

# Market Release

30 April 2020



## Newcrest acquires Fruta del Norte finance facilities

Newcrest Mining Limited (NCM:ASX) announced today that it has signed an Acquisition Agreement with funds affiliated with Orion Resource Partners and Blackstone Tactical Opportunities and completed the acquisition of the gold prepay and stream facilities and an offtake agreement in respect of Lundin Gold Inc.'s Fruta del Norte mine (the **Facilities**) for \$460 million.

The acquisition was structured as a purchase of the shares of the companies that hold the Facilities. All references to \$ in this document are US\$.

### Key deal terms

- \$460 million cash consideration for the shares of the companies that hold the Facilities
- The book value of the Facilities as at 31 December 2019 in the financial statements of Lundin Gold Inc (**Lundin Gold**) was approximately \$552 million<sup>1</sup>, which implies a book value ratio of ~0.83x
- Applying analyst consensus long term gold price of approximately \$1,400/oz to the projected life of mine production, the estimated yield on the gold prepay and stream facilities is approximately 6%<sup>2</sup>
- Applying a spot gold price of approximately \$1,700/oz the estimated yield is approximately 11%<sup>2</sup>
- Newcrest, as a lender under the Facilities, will receive cash flows from the Fruta del Norte mine, with approximately 34% of free cash flows from the mine estimated to be directed to service the Facilities over the next 5 years, ahead of Lundin Gold equity holders, assuming a gold price of \$1,400/oz
- Newcrest acquires a customary lender security covenant package, which includes a requirement for Lundin Gold to seek approvals from the senior lenders and Newcrest as subordinated lender under the Facilities for any material amendments to the mine plan, financial model and operating budget

Newcrest Managing Director and Chief Executive Officer, Sandeep Biswas, said "The purchase of these gold prepay and stream facilities and the offtake agreement increases our direct exposure to the cash flow generated by the Tier 1 Fruta del Norte mine, in-line with our stated growth strategy. The acquisition is expected to be earnings accretive with the gold prepay and stream facilities expected to provide Newcrest with economic exposure to approximately 400,000 ounces of gold from the mine between 2020 and 2026<sup>3</sup>. With gold prices at the levels we see today, Newcrest expects to receive significant cash flows which will rank ahead of Lundin Gold's equity holders."

<sup>1</sup> Please refer to Note 9 in Lundin Gold's year ended 31 December 2019 Financial statements available on the Lundin Gold website ([www.lundingold.com](http://www.lundingold.com)).

<sup>2</sup> The estimated yield (or the Internal Rate of Return) has been calculated based on (a) the forecast production profile sourced from the "Fruta del Norte Project, Ecuador, National Instrument 43-101 Technical Report on Feasibility Study" dated 30 April 2016 and filed by Lundin Gold on SEDAR ([www.sedar.com](http://www.sedar.com)) in accordance with National Instrument 43-101 as required by Canadian securities regulatory authorities.; The estimates of the Probable Mineral Reserves which underpin the production targets in the NI43-101 Technical Report on Feasibility Study are 15.49Mt at 9.67 g/t Au for 4.82moz contained gold. See also notes 5,6 and 8 below. The category of Probable Mineral Reserve classification used is in accordance with NI43-101 and the CIM Standards. NI 43-101 is a 'qualifying foreign estimate' (Chapter 19, ASX Listing Rules) and has similar categories of reserve classification as the JORC Code (Appendix 5A, ASX Listing Rules) 66. (b) the Facilities being owned and operated by a Newcrest subsidiary in the USA and subject to the taxes in that jurisdiction; and (c) releases by Lundin Gold subsequent to the April 2016 Feasibility Study mentioned in (a) above have not been taken into account as the production profile in the updates are not presented on an annual basis. Subject to market and operating conditions. The Fruta del Norte mine is currently in suspension due to the COVID-19 pandemic.

<sup>3</sup> Based on information in 2 above and exclusive of Newcrest's 31.85% interest in Lundin Gold. and a return to steady state production at Fruta del Norte mine following the lifting of the current temporary COVID-19 related suspension of operations and subject to market and operating conditions. The Fruta del Norte mine is currently suspended due to the COVID19 pandemic. Refer to the "Lundin Gold Temporarily Suspends Operations at Fruta del Norte" news release dated 22 March 2020 available on the Lundin Gold Website.

## Facilities summary

The Gold Prepay Credit Agreement (**GPCA**) is a non-revolving credit facility with a face value of \$150 million to be repaid in cash based on the value of 218,500oz of gold. The book value of this facility in the financial statements of Lundin Gold as at 31 December 2019 was \$235 million<sup>1</sup> including accrued interest. Key terms of this agreement include:

- Repayment through 19 quarterly cash payments of 11,500oz of gold based on the spot price of gold starting from December 2020 and concluding in June 2025 (**Quarterly Payments**)
- The value of a Quarterly Payment is determined by the spot gold price which is subject to a risk collar
- The risk collar is based on an average gold price for three months leading up to any Quarterly Payment. Should this average gold price be >\$1,436/oz or <\$1,062/oz, the amount of the next Quarterly Payment is reduced or increased, respectively, by 15%.

The Stream Credit Facility Agreement (**SCFA**) is a non-revolving credit facility with a face value of \$150 million that is to be repaid in cash based on precious metal production at the Fruta del Norte mine. The book value of this facility as at 31 December 2019 in the financial statements of Lundin Gold was \$290 million<sup>1</sup>. The amount of each monthly payment is the sum of the following:

- 7.75% of refined gold processed in the preceding month, multiplied by the excess of the spot gold price over \$400/oz (subject to an inflationary adjustment), until 350,000oz is reached; and
- 100% of refined silver processed in the preceding month, multiplied by the excess of the spot silver price over \$4/oz (subject to an inflationary adjustment), until 6,000,000oz is reached

The Offtake Agreement allows Newcrest to acquire 50% of refined gold production from Fruta del Norte up to 2.5moz at spot prices determined with reference to a quotational period. The book value of this agreement in the financial statements of Lundin Gold as at 31 December 2019 was \$27 million<sup>1</sup>.

## Facilities details

The GPCA is a \$150 million non-revolving subordinated term credit facility (**GPCA Loan**) that was fully advanced to Lundin Gold's wholly-owned subsidiary, Aurelian Ecuador (the **Borrower**). Repayment of the GPCA Loans is required to be made in 19 quarterly cash payments (the **Quarterly Payments**), commencing 31 December 2020 and concluding on 30 June 2025. The amount of each Quarterly Payment is calculated using a fixed number of ounces of gold (11,500oz subject to adjustment where gold prices exceed \$1,436/oz or fall below \$1,062/oz) and multiplying this by the spot gold price.

The Borrower has certain equity equalisation rights by which it may, if it does not have sufficient funds to make its Quarterly Payments, cover the deficiency by causing Lundin Gold shares to be issued to the lenders of the GPCA. These rights may be exercised up to 3 times (out of the 19 Quarterly Payments) during the term of the GPCA.

Upon an event of default under the GPCA, GPCA Loans will accelerate (i.e. all remaining Quarterly Payments will become immediately due and payable). Events of default under the GPCA include:

- a change of control of Lundin Gold or the Borrower that is not permitted under the GPCA; and
- other events of default typical of a secured financing transaction

The SCFA is a \$150 million non-revolving subordinated term facility (**SCFA Loan**) that was advanced to the Borrower. Subject to the adjustments described below, repayment of SCFA Loans is made in the form of monthly cash payments (the **Monthly Payments**) continuing until the equivalent value of 350,000oz of gold and 6,000,000oz of silver have been repaid to the lenders of SCFA. The amount of each Monthly Payment is calculated as the sum of:

- i) The gold-related payments, comprising:
    - (a) a percentage (initially 7.75%) of refined project gold received by the Borrower from refineries, multiplied by
    - (b) the excess of the spot gold price over \$400 (subject to an inflationary adjustment);
  - plus
  - ii) The silver related payments, comprising:
    - (a) 100% of refined project silver received by the Borrower from refineries multiplied by
    - (b) the excess of the spot silver price over \$4.00 (subject to an inflationary adjustment)
- (together, the **Monthly Payment Amount**).

The Borrower has an option, exercisable on 30 June 2024, to reduce the Monthly Payment Amount by 50% by paying \$150 million to the lender of the SCFA. The Borrower has a second option, exercisable on 30 June 2026, to reduce the Monthly Payment Amount by a further 50% (i.e. to nil, if the first option was also exercised) by paying \$225 million to the lender of the SCFA.

Upon an event of default under the SCFA (which contains the same events of default as GPCA), the lender may require the Borrower to make a termination payment calculated as the higher of:

- an amount equal to the sum of (A) the net present value (**NPV**) (using the consensus prices and a 7% discount rate) of the “Total Required Gold Quantity” (i.e. minimum of 350,000oz of gold), less a credit for payments already made, plus (B) the NPV of the “Total Required Silver Quantity” (i.e. minimum of 6,000,000oz of silver), less a credit for payments already made; and
- an amount calculated using the following formula:  $A \times (1+B)^{C/12}$ , where “A” is equal to the principal amount of the loans outstanding (i.e. currently \$150,000,000); “B” is equal to 15%; and “C” is equal to the number of full months having elapsed between the funding of the first disbursement under the SCFA (i.e. 13 June 2017) and the payment in full of the termination payment.

The owner of the GPCA and SCFA rank ahead of ordinary equity and behind senior debt holders with regard to preference of cash flows from the Fruta del Norte mine. As is customary with lending facilities of this type, Lundin Gold must seek approvals from the senior lenders and Newcrest for any material amendments to the mine plan financial model, and operating budget.

## About Fruta del Norte<sup>3,4</sup>

Lundin Gold owns Fruta del Norte, which is a high-grade, underground gold-silver mine located in south-eastern Ecuador. Newcrest currently holds a 31.85% interest in Lundin Gold. On 20 February 2020, Lundin Gold declared it had achieved commercial production by reaching an average throughput of 70% of mill capacity for a period of 90 consecutive days<sup>5</sup>. On 22 March 2020, Lundin Gold announced the temporary suspension of operations at Fruta del Norte due to COVID-19 related concerns<sup>6</sup>. For further information on the terms of the facilities, including event of default provisions, please refer to the facility agreements as filed on SEDAR ([www.sedar.com](http://www.sedar.com)) under Lundin Gold's profile.

Lundin Gold has reported in its National Instrument 43-101 Technical Report the following information in relation to Fruta del Norte as at 30 April 2016<sup>7</sup>:

- First quartile Life of Mine All-In Sustaining Cost (AISC) of \$623/oz
- Expected average annual gold production of 340koz
- Expected 13 year mine life
- Probable mineral reserves of 4.82moz grading 9.67g/t Au

Additional information in relation to Fruta del Norte can be found on the Lundin Gold's website [www.lundingold.com](http://www.lundingold.com).

## Authorised by the Newcrest Disclosure Committee

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<sup>3</sup> This information is based on information prepared by Lundin Gold and has not been independently verified by Newcrest. No representation or warranty is made as to the accuracy, completeness or reliability of the information. This information should not be relied upon as a forecast by Newcrest.

<sup>4</sup> The information in this announcement that relates to the Mineral Reserves estimates, production targets and forecast financial information is based on the "Fruta del Norte Project, Ecuador, National Instrument 43-101 Technical Report on Feasibility Study" dated 30 April 2016 and filed by Lundin Gold on SEDAR ([www.sedar.com](http://www.sedar.com)) in accordance with National Instrument 43-101 as required by Canadian securities regulatory authorities. The estimates of the Probable Mineral Reserves are 15.49Mt at 9.67 g/t Au for 4.82moz contained gold. The category of Probable Mineral Reserve classification used is in accordance with NI43-101 and the CIM Standards. NI 43-101 is a 'qualifying foreign estimate' (Chapter 19, ASX Listing Rules) and has similar categories of reserve classification as the JORC Code (Appendix 5A, ASX Listing Rules).

<sup>5</sup> Eastern Standard Time. Refer to the "Lundin Gold Declares Commercial Production and Reports Year End 2019 Results" news release dated 20 February 2020 and available on the Lundin Gold website ([www.lundingold.com](http://www.lundingold.com))

<sup>6</sup> Refer to the "Lundin Gold Temporarily Suspends Operations at Fruta del Norte" news release dated 22 March 2020 and available on the Lundin Gold website ([www.lundingold.com](http://www.lundingold.com)).

<sup>7</sup> On 24 March 2020 Lundin Gold issued its Annual Information Form for the year ended 31 December 2019 and these numbers were subsequently updated to AISC \$621/oz, expected average annual gold production 325koz and Probable Mineral Reserves of 5,0moz grading 8.74g/t AU

## **Forward Looking Statements**

This release includes forward looking statements. Forward looking statements can generally be identified by the use of words such as "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "continue", "outlook" and "guidance", or other similar words and may include, without limitation, statements regarding plans, strategies and objectives of management, anticipated production or construction commencement dates and expected costs or production outputs. Newcrest continues to distinguish between outlook and guidance. Guidance statements relate to the current financial year. Outlook statements relate to years subsequent to the current financial year.

Forward looking statements inherently involve known and unknown risks, uncertainties and other factors that may cause the Newcrest's actual results, performance and achievements to differ materially from statements in this release. Relevant factors may include, but are not limited to, changes in commodity prices, foreign exchange fluctuations and general economic conditions, increased costs and demand for production inputs, the speculative nature of exploration and project development, including the risks of obtaining necessary licences and permits and diminishing quantities or grades of reserves, political and social risks, changes to the regulatory framework within which Newcrest operates or may in the future operate, environmental conditions including extreme weather conditions, recruitment and retention of personnel, industrial relations issues and litigation.

Forward looking statements are based on Newcrest's good faith assumptions as to the financial, market, regulatory and other relevant environments that will exist and affect Newcrest's business and operations in the future. Newcrest does not give any assurance that the assumptions will prove to be correct. There may be other factors that could cause actual results or events not to be as anticipated, and many events are beyond the reasonable control of Newcrest. **Readers are cautioned not to place undue reliance on forward looking statements, particularly in the current economic climate and the significant volatility, uncertainty and disruption caused by the outbreak of COVID-19.** Forward looking statements in these materials speak only at the date of issue. Except as required by applicable laws or regulations, Newcrest does not undertake any obligation to publicly update or revise any of the forward looking statements or to advise of any change in assumptions on which any such statement is based.

## **Non-IFRS Financial Information**

Newcrest results are reported under International Financial Reporting Standards (IFRS). This release also includes non-IFRS information including, All-In Sustaining Cost (determined in accordance with the updated World Gold Council Guidance Note on Non-GAAP Metrics which was released in November 2018) and Free cash flow (cash flow from operating activities less cash flow related to investing activities). These measures are used internally by Management to assess the performance of the business and make decisions on the allocation of resources and are included in this release to provide greater understanding of the underlying performance of Newcrest's operations. The non-IFRS information has not been subject to audit or review by Newcrest's external auditor and should be used in addition to IFRS information.