Equinox Gold Corp. and Leagold Mining Corporation Merger Transaction Conference Call Transcript

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Speakers:

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Ross Beaty
Chairman, Equinox Gold

Neil Woodyer
Chief Executive Officer and Director, Leagold Mining

Christian Milau
Chief Executive Officer and Director, Equinox Gold

Operator:
Thank you for standing by. This is the conference Operator. Welcome to the Conference Call and Webcast to Discuss the Equinox Gold and Leagold Mining Merger.

As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation there will be an opportunity to ask questions. To join the question queue, you may press star then one on your telephone keypad. Webcast viewers may submit questions through the text box in the lower left corner of the webcast frame. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

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

Rhylin Bailie:
Thank you. Thank you, everybody, for joining us today. We will, of course, be making some forward-looking statements today, so please do take a moment to visit the Leagold website and the Equinox Gold website to find our continuous disclosure documents.

I'd like to introduce the people that are in the room with us today. We've got Ross Beaty, Chairman of Equinox Gold; Neil Woodyer, Chief Executive Officer of Leagold; Christian Milau, Chief Executive Officer of Equinox Gold; and Attie Roux, Chief Operating Officer of Leagold. I'm now going to turn the call over to Ross Beaty to make some opening remarks.

Ross Beaty:
Thank you, Rhylin, and good morning, ladies and gentlemen. Thank you also for joining us today.

Well, I'm very pleased that our two companies are joining to create a bigger, stronger company. I've always felt that Leagold is, in many ways, a twin of Equinox. We're both young, dynamic companies, both based in Vancouver, both with assets exclusively in the Americas, both with veteran management teams who have created a lot of wealth for many shareholders over time.
Besides our common histories, we have common missions: to build ourselves into larger, less risky, more diversified gold companies; offering shareholders greater liquidity and larger scale in an investment world where size matters today more than I've ever experienced in my long career in the

mining and public markets business. Equally importantly, our merged Company will offer our shareholders more leverage to the gold price. With increased gold production comes greater income exposure to upward movements in gold, greater earnings, greater cash flow, and as soon as possible, dividends to our stockholders, and also greater capital exposure in terms of our larger gold reserves and resources base.

It's no secret that I'm bullish on gold, and I share this conviction with Leagold's Chairman, Frank Giustra, who has followed and invested in gold and gold companies throughout his illustrious career. Frank has said many times, and I agree, that the macro environment for gold is as strong today as at any time in either of our long careers. In this environment I look for massive exposure to gold, both on the income side and the capital side, and this combination delivers that to shareholders of both companies.

This is one of those organic deals that just makes sense. We have real synergies. We have exclusively Americas assets. We have outstanding management teams on both sides with long successful track records, strong financial capacity, and it's a true merger of equals, avoiding the kind of unconscionable premiums that investors hate, and building true scale and value. I'm very excited by this transformative deal for stockholders of both companies, and I recommend its approval. I look forward to working with Neil Woodyer and the combined team to maintain a record of fast and accretive wealth creation with or without a move in gold. But if gold moves higher, as I expect it will in 2020, we'll do really well.

Thank you again for joining us today. I'll now turn the call over to Neil Woodyer, CEO of Leagold and CEO of the new bigger and better Equinox Gold Corp. Neil?

Neil Woodyer:
Thank you, Ross.

Going through some of the detail, this is coming together with the two companies and the strategic merger to create a premier gold producer. It puts us into the top 20 primary gold producers, our organic growth takes us to a million ounces of production in the near term. We have six producing mines, two development projects, and two mine expansion projects. Our P&P reserves of 12.7 million ounces and our M&I resources 23.6 million ounces. As Ross said, all our assets are in the Americas: U.S., Mexico, and Brazil.

Very importantly, we're fully funded. We have a strong internal cash flow and we have a financing package of USD$670 million. The banks have underwritten a new deal to $500 million, the sovereign wealth fund of Abu Dhabi is doing a second convertible for $130 million, and, most importantly, Ross is putting $40 million of at-market equity into the transaction in addition to the significant and substantial investments he made before; he actually will end up as our largest shareholder at 9%.

We have a clear path to market re-rate. We have dual listing now, or will have dual listing now in the U.S. and Canada with a lot of potential for inclusion in the Indexes as we go forward. We have increased liquidity and size to attract new shareholders, significant scale, diversification, synergies, growth. We have a lot ahead of us in the next year or so putting this deal together.

I'll hand over to Christian to go through some more of the detail.

Christian Milau:
Yes. Thanks, Neil.

Just want to walk you through the transaction summary on Page 6 briefly here. It will be a merger via a Plan of Arrangement, fairly standard for this type of deal. It's been unanimously recommended by both sets of Board of Directors, and we have a strong set of voting support agreements or lock-ups, 21% through the Equinox side and 42% from the Leagold side.

In terms of the consideration, it's 0.331 shares of Equinox for every Leagold share in an all-share deal. It's an at-market merger at C$2.70 per Leagold share, which is the closing price as of Friday last week. The pro forma ownership will be 55% Equinox, 45% Leagold. The concurrent financing, I think Neil has already walked through here, but very strong support from our core strategic long-term partners, and we're very excited to be working with them as we move forward and continue to grow the business and fund all of our development internally.

The $500 million underwritten bank financing is $100 million in a five-year term loan and USD$400 million in a revolver. The core banks that have been supporting both groups continue to support in this transaction, so very pleased that they've continued on.

In in terms of leadership and governance—we've already talked about some of that—the Board of Directors will be split 50-50, four from each side, as well in terms of keys approvals and timeline here, the approvals from shareholders of Equinox will be a simple majority and the security holders of Leagold will be a two-thirds vote. We'll have customary regulatory and court approvals, and obviously the Mexican Antitrust approval will take a couple of months, which we'll go through.

Looking at Slide 7, stepping back, this is an at-market merger. It's a true merger of equals. I think as Ross alluded to before, this is what the market has been asking for, and we're really pleased today to deliver on that. When you look at this exchange ratio, it's 0.331, but you look back over the last year in this diagram, and it's basically almost the same number, 0.32 effectively. There're some big swings in the short term, but on the average for the whole year it's been very similar to the final exchange ratio, so we're very pleased about that. Obviously, the exchange ratio is a blend of accretive and dilutive metrics for each company, but in line with that average exchange ratio since the start of 2019.

Looking at the asset base on Slide Number 8, with this transaction we're creating a premier Americas gold producer. Very few companies are solely focused on the Americas and certainly not many are of this scale. This portfolio demonstrates that strong diversification by geography and assets, with six producing mines across these three countries and four growth projects that are now internally funded. The large reserve base that Neil alluded to of 13 million ounces is a peer-leading number, as well as a very large resource almost 24 million ounces of M&I. We'll be producing almost 700,000 ounces of gold based on analyst consensus in the coming year. Then we have a path to 1 million ounces on a run rate basis, but we do need to execute on the expansion of several lead assets which are now fully funded in this plan.

At the bottom line, this will be a cash flow machine. There're $300 million of cash flow from operations and $350 million of EBITDA, so strong cash flow from operations in the future. The merger is in line with what we stated as our growth strategy for both companies.

When we look at the next page, Page 9, this combination results in significant growth in mining-friendly jurisdictions. I know both of our shareholders bases have been asking for that and for us to be focused in these geographies, so we have that estimated 1-million-ounce annualized gold production within sight here in the next couple of years. We'll have eight producing assets in three mining-friendly jurisdictions, nicely broken down there as you can see in the diagram to the right. It's diversified and good spread by region, and then the growth at the very bottom there will allow us to get to that million ounces. The Los Filos expansion, Santa Luz restart, those can be accelerated. Then we have Castle Mountain expansion for Phase 2, and Phase 1 will be in production in the next six to seven months.

Turning over to Slide 10, premier Americas gold producer, that's been our target, that's been our goal. I think when you look at this slide you see how we slide into this new set of peers with very attractive growth profile, and we're really excited that we've moved up to that scale, and we're within sight of that 1 million ounce per year.

Turning to 11, a little more detail on the funding for this growth. We have a fortress balance sheet now, and we have cash flow growth that allows us to be fully funded for this whole program. Our cash balance of $270 million, excluding transaction costs, comes from about $100 million of cash on hand at September 30 and the Mubadala investment brings in $130 million on the new convertible proceeds, and Ross's investment brings in $40 million of the at-market financing. So, strong cash position to come out of the gate here.

In terms of draw on debt, we'll have $550 million which is comprised of this new term loan of $100 million from the banking group, the new Mubadala convertible note of $130 million, and the new corporate revolver, of which $320 million of the $400 million will be drawn. Importantly with that, as well, our cost to capital is coming down. We will be at LIBOR plus 2.5% to about 3.5% on that large loan, so really improving our cost of funds.

The overall financing package is $670 million, and our net debt now is a very low $280 million for a very substantial business, so we're in a strong position to execute on these growth plans.

Looking at Slide 12, just again, repositioning us within the peers, we're extremely well-positioned now. You look at the 2021 estimated gold production based on analyst estimates, and we'll be in that top portion now competing with the other sort of million-ounce type producers. The growth is sector-leading or peer-leading in terms of this sector group. Over the next couple of years, the anticipated growth is about 20%-plus and then our P&P or 2P reserves will be in the higher end or upper end of this with almost 13 million ounces.

Turning to 13, and what's really important here is we'll have exceptional re-rate potential in the near term, which Neil alluded to earlier. We believe we're well-positioned now that the growth is fully funded. Index inclusion is basically imminent in the first half of this coming year, and we have the dual listing which I think was a good step moving on to the New York Stock Exchange recently. If you look at this graph, on the combined market cap values you're about at C$1.3 million, and when you look at the potential re-rate potential to 1.0 to 1.1 times price to NAV, that's $2 billion-plus of value right out of the gate.

I'll turn it back over to Neil right now to walk you through a few more slides here.

Neil Woodyer:
Okay. Well, first of all, the Board of Directors are set through that, assuming the Chief Executive's allowed to set through his Board. Ross will be Chairman, and coming from the Equinox side, Len Boggio who has been a director with them for some time; he was a partner at PricewaterhouseCoopers and was past chair under the Canadian Institute of Chartered Accountants. Tim Breen, long-standing member of the Mubadala Investment Company. Also, the fourth director is Marshal Koval who's been a geologist for 38 years and involved in a lot of corporate transactions.

From the Leagold side, Wes Clark, ex general, joins the Board again; Gordon Campbell former high Commissioner of Canada for the U.K., premier of BC; and last, but not least, Peter Marrone, chairman and CEO of Yamana; plus myself.

If we turn to the Senior Executive Team, Christian, who's currently CEO of Equinox, has been since 2016, previously COO of True Gold, and in his youth was CFO with Endeavour Mining, he takes on the role of EVP Corporate. Attie Roux, who's currently Leagold's COO becomes COO of the new merged Company. Peter Hardie, the CFO at Equinox continues in that role going forward.

Looking at the next slide, which shows that the bringing together of these two companies creates a very, very strong mix of shareholders. Our present shareholder bases had a different profile. We end up with a very broad mix of corporate, institutional, high net worth and retail shareholders. Extremely important, we're supported by strong long-term shareholders. Not only do we have the converts possibility going forward, but Ross represents 9% of the shareholder base; the largest shareholder.

Looking at the transaction timeline, theoretically fairly straightforward. The merger announcement today. Lots of work to be done between now and late December when the Special Meeting information is mailed out; shareholder meetings late January; expect to close February, maybe early March; in addition to, as Christian said, the shareholders, we do need the approval of the Mexican Antitrust.

When we look at 2020 on a nearby basis, we need to look at value creation. From operational points of view, our priorities are to accelerate Los Filos expansion; complete Castle Mountain Phase 1; advance Castle Mountain Phase 2; expedite Santa Luz restart; and optimize Mesquite. We have a lot of exploration potential. We'd like to extend the mine life for Aurizona, Fazenda, Los Filos, and at Mesquite.

Corporately we have the challenge of executing the merger and integrating it, G&A savings. We're also seeing an opportunity to formalize our external ESG reporting.

We believe that by communicating the growth story and the benefits that we'll see to investors in the future, we should be able to see that market re-rate; importantly, qualifying for a number of Indexes in the first half of next year. We have a clear path to a million ounces during 2021 and beyond.

Finally, in summary, and I think this is a summary that is conceptual and really very true, we're creating scale, six operating mines with significant cash flow; stability, long-term mines in favourable jurisdiction; flexibility, a $400 million corporate revolver and strategic partners; four growth assets with upside potential; a strong balance sheet fully funded; value of scale and growth; pathway to a clear market re-rating.

That, ladies and gentlemen, finishes the formal part of the presentation, and I'll hand you back over so we can deal with questions and answers.

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

Operator:
Certainly. To join the question queue, you may press star then one on your telephone keypad. You'll hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset

before pressing any keys. To withdraw your question, please press star then two. Webcast viewers may submit questions through the text box in the lower left corner of the webcast frame. If there is insufficient time to respond to all questions, management will follow up by e-mail.

Our first question comes from Bryce Adams of CIBC.

Bryce Adams:
Good morning, all. Thanks for taking the questions.

Ross Beaty:
Good morning, Bryce.

Neil Woodyer:
Morning, Bryce.

Bryce Adams:
I think Slide 18 might've addressed my first question, but it was on the phase approach that Leagold was taking with Los Filos and Santa Luz. The financing package rethinks all of that and the improved balance sheet should allow for those projects to be accelerated?

Neil Woodyer:
Yes. That's right.

Bryce Adams:
Got it. Under Leagold, the Pilar asset was deemed noncore; is that true for the pro forma Company, and would there be any other assets that now fall into the noncore category?

Neil Woodyer:
I think what we have intention is to continue to expand and enhance the quality of our portfolio. From Leagold's point of view, this transaction starts off by doing that. I think we have to look at all our assets and size and growth and management time of criteria we have to use. We'll be assessing that in the short term.

Bryce Adams:

So, we should expect an update in terms of portfolio rationalization in the first half of next year?

Neil Woodyer:

Yes.

Ross Beaty:

Correct.

Bryce Adams:

In the opening comments there was Ross's bullish view on gold. Given the scale of the Company that this deal would provide, is there a view to unwind the gold hedging program that was announced earlier in the year from the Leagold side?

Neil Woodyer:

We are considering the sensibility of doing that. We put it on, not just because of the bank debt; we put it on because we were going through a capital expansion phase and we wanted to protect that. I think the situation has changed now as this goes forward, so that's something we're assessing.

Bryce Adams:

Got it. Last one for me just on the ESG report, it was my understanding that Equinox was just about ready to put out a standalone ESG report; would that still be coming out will the deal to defer that until later next year?

Christian Milau:

Yes. It's Christian here. We certainly will look at combining our forces in our external reporting and look at what we can do. I mean, ESG has become a really important topic for the key funds and certainly new funds that are looking at our sector investing, so we'll take the best of both worlds and come out with something on a combined basis that will satisfy everyone, for sure.

Ross Beaty:

Are you planning—are you going to do one for Equinox, like, right now? Like, what's the status? You could do that and then just ...

Christian Milau:
Our plan for Equinox is definitely to do one in the first part of next year, certainly the first half of next year. Now, we'll try and obviously do it on a combined basis.

Bryce Adams:
That's all for me. Thanks for that.

Ross Beaty:
Thanks, Bryce.

Operator:
Our next question comes from Kerry Smith of Haywood Securities.

Kerry Smith:
Thanks, Operator. Maybe I could just ask a quick question to Ross just generally in terms of strategy—and I guess I should congratulate you on what I think is a pretty interesting deal. But, Ross, you had talked about getting to a million ounces by 2023—by the end of 2023, actually, which was the original target. You are going to do that way before schedule. Do you have a bigger picture over the longer term? Do you think that this should be a 1.5 million ounce a year company, or do you think it should be a million ounce year producer, and you're constantly upgrading the quality of the portfolio as time goes by, by bringing in new assets and selling off older assets? I'm just curious how you are thinking now.

Ross Beaty:
Thanks, Kerry, and thanks for your comments. Well, you know you have to walk before you run, so first we get to a million, and then we decide what to do. There's no magic to a million ounces. It's just a number, but it represents scale. In this game, as I described in my opening comments, scale really does matter. It matters more today than ever before, than ever I've seen it, for all sorts of reasons.

We had a target at Equinox to try to get bigger. We just threw out the million ounces because it was sort of a nice little number to sort of use as an objective. To be honest, the real important driver isn't really number of ounces, it's quality of ounces. You know that, and we all know that. It's quality and cash flow and risk and all those things, and they're all very important.
As Neil said earlier, when we get this deal done—and it's going to be done in sort of Q1, we hope late Q1 2020—we're going to then look at all of our existing assets; we're going to kind of re-evaluate things, make sure that all of the reasons that we're doing this remain; and then we're going to try to manage the assets we have as best we can. We're going to do lots of exploration work; we're going to do all the expansion work that we described; and we're always going to be looking at improving the quality of the assets. It may mean getting bigger, it may mean getting smaller, but it will try to focus on value and quality.

You're just going to have to wait until we get this deal done to see what we do next, if anything. There're no promises, but certainly the bottom line today is that the larger companies have better multiples, and they have better multiples for good reasons: they offer better value to shareholders in terms of risk diversification, overall risk, liquidity, and all of the things that are important today.

We're going to keep trying to focus on that, but at the end of the day, it's the quality of the assets, not the quantity that counts.

Kerry Smith:
Right. Okay. Just secondly, as a converse to that just on a dividend strategy, if you would call it that—you did mention in your opening remarks—what would have to happen to get to the point where you could pay a sustainable dividend, Ross?

Ross Beaty:
We can't pay a dividend quickly enough as far as I'm concerned, but we won't pay a dividend until we have all of our expansions sort of done, the risk profile of the Company lower, and we feel we're generating more free cash flow than we can use back in our operations to drive value. We can't give you a timeline, Kerry, but you can look to some of the other companies that I've been involved in, and specifically Pan American is the sort of model for how to build a really good, successful company, which I really hope we're going to be following with Equinox Gold over the long-term—and when you get that happy position where you're generating more cash than you can sensibly use in your

operations, and you don't have sort of an urge to do a new deal just for the sake of doing a new deal, that's when you return money to shareholders. You do it by dividends, and you do it by share buybacks.

We can't get to that position soon enough because when we get there, we'll know we're really, really a cash-generating machine, and that's all of our objectives, I think, here.

Kerry Smith:
Okay. Maybe I could ask just one final question, and maybe to Neil or Christian. Just on the expansion and the restarts, right now you're at, call it, 700,000 ounces in 2020 and this path to a million ounces in 2021, what are the assets that are included in that incremental 300,000 ounces?

Neil Woodyer:
Included in that incremental 300,000 ounces is an expansion of Los Filos, the full operation in Brazil of Equinox's assets there.

Christian Milau:
Castle Phase 1 coming to full production as well.

Neil Woodyer:
And at Santa Luz we should be able to start. That has about 9 or 10 months start ,construction period.

Kerry Smith:
Okay. So, really, outside of Castle there's three other assets that would be involved in that then?

Neil Woodyer:
Well, Los Filos, Fazenda, RDM, Pilar for a little bit, Santa Luz.

Neil Woodyer:
Yes.

Kerry Smith:
Right. Okay. Perfect. Thank you very much.

Neil Woodyer:

That's the analysts' consensus figure; 700,000.

Kerry Smith:

Got you. Okay. Thanks, Neil.

Christian Milau:

Yes, Kerry.

Operator:

Once again, if you have a question, please press star then one. Our next question comes from Andrew Weekly of SmithWeekly Research.

Andrew Weekly:

Well, congratulations on this merger. Both teams have done an exceptional job of enduring these low levels in the market and, certainly, we at SmithWeekly have been strong supporters of both companies. It's good to consolidate these businesses. Neil, Christian, and Ross, what can we expect going forward in terms of taking near-term advantage of continued suppressed asset prices in this market? What specific jurisdictions and stage of assets will you be looking at going forward, and will the focus remain on gold? Thank you, gentlemen, and Merry Christmas to you.

Christian Milau:

Thanks.

Ross Beaty:

Thanks, Andrew.

Neil Woodyer:

A quick answer; remain on gold in the Americas. We have our hands full putting this integration together; we have a pipeline of projects; we have an intention to improve the quality of our portfolio as we move forward; and at some stage we'll do another transaction.

Rhylin Bailie:

That's it? All right. Andrew any follow-up to that? Great. We've got two questions…

Andrew Weekly:

No further questions, guys. Just thank you.

Rhylin Bailie:

Okay. Thank you. We do have four questions online, but they're asking the same thing. The first question is, "Will the EQX stock warrants continue to trade with the same terms?"

Christian Milau:

Yes. The EQX warrants will continue. I mean, there's no change to the EQX shares and warrants.

Rhylin Bailie:

Okay. Another question. "What do you—and this is forward-looking statements here—what do you anticipate for your corporate all-in sustaining costs for 2020 and '21?"

Neil Woodyer:

We haven't got an answer to that question at the moment. We're going through our budget process to see where we are. We're seeing where our priorities are, so we haven't got an answer to that yet. We'll have that at the start of the new year.

Rhylin Bailie:

Okay. Just one more question. "Do you have any sense of what your trend for net debt is going to be over the coming years?"

Christian Milau:

Yes. In terms of net debt, obviously we have, I'll call it, a low-level of net debt going into this transaction with all the cash being raised. We would see that obviously gradually declining as we deliver on the development projects. The cash flow from operations will actually fund a very significant proportion of that, but I'd see a net debt level or a ratio trending downwards over the next number of years here.

Rhylin Bailie:

All right. Are there any further questions on the phone? No? Then we'll hand it back, please, to Neil, for closing remarks.

Neil Woodyer:

Yes. Can I just speak for a moment to the Leagold shareholders and looking at this transaction? I believe it's a step that takes us into another league. I believe it's a step that strengthens our balance sheet with more cost-effective finance and more flexible finance. Importantly, it brings in a long-term strategic partner. We'll have no shareholder over 10%. It's a step that, importantly, improves our asset portfolio. It's a step that sets us in a greater chance of re-rating and greater shareholder liquidity. It's a step definitely in the right direction for us.

Ross Beaty:

I have nothing to add to that. Well said, Neil, and I just look forward to a great new chapter ahead for two great companies and now combined into one. Thank you all for joining us today.

Rhylin Bailie:

Thank you very much. We'll now disconnect the call.

Neil Woodyer:

Thank you.

Operator:

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