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## CORPORATE PARTICIPANTS

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**Erfan Kazemi** *Sandstorm Gold Ltd. - CFO*

**Nolan Allan Watson** *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Don MacLean** *Paradigm Capital Inc., Research Division - Senior Analyst of Gold*

## PRESENTATION

### Operator

Good morning, afternoon and evening. My name is Donna, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sandstorm Gold Royalties Conference Call. (Operator Instructions)

Please be aware that some of the commentary may contain forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. (Operator Instructions)

Mr. Watson, you may now begin your conference.

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**Nolan Allan Watson** - *Sandstorm Gold Ltd. - Co-founder, President, CEO & Director*

Thank you, Donna. Well, good morning, everyone and thank you for calling into this earnings call. This morning, as usual, Erfan is going to walk us through the Q1 results and Dave Awram is going to provide an update on a few of the assets, and then we're going to turn it back over to the operator for a question-and-answer period. And if anyone has a question that doesn't necessarily need to be part of the live Q&A, they can ask that through the web portal and we'll make sure that each and every person who asked a question will get a direct response from us after this call.

Before we do that, I would like to provide a brief business update. At this time, we're going to be walking through a prepared PowerPoint presentation on the web portal, so if you're able to, please turn your attention there now. Overall, this quarter was very straightforward. We continue to be pleased with how well balanced our portfolio of royalties is and how well it's performing. Before we get into specifics, I would like to provide a quick update on our share buyback program. As you can see on the slide, we have now successfully repurchased 6.3 million of the 18.3 million shares that we're targeting for repurchase. It's worth noting that in the first 4 months of the year, between the year and the blackout, a deal blackout for the Relief Canyon gold stream deal and being in blackout for Q1, we've actually been in blackout for 3 of the last 4 months. Our blackout will officially end at the end of trading today. And beginning tomorrow, we'll finally be able to step back into the market and will continue buying back our shares. As previously stated, we anticipate completing the repurchase of the full 18.3 million shares around Q1 or at the end of Q1 of next year.

During the quarter, we were also pleased to be able to complete a \$42.5 million deal with Americas Silver to finance the construction of the Relief Canyon mine in Nevada. \$25 million of which relates to a gold stream, under which Sandstorm will receive nearly 6,000 ounces of gold per year over the next 5.5 years, dropping down into a life of mine stream of 4% of production. At today's gold prices, the fixed ounce portion of the stream alone covers nearly 100% of the cost of the stream and the convertible and some of the equity that we placed with them. This should be a very profitable deal for Sandstorm. I do believe, however, it also shows how Sandstorm can find creative ways to provide capital to mining companies looking to grow their business. Americas Silver, for example, is a very capable management team, and they are looking to grow their business over the next several years. One of the reasons that I think that they chose to complete this transaction with Sandstorm is because we're able to structure the quickest and most flexible financing package that will allow them to have the freedom to grow their business as they see fit, rather than traditional sources of debt, which would prohibit them from further growth without the bank's permission. We have said since the beginning of Sandstorm that one of the things we do is help mining companies grow their business, and we acquire attractive streams and royalties in the process. I think this deal is a good example of that.



Now that we have made this latest acquisition, we've built a pipeline of new streams and royalties that will be turning on and beginning to pay us over the next 18 months. And you can see from this next slide that we have a new stream of royalty coming online each quarter through 2019. And with Relief Canyon coming online in 2020, we now expect both 2019 and 2020 to be record years in terms of Sandstorm's royalty ounces sold. Speaking of ounces sold, at the beginning of the year, when we set our production guidance range for 2019 of 63,000 to 73,000 ounces, we did it based on an internal quarter-by-quarter budget for the year. Within that budget, Q1 was expected to be the lightest quarter in terms of sales because as I publicly discussed in the past, it doesn't include anything from Cerro Moro. So far, things are generally unfolding as planned with respect to our budget. In fact, our Q1 sales were slightly ahead of our internal budget. Also as expected in Q2, we've already received our first shipment from Cerro Moro, which is a landmark payment to us because it's the largest stream that we have had start in the history of Sandstorm. Some people have noted that our production guidance range, which has been narrowed, as it used to be 63,000 to 73,000 ounces, it's now 63,000 to 70,000 ounces, we brought down the top end of the guidance range slightly. One of the reasons for this is that Equinox' Aurizona project is currently 4 months behind schedule due to incredibly unusually heavy rainfalls this year. Although, we're told that they are imminently about to begin pouring gold, which means we should be starting to get our first royalty checks in Q3 of this year. Overall, we're very pleased with how our portfolio is performing. We anticipate record sales, and we're looking forward to being able to use the cash flow from those record sales to continue repurchasing our shares. And finally, before I hand things over to Erfan to discuss the quarterly results. I believe it's worth mentioning that despite the new deal that we've already done this year, with the acquisition of the Fruta del Norte royalty and the Relief Canyon gold stream, our pipeline of new potential deals continues to be full of opportunities, and we are looking at everything from small royalty acquisitions that we believe will be imminently completed over the next few months, all the way to deals over \$100 million in size on cash flowing or near cash flowing assets. This overall market and business environment is very conducive to us growing our business.

So that's the business update. And with that, I'll hand things over to Erfan.

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**Erfan Kazemi - Sandstorm Gold Ltd. - CFO**

Thank you, Nolan, and hello to everyone who joined us. We appreciate you taking the time. So my plan for today is to walk you through some of the financial highlights of the first quarter and offer a few comparisons to see how Q1 stacked up to some of the quarterly periods that preceded it.

To begin, let's take a look at the bar chart on Slide 8, showing Sandstorm's revenue and attributable gold equivalent ounces sold over the last 4 quarters. The bars are overlaying with the average realized gold price per attributable ounce. As you can see from the black bars in the illustration, attributable gold from ounces sold during Q1 was the lowest that we've reported in 4 quarters. But only about 3% lower than the highest total on that chart, which was recorded in Q2 of 2018. So overall, the gold equivalent ounces attributable to Sandstorm's royalties and streams have been quite consistent over the last year. The gold bars on the chart represent quarterly revenue, and in Q1, we posted \$18.2 million, the second highest total of the last 4 quarters. Sandstorm's average realized gold price edged higher for the first 3 months of 2019, coming in just shy of \$1,300 per ounce and contributing to the higher revenue figures when compared to Q3 and Q4 of 2018.

On the next slide, we've broken down the gold sales and royalty revenue by region to give you a sense for where our revenue is coming from. During Q1, about 53% of Sandstorm's total revenue was generated by mines in North America. Canadian operations represented the bulk of that total with the Great White North contributing 40% of that 53% chunk. Mines in South America were responsible for 20% of our revenue and the balance with other countries around the world.

What I would like to do now is to provide some comments about how the Q1 2019 financials compared to the Q1 of 2018, and then I will end my commentary with our outlook and our liquidity position. When comparing the Q1 2019 revenue to the Q1 2018, this year's figures were 7% lower, largely attributable to a 4% decrease in attributable gold equivalent ounces sold and a 3% decrease in the average realized selling price of gold.

On Slide 10, I have included a chart showing our top 10 contributors in terms of gold equivalent ounces, and there were some temporary challenges at a few of them that contributed to the 4% decline. For example, at the Santa Elena mine in Mexico, there was a 24% decrease in the number of gold ounces sold when compared to Q1 of 2018. The mine experienced lower underground gold grades and realized a decline in the production as a result. At the Black Fox mine in Ontario, the mine's crushing plant was shut down for 6 weeks in February and March as a result of a fire, and this partly led to the decrease in the number of gold equivalent ounces sold by Sandstorm. We also saw decreases in the price of zinc and copper



when compared to Q1 of 2018, and this affected the revenue that was generated from the streams and royalties at base metal producers like Bracemac-McLeod in Québec and the Chapada mine in Brazil. So there were a few things working against us at some of our top 10 contributors. But as I said many times on previous conference calls, the diversification effect of being a royalty company is one of those benefits you get to enjoy as a shareholder of Sandstorm. Our diversified portfolio helps to smooth out temporary challenges that will inevitably occur during the life of the mines underlying our royalty assets. On the plus side, we saw great quarterly numbers from the Karma mine in Burkina Faso, which ended up being the #1 contributor for us during the period as well as significant increase in gold ounces from other mines including Ming and some of the other mines in our other royalty categories.

Okay. I've come to my last slide, which provides a side-by-side comparison of some of the key financial items for Q1 2019 and Q1 2018. The revenue in gold equivalent ounce figures, I've spoken about that at length, so I'd like to jump down to the average cash cost per attributable ounce, which came in at \$241, about 13% lower than Q1 of last year. After deducting the cash cost from the average realized gold price per attributable ounce, we had cash operating margin of \$1,050 per ounce, the same margin that we reported in Q1 of 2018. On to cash flow from operating activities, which at \$13.3 million was the second highest total we've posted in 8 quarters and was 90% higher than the first quarter cash flow number in 2018. This was partly related to change of the noncash working capital. As for net income, it came at \$2.5 million compared to \$0.4 million in Q1 2018. The increase is related to a number of factors including the fact that certain items that occurred in 2018 did not reoccur in 2019. There was also a \$1.2 million gain on the revaluation of the company's investment, which was partly driven by change in the fair value of the Equinox convertible debenture, and a \$0.9 million decrease in cost of sales as a result of a decrease in number of attributable gold equivalent ounces sold. These factors were partially offset by a \$0.4 million increase in finance expenses as a result of Sandstorm drawing on its revolving credit facility during the period. Lastly, I will point out that we have slightly reduced our high end of our guidance, as Nolan pointed out, and we're forecasting between 63,000 and 70,000 attributable gold -- equivalent ounces sold during 2019, growing to more than 140,000 ounces in 2023. We ended the period with \$12 million in cash and \$44 million drawn on revolving credit facility. And with our incoming cash flow and credit capacity, we're in a good position to continue completing transactions and growing the company.

Dave, over to you.

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**David I. Awram** - Sandstorm Gold Ltd. - Co-founder, Senior EVP & Director

Great. Thanks, Erfan. So today's update will focus on a few big projects we're associated with. The first of which is Agua Rica, which has recently had new life breathed into it. If you remember, this is an asset which we purchased in early deposit stream as part of our overall transaction with Yamana in Q4 2015. As a reminder, Sandstorm owns the option to purchase the stream on Agua Rica for 20% of the gold and an ongoing purchase price of 30% of spot gold. The choice of executing that option occurs when the project is 25% complete construction. The upfront payment of that stream varies with the price of gold but there is a cap on that payment of \$225 million, that occurs at or above \$1,450 gold price. Beyond that gold price, the upfront payment does not increase beyond the \$225 million. Below that price of gold, the upfront payment works using this formula. Take the price of gold per ounce, multiply it by USD 150,000 and add USD 7.5 million. We created this option when Yamana owned 100% of Agua Rica but recently, Yamana, Glencore and Newmont Goldcorp have announced an agreement to integrate both Agua Rica and the infrastructure and facilities of the nearby Alumbra mine in Catamarca Province in Argentina. Each of those companies would own a stake in larger, fully integrated projects and operate the project together. The Yamana states that there is approximately 6.5 million ounces of gold currently in reserves at Agua Rica. The integrated group expects to produce a PFS this year and then a feasibility study next year. From these studies, they will also begin community consultation processes and begin environmental impact assessments. For Sandstorm, this is a great deal going forward. Now there is integrated group working together on this large project together with the prospect of using the existing infrastructure of Alumbra, Agua Rica is much more of a reality than ever before. Based on the terms of the option to purchase the stream, we feel there are some remarkable economics for that stream, especially considering the size, life of mine potential and the quality operating partners. Plus, before we have to fund or even choose to fund, we will know a lot about the project and even know how it's begun its construction process. We got great operators, great upside and great optionality, everything we're looking for in a high-quality stream. You can be sure that we are going to be following this project as it advances through with the economic studies.

So next, at Fruta del Norte with Lundin Gold this project gets closer and closer to completion of becoming a mine. Much of the newly installed infrastructure is currently in use, and they are still on schedule for commissioning in Q3 2019. But in addition to getting closer to production, they are beginning the first significant exploration program since Aurelian first outlined this fantastic deposit over 10 years ago, prior to its sale to Kinross.



The current Fruta del Norte orebodies sits within the Suarez pull-apart basin, which has been called one of the most prospective epithermal gold silver structures in the world. Fruta sits on the northern end of this 38 kilometer square structure and up to this point, only 18 drill holes have been drilled outside of Fruta. However, there have been a number of drill-ready targets to chase after for the better part of a decade. Since an equity financing was completed in March, they now have over CAD 45 million available for them for exploration drilling. Our royalty will cover the ground that they are currently focused on for the foreseeable future of the drilling programs. Like Houndé, Cerro Moro, Aurizona, Fruta del Norte can be added to our list that are getting monster exploration programs and adding value to us through the drill grid.

Next we move on to another Lundin company. This time, Lundin mining and their newest acquisition, the Chapada mine, which, of course, we hold a copper stream of the entire asset. Chapada has been and still remains one of our most important revenue streams. In the hands of Yamana, it had approved operations and had tremendous exploration success. However, in the hands of Lundin mining, we have a larger group with more capital available and an operator that is focused on copper, the same metal we are receiving through the stream. Over the last several years, Yamana had invested millions of dollars in exploration to Chapada with great success. New zones have emerged and the prospectivity has increased, Lundin has expressed interest in continuing the exploration on the asset, but is also focused on the expansion and mine life extension potential of the project, all this adds up to more value for Sandstorm going forward.

So there you have 3 big projects going forward with plenty of potential for Sandstorm to be part of as they begin to grow even further. And with that I'm going to pass it over to Donna, the operator, who will begin the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question is coming from Don MacLean of Paradigm Capital.

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### Don MacLean - Paradigm Capital Inc., Research Division - Senior Analyst of Gold

Just a couple of follow-up questions on the -- in the forward part of the buyback. Are you still just as keen to acquire all the remaining shares at this point? And then I guess the second question would be what -- maybe a sort of a broad view of the status of the royalty market from a purchaser's perspective at this point and where you think you're liable to be going? Are you going to be as active as you were in this past quarter? That would be very helpful.

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### Nolan Allan Watson - Sandstorm Gold Ltd. - Co-founder, President, CEO & Director

Yes. From a perspective of the share buyback plan, the intention is to hold the buyback to full 18.3 million shares as long as the share price stays in a reasonable price range. We feel like we're trading below NAV, so we are keen to keep buying back shares. And we'll continue to do that as mentioned originally going back 6 months ago, we are hoping to have that done by the end of this year. But because the share price is appreciated a bit, we'll have to take some cash flow from Q1 of next year. So we're hoping to have 18.3 million share purchased completed by some time around the end of Q1. Now if our share price runs up dramatically then we'll reevaluate that against the other opportunities that we have for our capital. One of which is -- I think leads into the second part of your question, which is what is the environment out there for royalties and the purchasers of royalties out there, it's, candidly, as good as I've seen it in my career. We're getting inbounds literally on a daily basis for material things. And we've had to dramatically increase the speed at which we say no to things, because the deal pipeline is just so full and we don't have enough capacity from a technical expertise to look at everything that's coming at us. So it's a good deal environment right now for sure.

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### Don MacLean - Paradigm Capital Inc., Research Division - Senior Analyst of Gold

Great. Great. Well, this is a good time to be acquiring, that's for sure. Given the capital markets we're not seeing.

**Nolan Allan Watson** - Sandstorm Gold Ltd. - Co-founder, President, CEO & Director

Absolutely. There is -- appears to be a complete dearth of equity capital available to most of the mining companies out there that are mid-tier and lower size. So it's a good time to be doing what we're doing.

**Operator**

(Operator Instructions)

**Nolan Allan Watson** - Sandstorm Gold Ltd. - Co-founder, President, CEO & Director

Well, thanks, operator, if there are no further questions, I think we'll wrap it up here. And I'll just remind everyone we're around all day and if anyone has any other questions they want to follow up with, in person or over the phone, come talk to us, we'll answer those questions and any questions we receive through the web portal, there were a few, we'll get responses to everybody for that. So thanks very much, everybody, and have a great day.

**Operator**

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may disconnect your lines at this time and have a wonderful day.

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