, and ramp up the project team there. That'll be happening in the second half of this year, and that's the main change here. As you see in the capital, we've added that $40 million, but overall, from a production and an all-in sustaining cost basis, really, there's very little change.

It's just really a tale of two halves here. The first half of the year, we have slightly higher costs and lower production at Mesquite, Castle, and Los Filos, and in the second half of the year, we expect to see that reverse and see those mines hitting nice ore and better grades, and you'll see lower cost and higher production as a result of that, and we'll talk about those mines in a little bit more detail in the more detailed slides later on, but really, what we're looking for here is second half of this year you'll see a real uptick overall, and we're reiterating our guidance for the full year.

When you look at the ESG slide, and as Ross said, I'll go into a little bit more detail here. I'm really pleased, and congratulations to the team for getting that out. It's been a busy year since the Leagold acquisition on just gathering data and being able to increase our public disclosure. We started with quarterly data that was available on the websites a couple of quarters ago, so that provided the baseline data. Now, we're pleased to get out that first report, and we've got our three initial ratings from the agencies. We've been presenting our plan to key shareholders and investors that are really focused and interested in this area, and we're really pleased with the feedback we're getting. We've been really straightforward with—this is a program in its infancy, but it's also got ambitious goals of being a leader in ESG, and we continue to advance our governance, as Ross said.

We have addressed some matters that were brought up in the Shareholders Gold Council letter over the last year. We really do focus on disclosing our pay practices and our KPIs a year in advance so you know what we're measuring ourselves against. We have more diversity on the Board, and you see ESG is a bigger percentage of our compensation overall as a Senior Management team, so I think we're making great strides there, and we've also added a couple of members to the [sustainability] team here in Vancouver to strengthen it.

We've achieved our 2020 targets. We outperformed some of our safety targets for last year. We've had multiple levels of testing and a focus on COVID, and I think we've done a good job in a challenging environment over the last year. We've had lots of planning and training, and we're really getting set up for the future with over 500 hours of Senior team dedicated strategy and planning sessions last year.

GHG, or greenhouse gases, has become a really important focus, and we're going to be setting a benchmark for that this year, and also in terms of adoption of standards and principles, we've adopted the TSM, International Cyanide Code, Responsible Gold Mining Principles. We've joined the Mining Association of Canada, the World Gold Council, and the Mining Safety Roundtable, so it's been an active, active year on the ESG front, and we set it as a priority ending off last year and coming into this year, and I think all these results are bearing fruit and showing how seriously we do take this.

Flipping over into the operational update here on Slide number 18, I'm going to turn it over to Doug and let Doug walk through these next few slides.

Doug Reddy:
Okay. Thanks, Christian.

As Christian mentioned, in the first half of the year, we do have lower production in California and Mexico, and that's due to a focus on waste, which ultimately, will benefit our second half production. Mesquite especially had a significant stripping campaign, and that was to access higher-grade oxide ore at the Brownie pit. We also are doing ongoing exploration which is focused on mine life extension at Mesquite, and I'll talk about that later.

Mesquite produced just over 23,000 ounces in the quarter, and the all-in sustaining cost at $1,952 an ounce. Essentially, a large part of that reflects the stripping campaign. There was $22 million of sustaining capital spent in the quarter.

At Castle Mountain, we are doing investment in a leach pad expansion. We've been doing the work that was for the Phase 2 feasibility study that was announced in the quarter, and we've now gone to transitioning towards entering the permitting for Castle Mountain, which will happen later on this year. Production was just under 3,000 ounces, and all-in sustaining cost was $1,811 an ounce. We will continue to optimize the leach pad and the flows to the leach pad.

Daily production balances have improved as we came into April at Los Filos. Our significant investments in 2021 are focused on advancing the expansion projects, which access higher-grade ore at Guadalupe, which should be well into ore in Q3, and also Bermejal underground, which development was restarted in April. We will start the first blast in May, and we get into the ore later on this year.

We produced just under 30,000 ounces at Los Filos for the quarter at an all-in sustaining cost of $2,230 an ounce and spent $6 million on sustaining capital. We were ramping up operations following the December restart, so essentially, getting all the flows in the pad and all the reagents back into the pad and dealing with waste movement, and ultimately, we also took a $9 million inventory write-down in the quarter.

At Mercedes, this is a new mine for us. We have guidance of 30,000 to 35,000 ounces for the year at an all-in sustaining cost of $1,140 to $1,190 per ounce, and the mine is currently operating at 1,200 tonnes a day, in a mill that's designed for 2,000 tonnes a day. It does have an annualized production rate of about 50,000 ounces per year, [of which about 75% is attributable to Equinox Gold in 2021 following the acquisition in April] and it has the opportunity to be able to increase production towards 80,000 ounces to 90,000 ounces a year if we utilize the full plant capacity and do development into some of the higher-grade zones that exist at Mercedes. It was acquired April 7, and that guidance that I mentioned reflects the remainder of the year of production from Mercedes to our benefit.

On to the next page, we had a strong quarter at Aurizona and Fazenda, benefiting from good mining performance and good plant performance of both operations, as well as a strong FX in Brazil.

Aurizona, we moved more tonnes in the rainy season than we had originally planned, and we had a very good stockpile amassed as we entered into the rainy season, so that really worked to our benefit.

We also have been advancing the potential underground. Excellent exploration effort done below the Piaba open pit, and it's moved into the pre-feasibility study. There'll be a reserve update that comes along with it, and that will come out in the second half of the year. We produced over 32,000 ounces for the quarter, the all-in sustaining cost was $879 an ounce, and we spent $5.2 million of sustaining capital at Aurizona.

For Fazenda, a big focus continues to be reserve replacement. It's always a reserve replacement story, but we've expanded our sights there. We're doing regional exploration as well in the Fazenda-Santa Luz district. It's a 70-kilometre long Greenstone belt between the two operations, and essentially, we have an opportunity to be able to explore numerous targets that have been identified that could benefit either Santa Luz or Fazenda. Production at Fazenda was over 17,000 ounces in the quarter, and the all-in sustaining cost was $919 an ounce.

RDM had a major pit expansion ongoing so far this year, and it will ultimately provide a lower strip access to the ore body. Very good performance on mining [during the quarter] and some really good process plant improvements have been done as well. Production was 15,500 ounces at an all-in sustaining cost of $1,137 an ounce, and again, we utilized stockpiles as we were hit with a lot of rain, which is abnormal for RDM. It's usually short on water in the year, and now RDM has a full water dam, which means that we can see continuous production right through this year, and probably through most or all of next year without any additional rain, so a very good result at RDM.

And Pilar, well, we sold it, so we got 8,765 ounces from Pilar for the quarter, and on April 19, we announced that we were selling it for $38 million plus an NSR and an equity interest in Pilar Gold, the acquiring entity.

On Page 20, we'll look at the growth and development projects, and Ross stepped through these earlier. We have Santa Luz. It's in construction. Santa Luz, when it's operating, will produce over 110,000 ounces annually for the first five years. It has a 9.5-year mine life, but lots of exploration potential, both on surface and with underground opportunities. I'll talk a bit more about the Santa Luz later.

Los Filos expansion is focused on the various projects that will help achieve an overall 350,000 ounce per year target for production, and it will be through development of the additional open pit at

Guadalupe which is currently ongoing, and also bringing the Bermejal underground mine on-stream. We have been finalizing the study for an 8,000 tonne per day carbon-in-leach plant, which will process the higher grade ore, and that study is due in in midyear.

At Greenstone, it's a fully-permitted construction-ready project, a very large reserve base of 5.5 million ounces, and an additional 2.6 million ounces of measured and indicated resources. The production for the first five years is 414,000 ounces per year, and the project has an initial 14-year mine life. We do see additional opportunities at that site as well. Construction is targeted to commence in the second half, so I'll talk a bit more about that later.

Castle Mountain, the Phase 2 study came out in the first quarter. It shows 218,000 ounces [of gold production] a year, and that's on the base of a 4.2 million ounce proven and probable reserve, plus 1.5 million ounces of measured and indicated resources. Total production over a 21-year mine life is 3.4 million ounces, and as I mentioned earlier, that now moves over towards getting prepared for permitting.

Moving on to Page 21. Santa Luz full construction underway. First gold pour is targeted for Q1 of 2022. It is a past producing mine, so we benefit by having existing infrastructure and facilities in many parts of the process plant. We are in the midst of retrofitting aspects of the process plant, but I'll ask you to look at the left-hand side of the page. The upper slide shows the resin and leach tanks that are in construction. That's a new set of tanks, and then on the lower slide, it is the secondary grinding area where our new ball mill's going into place, so it's $103 million initial Capex. We view it as being on time, on budget. It will be done by the end of this year, and then first gold pour in Q1 2022. There is also excellent exploration potential on surface and at depth.

Moving on to Page 22, Greenstone is one of the most attractive development assets in Canada. It's got a great reserve of 5.5 million ounces, very nice NPV, $1.1 billion at $1,400 an ounce or $1.8 at $1,800 an ounce, and I've mentioned the production for the first five years at 414,000 ounces per year. We would get 60% of that, being 60% owners. With an initial 14-year mine life, it will be the third largest gold mine in Canada when in production.

The all-in sustaining cost of $618 per ounce is very attractive for us, and this project benefits from excellent infrastructure located adjacent to Geraldton in Ontario and on the TransCanada highway, and it comes with a team that's been working on this project since 2013, so a very experienced team that's very aware of all aspects of this project, and they're ready to go. We're looking at the early works construction spend from our share being $40 million for this year, but we're looking at a construction decision in the second half, and as Christian mentioned, there's already tree clearing happening at site.

On Page 23, just a few notes on exploration in support of the operating mines. Mesquite: in October, we had a news release that described the increase in reserves by 28% and the resources by 94%. We have an additional $9 million exploration budget for 2021, looking at resource and reserve growth, and that's focused on the Brownie, Vista East and Rainbow deposits at Mesquite. We've already spent $2.6 million in Q1, so it's a very fast and active program being executed on-site and through the exploration team, both at site and in Vancouver.

At Aurizona, exploration results were put out in January describing the drill program done at Piaba Deep, and also the near-mine targets that all support the underground pre-feasibility study that's underway and will be delivered in the second half of the year. A $4 million exploration budget is slated for this year, and it's focused on continuing resource and reserve growth, as well as developing near-mine and regional exploration targets on this large property. It's essentially 1,000 kilometres squared, so lots of opportunities there.

Then, Fazenda and Santa Luz, I mentioned earlier, it's a 70-kilometre-long Greenstone belt. It's quite under-explored. It's got local areas of geochem, geophysics, but it's got lots of targets and prospects, over about 1,000 square kilometres. It's bookended by Fazenda and Santa Luz, and it provides us the opportunity to feed either mine, ultimately.

Going on to Page 24, a couple of new exploration projects for us. Through the Premier acquisition, we also acquired the Hasaga and Rahill-Bonanza projects in the Red Lake area, so it's a great address to be in, a historic mining district. Hasaga has 1.1 million ounces of M&I resources at 0.83 grams per tonne, but it also has 23,000 metres that were drilled in 2020 that are confirming a substantial underground potential, so Scott Heffernan and the Exploration team is doing a full review of that at the moment, and looking at how this potentially could be a mine one day. Rahill-Bonanza is a JV with Evolution. It's right on the Red Lake trend, and it has a mine to the East and the West, so it's a great address to have. With that, I'm going to hand it back to Christian.

Christian Milau:

Yes, thanks, Doug, and I'm just going to conclude it with a couple of slides here, but just finishing off on Page 24, the two investments, i-80 and Solaris, we're obviously very pleased with those and the value creation so far. Together, they're worth about $300 million, and we still see lots of upside opportunity there, and when you add in these new projects in Red Lake, I'm going to dare to say that our goal here would be $0.5 billion of value or more, and we've seen the growth in Solaris, we're starting to see it in i-80, and we really are pretty excited about Hasaga as well. We really see the upside opportunity here is excellent.

Looking at Page 25 and stepping back out to look at the portfolio as a whole, as Ross highlighted, we are now a nicely diversified four-legged stool. We've got two mines in the U.S., two in Mexico, a large mine in Canada, which will be the 3rd largest. We've got two districts in Brazil, plus another mine. This is a portfolio full of growth and opportunity in each one of these districts. Each one alone in itself has got an ability to add hundreds of thousands of ounces of production, so we've got the scale and diversification that we were shooting for, and so really pleased to see that coming together.

When I look at the next slide here, stepping back out and how we're positioned, the three right-hand graphs here, we've highlighted this before. We're working towards a million ounces. We've got the highest growth in the sector by far, and we've got a 16 million-ounce resource base to back that up.

Our multiple is low, which is the left-hand bar, it's just about 0.55, but I just want to—when you think about it, we need to earn our re-rating here. We've got a 12 to 18-month program here over the next sort of couple of cycles to execute and earn our way up through developing projects, getting our reserves and resources growing again, and we really do believe we're going to add to those by continuing some of that grassroots exploration.

When you really step out on the next slide and look at this bubble chart here, as we move to the right towards that million ounces of annual production, our multiple is currently, as I said, between 0.5 and 0.6, and just think of this. A move from 0.5 times to 1 times, which is pretty common for some of our larger peers around a million ounces, is a C$3 billion market cap increase, so we've got our sights set on really improving the market value of this Company, and we are shareholders, and our target is actually delivering on this value and doing it in a very responsible way.

On the next slide, just to give you a little more detail on the balance sheet, I think I've hit it a few times, so I won't dwell on it, but it gives you a little more flavour. The cash is solid right now. We've got $200 million available in the revolver and probably lots of flexibility in our balance sheet. We haven't increased our debt facilities over the last couple of years, and our business has pretty much doubled, but good operating cash flow, and I tell you, we start to turn the corner in quarter three this year, you'll see that cash flow start to improve as well as long as gold prices hang in there, which they seem to be finding a nice little base around $1,750 to $1,800, and we've got the $300 million in market value of investments, so a very strong balance sheet at the moment.

Then on Slide 30, just the last page I want to comment on and give you a chance to ask some questions is, as I said, we've got to execute on delivering this year on our operations. We've got to get our projects and studies done, make sure our construction's on time, on budget, and we're tracking really well so far this year. Exploration: we've really put explore back into our portfolio of growth, and Scott's got a budget, and I think he's going to struggle to spend it, but he's not being held back, so we're really pushing to extend the mine lives of these shorter life mines, and I really think he's going to achieve that.

Then you look corporately, we've knocked off a whole bunch of these items this year in closing deals and optimizing the portfolio. We're supporting our investee companies, and it's continually developed—providing returns on investment. Again, M&A is the last point on this page because we have de-emphasized it this year. We are focused on the inward growth and really just delivering and executing, and so we'll keep our eye on the market, but we're not actively necessarily looking for M&A right now. We've got our plates pretty full with our current assets.

I just want to thank—as Ross said earlier, thank all shareholders for really backing us on our long-term vision here. It's easy to be swayed quarter-to-quarter on making shorter-term decisions, but we really do have a bigger prize in mind, and we're willing to, like we're experiencing in the first half of this year, make the investments and go through periods of slightly lower production and higher cost, but continue to invest the capital because we actually see that huge prize at the end of this, and really appreciate the patience and the support of shareholders who've told us to keep doing what we're doing.

With that, I'll just end the formal part and open it up to questions.

Rhylin Bailie:
Thank you, Christian.

Operator, can you please remind people how to ask questions? Did you want to say something, Ross, while they're queuing up?

Ross Beaty:
No, I just wanted to—just do exactly what you just did.

Rhylin Bailie:
Perfect. Go ahead, please, Operator.

Operator:
We will pause for a moment as callers join the queue.

Rhylin Bailie:
Thank you. While we're waiting for our phone callers to line up, I'm going to take a question from online. It says you will need about $300 million for capex next year. Is that funded by operations, and what gold price do you need to cover non-sustaining capex?

Christian Milau:
Yes. Basically, that amount would be funded by our operating cash flow, but obviously, we have a very strong balance sheet in addition to that, so through both those sources, we have more than available funds to fund that.

Rhylin Bailie:
Okay.

Christian Milau:
In terms of gold price, it depends. We've still got some decisions to make on the timing of announcing construction and layering in our capital, but we certainly feel pretty comfortable at $1,500 per ounce gold, and a bit below, but we've also got the ability to stagger these construction projects over the

next three, four, five years, which is really what the plan is because they sequence really nicely almost one after another.

Rhylin Bailie:
Perfect. Please go ahead and take some questions from the phone lines.

Operator:
Thank you. Your first question comes from Mike Parkin from National Bank. Please go ahead.

Mike Parkin:
Hi, guys. Thanks for taking my questions. Just one question on the Santa Luz project. You do mention that it's tracking on schedule. You give the budget there of $103 million. Can you just give a comment there on the actual budget? Is it tracking in line with budget? We're hearing inflationary pressures on steel and some other items. Just wondering if you can kind of confirm that that budget is still good or if you're seeing a little bit of pressure on it?

Doug Reddy:
No, it's tracking fine. Our update was done late last year, and as we came into this new year, we've been very on top of making sure that we kept track of costs for materials, and we've been able to deal with everything, so we're doing very well.

Christian Milau:
We've locked in a number of contracts, obviously, and the commitments are a long way there, and also take a little bit of an advantage of obviously, the FX rate does help offset if there is any kind of increase there in inflation.

Mike Parkin:
Right. What about Greenstone and some of the plans at Los Filos? Obviously, you're going to involve some significant capital. Are you getting a sense that there's a bit of pressure on those budgets, or the numbers you've kind of been speaking to, you feel good?

Christian Milau:
Yes. I'll take that one just as a general comment. Please, Doug, jump in if there's anything I miss, but I

think, overall, I think there is a little bit of inflation, or call it creep coming along. Probably nothing outside the ordinary so far, but I do believe, over the next few years, there will be a little bit of inflationary pressure. We'll do things, too, as much as possible. We're updating the capex before we obviously launch into construction here right now. We'll try and lock in as much of the cost as possible, and we'll do our best to also protect the currencies as well, because there'll be a number of currencies that will be feeding into Greenstone. Obviously, Canadian dollars, number one, but we've also got a few other currencies, too.

Mike Parkin:
Okay, and that just kind of brings me to the last question. In terms of the cash on hand, is any of that sitting in CAD given that you're looking at starting a fairly significant spend there with Greenstone?

Peter Hardie:
Hi, Mark, it's Peter Hardie here. It is, in fact, the funds that we've just received from the Solaris sale are all in Canadian dollars, and we'll continue to start to build that Canadian dollar stockpile as we move forward here.

Mike Parkin:
All right. Very good. That's it for me, guys. Thanks very much.

Christian Milau:
Thanks, Mike.

Operator:
Thank you. Your next question comes from Anita Soni from CIBC World Markets. Please go ahead.

Anita Soni:
Hi. Good evening, everyone. My question, I guess, follows up with similarly on Greenstone spending, so you've provided guidance for the remainder of this year, but can you give us an idea of what next year would look like, and I presume 2023 is where you would start spending in terms of your pre-production capital?

Christian Milau:

Yes. I mean, it's probably a little bit early to give you too much specific guidance until we make that kind of full decision in the second half of this year because it could have a three to six-month differential there, but roughly, our percentage of the capital is 60% of the $1 billion, so $600 million, and it's—I would say, broadly speaking, think of it sort of half in 2022 and half in 2023, and maybe it's a little bit back-ended towards the later part of that, but that's probably the best way to think of it right now until we make something formal.

Anita Soni:

All right, so you would actually start construction on this in 2022 then?

Christian Milau:

Our goal is to launch into formal construction in the second half of 2021.

Anita Soni:

Okay, and then second question with regards to Santa Luz, as we look towards the project completion and think about the mine starting up, how do we—like is there considerations in terms of COVID with stripping and making sure that the mill basically has ore feed that will fill it for—like hitting the ground running at the point at which the mill is ready to go?

Christian Milau:

Yes. I'll take the first comment on that, but Doug, please jump in.

I mean, we are—I think we may have just signed or were just about to sign a contract with a major mining contractor who does support two of our other mines and is well placed and operating very effectively. Actually, we've had our best quarter ever last quarter at Aurizona with the same contractor, and we expect them to kind of ramp up and be ready to go, and we're also with Fazenda, obviously just down the road, so we do feel pretty comfortable in that region, and I think we've had a good performance on COVID there.

We've seen the contractors ramping up as well, and it's been pretty good results so far, and I think being outside of the major cities has been a real advantage, obviously, with controlling the environments and the camp and the protocols, and vaccines are rolling out, and there's a large number rolling out, but obviously [Brazil is] a huge country, so may just work out perfect in terms of timing.

Douglas Reddy:
We have standard protocols at each one of our sites, so we continue using that, and Santa Luz is also quite close to Fazenda, so it gets a lot of support from Fazenda, and we would just continue on with our protocols that we have. I mean, we've done over—I think it's over 15,000 tests in total.

Christian Milau:
18,000.

Doug Reddy
18,000 tests now, so it is very much part of daily standard operating procedures.

Anita Soni:
I guess I was just thinking more in terms of getting contractors, if that's the case, at the beginning, just to help with stripping and overburden, and has there been any pressure on getting that kind of labour given COVID concerns?

Peter Hardie:
Anita, it's Peter Hardie here. Generally speaking, no, when we do our planning for construction projects, we actually plan right through to commercial production, and then as we get closer towards the tail end of the construction period, of course, we look forward through the first year of commercial production, so everything we're doing now is in anticipation of having a successful start-up of that project.

Christian Milau:
U&M is mobilizing, I'm looking at Doug, but I think it's kind of starting in May.

Douglas Reddy:
It's mobilizing May, starting mining in June, scheduled through the remainder of the year, but we're not just doing it for the preproduction period. It carries on.

Anita Soni:

Okay, and then my final question is just sort of more of a broad-based sort of bigger picture. As you look at the number of assets that you have, I mean, you've just recently sold Pilar. Is there anything else that may not meet your criteria going forward now that you've got Greenstone and Mercedes in the fold?

Christian Milau:

I'll take that, Ross, unless you want to comment. We will continue to look at our asset portfolio mix, and I think we made it pretty clear, we were potentially willing to look at creating some value from a few of the kind of smaller assets that we had, and we'll continue to look at that. Very happy to see Pilar go because it was a small contributor to the overall profitability, and it does take quite a bit of management time, and I think we'll look at other assets in the portfolio as well, but I think it's a little bit early days to commit to any active sale.

Anita Soni:

Okay. Thank you very much.

Christian Milau:

Thanks, Anita.

Operator:

Thank you. Your next question comes from Kerry Smith from Haywood Securities. Please go ahead.

Kerry Smith:

Thanks, Operator. Doug, could you remind me what the timing is on the pre-feasibility for the underground at Aurizona?

Doug Reddy:

For Aurizona, it's probably like Q3. We say H2, but probably the end of Q3.

Kerry Smith:

Then once that pre-feas is done, and I'm presuming you wouldn't need a full feasibility to make a go-ahead decision on that, how might that project fit into the timetable in terms of that meshing in with the other projects that you have?

Doug Reddy:
With the other projects, or with on-site at Aurizona?

Kerry Smith:
Sorry, I'm thinking of the sequence of how you might sequence that. You've got Greenstone, you've got Los Filos, you've got a bunch of things going on. I'm just wondering how that might be sequencing to the schedule, or could they be concurrent?

Doug Reddy:
Oh, I think the scale of it, it could be concurrent because it's a linear project, and doing the development on the first stage of the underground, so I think it would mesh in quite well.

Kerry Smith:
Okay.

Christian Milau:
I think it'll take time, obviously, through both permitting and actually underground development, and Scott's been working hard to add ounces on surface as well, and just keep an eye for that study, but we'll keep adding both underground and open pit, and that'll just allow us that flexibility and timeline, and it'll run concurrently.

Kerry Smith:
Okay. Got you, and just on the $9 million write-down that you took on at Los Filos, is that—or is that because you're not confident or you don't expect to recover those ounces in the pad now? Is that what's happened, and if that's the case, I'm just wondering what's changed?

Peter Hardie:
Kerry, it's Peter. That's not the case. There's two things, really, that contribute to the write-down. The first thing is, and it's an accounting thing, but you have to keep in mind that the ounces on the pad they're effectively at fair value. We acquired the mine, and it was effectively on care and maintenance from the time of acquisition through to the end of the year.

Heading into the beginning of the quarter, you basically have the ounces that are at fair value, and then, of course, we're doing some development and stripping work, sustaining capital work at the mine, not stacking a tonne for the quarter, and that's not the technical term, but stacking activity was less than a normal run quarter that also contributes to extra cost for the quarter, which led to the write-down, but that's not an expectation go-forward, and during a normal quarter, not something we would otherwise see.

Kerry Smith:
I got you. Okay, so could we see a reversal then in a subsequent quarter there?

Peter Hardie:
There is the potential for that, yes.

Kerry Smith:
Okay. I see. I see, and then just on—maybe Christian can answer this. Just on the COVID situation in Brazil, I know Brazil is obviously having a tough time generally, but are you able to sort of manage and control the incidence of COVID because your operations are relatively remote. The towns that your employees live in are also relatively remote, which kind of helps to limit the incidence of COVID, because, obviously, these people go home to their communities every night or after their shift change, and then they're gone for a week or a day or whatever, and then they come back, but you've done a good job. I'm just wondering how you've been able to do that?

Christian Milau:
I mean really straight up with you, Kerry, when you read the headlines, it feels like a very different world in a way, but we've been able to keep, I'm going to say, sticking my neck out there a little bit, but it's in single digits at each site at most, and that's way down from where it was, I'd call it, a year ago.

I think it's just the rigorous protocol. We've got various different shifts and people coming in and out that are more amenable to allowing testing and periods of, call it, quarantine or anything beforehand. We're very quick to trace and have people isolate if they have any inkling or symptoms or positive tests, and I think the local communities have really gotten on board with this, too, because a lot of our workers really make up a lot of that population and families there, and kudos to them. When I was down there with Ross and others not too long ago, like, mask wearing is very common, and our distancing and protocols, I think, are very strict. I've been just really pleased with how they really jumped on that.

Kerry Smith:
Okay. Okay, and maybe just the last question for Doug, just on Castle Mountain. In the quarter, obviously, the production was quite a bit lower, but the tonnes to the pad and the grades were pretty much in line with Q4. I'm just wondering what the issue was with the gold production.

Doug Reddy:
It's teething problems on the heap leach pad, just figuring out the techniques to get the best solution percolation, so the guys at site are—they're working on it, and it takes time to try each thing in sequence, so you know which things are working best and for it to flow through essentially to the results to see what's actually working out well.

Kerry Smith:
Are you kind of thinking you've figured out the right formula here now? You talk in the disclosure that production was quite a bit better in April, I think you said.

Doug Reddy:
They're figuring it out, so it's coming.

Kerry Smith:
Okay.

Christian Milau:
Yes, we've seen a doubling of daily ounces in April, which I think we put in the disclosure very specifically.

Kerry Smith:
Right. Right. Okay. Okay, great. That's all my questions. Thanks a lot, guys.

Christian Milau:
Thanks, Kerry.

Rhylin Bailie:

Thanks, Kerry. Another question for Doug or Scott. When can we expect results from your Fazenda Santa Luz exploration, and also from your Aurizona regional exploration?

Scott Heffernan:

Scott Heffernan, here. We'll go to Bahia first. Regional work's underway now. Probably be looking into Q3. One of the challenges we faced is the pandemic-related closures in Brazil, the labs, so the labs were locked down for upwards of two months. They are reopening now, but with limited capacity, so this has definitely stymied the flow of our results, so recently anticipated news imminently is probably pushed to Q3.

With respect to Aurizona, exploration at Aurizona is just starting in earnest. The overall exploration plan in Brazil was to focus on Bahia for the first half of the year, which includes us having to battle the rains you've heard mention of in the North of Arizona for the first half. Now, with this turning point, we're starting to mobilize and move some of the rigs from Bahia to Aurizona to start that work, so those results will be backloaded in the year, late 2021.

Rhylin Bailie:

Okay. With regard to the Greenstone project, what factors are going to impact your decision to go ahead with construction, and what is the likelihood of this project moving ahead?

Christian Milau:

I'll take that to start.

We've been spending the last number of months getting up to speed on the project, the capex, the team, etc. I'm really pleased with what we've seen, and they've done a heck of a lot of work over the last few years, and at the moment, we're just really getting up to speed with sort of, call it, capex updates and getting key team members in place and getting some of the early works plans and schedule sort of debottlenecked, and I think we should be in a good place.

I think we've got a pretty good indication, since we're willing to spend $40 million in early works construction this year that all things being equal, unless there's any major changes, we really do plan to be making a construction announcement in the second half of this year because the balance sheet's in a good place, and we'd be finishing off Santa Luz, which I think is an important milestone to kind of sort of say we're moving forward now on the next project, and so those kind of sequence nicely. There may be a small amount of overlap, but we'll have high level of confidence in Santa Luz being done sort of on-time, on budget by sometime in Q4, and this project should be ready to go by then for sure.

Rhylin Bailie:
Thank you. The all-in sustaining costs were quite high this quarter at some of your projects. What are your plans to reduce those costs and make these mines profitable?

Christian Milau:
Maybe I'll take that at a high level, and Pete and Doug, please jump in.

We said in the first half of this year that really we would be stacking, I mean, almost no ore at Mesquite, so you're really just pouring off those residual ounces that are up there, and opening up Brownie will really start to open up that ore source. They're starting to hit it in the next few weeks here, but really in Q3, you'll see the impacts of that, and there's a leach lag to it, so we knew the investment was worthwhile. There's some really good ounces in oxide right there, and lots of exploration upside in and around that area, so that will bring those costs down naturally. You take that denominator of ounces up, and your costs will come down.

At Castle Mountain, like I said, doubling the ounces in April will automatically bring those costs down, and as we just get more efficient with solution flow, pad management, and running the ADR plant, you're going to see those costs come down. And Los Filos is more complex. It was a challenging year last year. We had those two hiatuses with the COVID shutdown in Q2, and then obviously, the blockade in part of Q3 and Q4, and it's a big engine to get revved back up.

I think the team have done a great job, and we're kind of well underway now, and just freeing up the Bermejal underground development was the last missing piece for that future high-grade ore source, and Guadalupe starting to see some better grades right now, and I think come early Q3, you'll start to see the benefits of that and that grade, again, will show more ounces, and instead of reprocessing ounces that are, call it, low-grade right now, which we're doing to make up during this interim period while we're investing, we're allocating out fixed costs and overheads essentially to a lot less ounces than we're putting up on the pad or reprocessing on the pad.

Once you start putting that primary ore up and much better grades in the second half of this year, you're going to see those costs come down too. So I hate to have to say it, but it's a little bit—give us a couple of quarters here. We're sort of already getting partway through quarter two, and Q3, it should start getting pretty exciting around here, I think, and you'll start to see those costs come down.

And this is the beauty of having a portfolio. I mean, if you look across the Brazil assets, they just had a wonderful first quarter, and actually finished off last year really well, and that's the benefit. It gives us the confidence to invest in some assets, and ultimately, we will bring those costs down, and those other ones are outperforming by hundreds of dollars an ounce, and so all in all, had pretty decent performance.

Ross Beaty:

I think also, if I can step in here, Christian, it really shows the importance of looking longer-term than just quarter-by-quarter. Shareholders have to look at us as an evolving business where we are victims of our mine plan, we're victims of recovery changes and the natural variation in an ore body, and your example of Mesquite is a perfect example of that.

So, shareholders really want to be looking at a one year, or even a two-year timeline in terms of growth and in terms of development and variation. You can't really look at a specific quarter because a lot of things change from quarter-to-quarter. But as you said, we're going to have a progressively better year as the year goes on, and hopefully, the corporate value will increase accordingly.

Rhylin Bailie:

Thank you, Ross. You talked about your ESG strategies and that you're going to be setting greenhouse gas emission targets for this year. Are you looking at options, green power sources, natural gas, things like that at your properties?

Christian Milau:

I think the short answer is absolutely yes, and I'm going to name Ross in this, but Ross is Chairman, who obviously founded a green energy renewable source company. It does put a slight different angle, and every time you look at a project or an opportunity in each of these countries, we look at those sources. I mean, California, obviously, solar power is an option.

Renewable sort of hydropower in Brazil is obviously an option. We will look across the spectrum, particularly as we build projects, but also as these projects move on, at alternative sources because it's becoming a lot more competitive in terms of pricing and sourcing and ability to access these types of sources as well, so absolutely.

Rhylin Bailie:
Thank you. If gold continues to go higher, as we all hope it will, what could go wrong in your countries with things like legislation, confiscation, employees wanting higher wages, security? How do you deal with those things?

Ross Beaty:
Well, one of the best ways to deal with them is through having a diversified asset base, so if things go upside down in one place, it's offset by good things happening somewhere else. And it's very hard to predict the future of what can happen from country to country, and that's why I take great strength in having a diversified asset base, not just in terms of country, but even in terms of location and specific assets. So with seven operating mines right now, and with Santa Luz would become our eighth, we have this strength in diversity, and right now, Canada's in pretty good shape. I think California is in pretty good shape. I don't hear any great rumblings of big changes in the U.S., in the standpoint of mining taxation. Brazil is quiet.

The country that has from time to time been making a bit of noise recently about higher taxes is Mexico, but those have recently died down, so there's nothing on the real immediate horizon. Farther away, there's lots of noise about Peru and Chile right now. We don't have operations there, but countries have to be very careful to deal with their taxation, making sure it's competitive, because otherwise, companies simply move their capital elsewhere, and these countries often lose the benefit of anything—when they increase taxes, they often receive less in tax revenue over the long term. So nothing's really on the horizon right now, but we take great strength in having a diversified asset base.

Rhylin Bailie:
Thank you, Ross. Another one of your favourite questions. Are there any plans for dividends or share buybacks?

Christian Milau:

Do you want to take that, Ross?

Ross Beaty:

Yes. We talk about this every Board meeting. We can't wait until the day that we'll pay a big dividend, but currently, the focus is on taking our capital and putting it in the ground where it creates additional value for shareholders over the medium term. Right now, we have such a plethora of great investment opportunities that this will add to the capital value of the Company, that should reflect itself in income gain and in capital gains which will more than offset any shareholder value that comes through dividends. When we find we have surplus free cash flow, we'll give it back to the shareholders as soon as we can, and it cannot come soon enough.

Rhylin Bailie:

Thank you. Somebody wants to know what our exit strategy is for our Solaris investment.

Ross Beaty:

I'll take that one, too, Christian, so what we've done right now is we've been very cooperative with Solaris, and they had an interest in finding a block of stock. We were able to provide that for them. We have no further plans to divest any more of our shares for the foreseeable future. We are very supportive of what Richard Warke and Dan Earle and their team are doing in Solaris. They're doing a marvelous job. We're coming along for the ride and enjoying the run. The business mind of Solaris is to explore and sell. This is not a company that's planning to build a big copper mine in Ecuador. They're trying to do what Richard Warke has done so very well with other companies in his fold in the last 10 years; finding large companies to take on these assets.

Their Warintza copper deposit in Ecuador is of a grade and size that would be of interest to any major copper mining company on the planet, so I fully expect not too far away, maybe this year, maybe next year, but not in three years, that he'll get an offer he can't refuse, and he will head to the exit, and we will be more than happy to go to the exit along with him, and he knows that, and we're going to hang on for the medium term, expecting that's going to be a happy ending for all shareholders not too far away.

Rhylin Bailie:

Thank you, Ross.

We are well over time, so if there's questions that we didn't get to, my apologies. We will get back to you by phone or by e-mail. I'm going to hand the call back now to Ross and Christian for closing remarks.

Ross Beaty:
Well, I only have one thing to say, which is a big thank you. Thank you to all of our shareholders and interested parties, people who are on this line, for your support. We are a young, very dynamic company. We've had a wonderful run, I think, so far. I hope you're feeling as proud as I am about how we've built into a real world-class company in a very short amount of time, and also, I hope you recognize that it takes a lot of effort by a lot of people in our Management team to get there. So it's my thanks to the shareholders. It's also my big thanks to our Board of Directors and Management team for getting us there, and I really look forward to reporting to you next year at the same time, same place on what a wonderful year we have in 2021, and what great promises we have in store for 2022. Thank you, again.

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