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## Rick Rule Investing "Know-Who" with Ross Beaty, Part 2

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By Remy Blaire



Ross Beaty, Chairman of Equinox Gold

Gold is being watched like a hawk as volatility extends its topsy-turvy ride through the global equity markets. The price action for the precious metal has been lackluster despite the wild swings in the stock market. With gold slowly edging higher but not advancing at a rapid pace, the safe-haven metal appears range-bound for now.

The steady upward trend in equity prices came to a screeching halt in 2018 as asset prices stumbled and wavered throughout the quarters. Triple-digit moves to the upside and downside ceased to cause euphoria or illicit excessive hand wringing from investors.

The big question remains: has the next bull cycle for gold kicked off? If you ask Rick Rule, president & CEO of Sprott U.S. Holdings or established resource investor, Ross Beaty, they would emphasize the importance of recognizing the bottom of the market rather than fretting over the timing of the next bull cycle.

Rule and Beaty are natural resource investors with experience in bull and bear markets. In **Part 1 of 'Rick Rule Investing "Know-Who" with Ross Beaty,'** they discussed past successes and challenges. In Part 2 of Rule's "Know Who" series, Beaty retraces his investments in companies within the resources sector and how he found his proverbial pot of gold.

**Rick Rule:** Over the course of 30 years, you've gone from a smart, young, naïve, wet-behind-the-ears geologist to a tier 1 promoter who has built several world class companies. You tried something unusual which was retirement. I'm going to suggest that you failed and that you just flat failed.

**Ross Beaty:** I didn't try it very well.

**Rick Rule:** I remember you telling me that you were retiring and I was polite enough that I didn't want to point out the error of your ways.

So let's talk about what you're doing now. To an outside observer it would appear that you have a particular fondness for gold. Is there something about gold as a commodity that intrigues you? Is there something about the structure of the gold mining industry that you think that you can improve on? Or is it not gold?

**Ross Beaty:** You'll recall that in 2008, I took a break from the mining game and I tried my hand at building a clean energy company. I'm an environmentalist and I wanted to do something for the climate, the carbon in the atmosphere, and I decided I could build this clean energy company focused on geothermal. That didn't work out so well, so I went into wind, hydro and solar and that has worked out pretty well. I ultimately built that company up to a point and I just sold it this year in February.

*So that was quite a segue and a lot of hard work and I was toying with a few things. But really, back in around 2014 or so, I really fell in love with gold again. I fell in love with gold as an investment. So I said gold has come down from \$1,900 bucks to — I forget what it was — almost \$1,000 I think at that point, [a] big, big drop. And that's not a drop that I felt was sustainable.*

While that was happening, the debt pile was getting bigger and bigger, quantitative easing was going looney in the U.S.

**Rick Rule:** We're talking about the government debt?

***Ross Beaty:** Government debt, personal debt, all kinds of debt. Debt was just being piled on. Zero interest was making people drunk and I felt that would be good for gold ultimately. At the same time, companies just sort of stopped looking for gold. There was a lot that had been discovered with the gold*

*run in 1900. There were a lot of deposits that were outlined — a lot of distressed things were in a bear market in 2014. Quite significant bear market in 2015. And it was just a good buying opportunity.*

I was an investor in those years because I was still doing my clean energy company. That was my main business. That was Alterra Power Corp. But as an investor, I had some capital and I bought a whole bunch of big lumpy positions in 10 or 12 companies — 5%, 10%, 20% stakes, 25% stakes. The bigger ones were like Dalradian Resources Inc. and Kaminak Gold Corporation, lots of different companies.

With our own group, we sold Lumina Copper Corp. in 2014 to First Quantum Minerals Ltd. for about a half a billion dollars. Well, I had this fabulous team of guys. I lost a couple. We lost our lawyer. We lost our kind-of-genius communicator, David Strang. He went off to try to run a fund. But we still had a core team and I wanted to keep them going. I didn't want to be really directing traffic because I was working on my energy company.

So I helped them organize the acquisition of a couple of properties in Ecuador under the name Lumina Gold Corp. So we took the same kind of brand we had. It was a good brand. We met a lot of people. We started this junior based on a couple of deposits that we acquired in Ecuador. When everybody thought Ecuador was a pariah — we didn't. We knew it was coming out of the period when the president didn't like mining so he discouraged mining and everybody left. The fact is it's a great gold and copper province. It had great opportunities.

We went down there and picked a bunch of properties, flung them into a brand new company called Lumina Gold. Spent years working away during the bear market of 2015. And in 2016, 2017, we built that up to the point that it's kind of going to be like the Lumina Copper story I think — which is a strategy of buying something cheaply, at the bottom of the cycle. When the cycle turns, we do more exploration. We prove a large deposit and we ultimately sell. So all we missed so far is that gold prices are pretty crappy. It has not done very well.

**Rick Rule:** Past is prologue. The same thing happened in the silver business.

**Ross Beaty:** *I'm just confident things are going to turn. And so when they turn, you want to be ready with a very well-positioned, very leveraged vehicle.*

So now, we have a spin-off vehicle called Luminex. And the main Lumina Gold company has this fabulous gold-copper porphyry in Ecuador that I'm absolutely certain we're going to be able to sell at a significantly higher price than its market cap is today.

*Sometime over the next year or so, it's going to be of much more value. Of course, if the gold price goes up in the meantime (but even if it doesn't), I think it has fundamental value — that should give us a pretty darn good value — to one of the major companies that need these kind of things. It's 8.8 million ounces today. It's going to be way, way bigger (I think) by this time next year because we're drilling an area that we think is very fertile so it's going to be bigger. I can't say how much. We already know [that] it's economic, what we already have. It's under preliminary economic assessment, that*

*shows a net present value of ... I can't remember what it is. It almost doesn't matter because I know if it's going to get much bigger. It's hundreds of millions.*

And it's the right kind of thing for major companies. It's going to produce 400,000 or 500,000 ounces a year for 20 years. That's exactly what they're looking for. Those things are rare and we have one. We know it's going to have value to somebody at some point.

So that's our company. Meanwhile the spinoff vehicle, the Luminex Gold or Luminex Resources, I should say is a \$40 million market cap. It has probably got 20 properties in it. It's a prospect generator. We've already done one deal with First Quantum that will be exploring some properties with their money. We're going to do with Anglo America and on other properties that they will be exploring with their money. We have a potential third deal in the works. We have a bunch of gold in the company as well. I'm very optimistic we're going to be able to do this again and again.

**Rick Rule:** Ecuador-focused.

**Ross Beaty:** Ecuador-focused right now. But mostly, value-focused. We're not particularly focused on a country deal. We're looking for just — loading up with good value and waiting for the market to turn and in the meantime, adding value in a traditional way.

So we have that happening. And we have — so that's all going on separately while — I ultimately was working on my energy company. And in 2017... late 2017, I got an offer I couldn't turn down. Sold the energy company. That's really when I decided to go into gold in a big way and kind of book-end my career with a return to the first gold company which I had in 2000, Equinox Resources, which I had from 1985 to 1994.

**Rick Rule:** So let's talk about [your new company] Equinox Gold. Tell us what the value proposition is here. Tell us what you're trying to accomplish. Equinox Gold now is — the idea here, as I understand it, is to build a large intermediate gold producer.

**Ross Beaty:** *The right word is to build a large gold producer. Yeah, it's about trying to build a Pan American Silver of gold. I really love gold. I think the timing is good to build a gold producer. Right now, the prospect for me is to use the lessons I've learned in the last thirty years of running public companies in the resource space, [that] would allow us to build a really big vehicle very quickly right now. The conditions are just right (for right now). There are a lot of good opportunities. They are distressed. It's a buyer's market right now and we're buyers. We have access to capital that a lot of companies don't have.*

So really the philosophy of Equinox Gold is to build a really big producing gold company as quickly as we can and get just massive leverage to gold for the "happy time" when the gold market turns and it becomes a bull market again. With a rise in price that will float our ship and become an industry leader in terms of return to shareholders, in terms of income statement and ultimately dividends.

So what does intermediate mean? We're going to be probably producing somewhere between 300,000 and 600,000 ounces in the next few years.

**Rick Rule:** Let's talk briefly about the constituent parts beginning with that initial flagship asset, the Brazilian asset [with a] tarnished past. Tell us what you see in it and how you'll take it from here to there.

**Ross Beaty:** The Brazilian asset is one of those opportunities that you could acquire ... when they do have some tarnish ... very cheaply, which is what we did. Putting this company together with one Brazilian asset, one California asset and some cash. That's what the three-way merger that we did in December was when we started Equinox Gold. And the first thing we did is we financed and started construction on this one mine that was going to rebuild what was already a producing mine, and fix the mistakes that were made then.

We're going to start that up early in 2019 and we think it's going to be a very successful mine. We've corrected the mistakes and we've re-engineered the package. The royalty has been changed. It has got no significant — no historic debt in any way. We put some new debt on it but it should generate a pretty [good] return to us ... it's a good cornerstone asset in what I hope will be a multi-asset diversified gold-producing company with multiple mines.

**Rick Rule:** You now have, well, two California assets. But tell us about those two.

**Ross Beaty:** Sure. With the merger [in December last year] ... we put together ... the Brazilian asset, the Aurizona mine and then one in California called Castle Mountain that was in the hands of a company called New Castle. So we [now] own one hundred percent of Castle Mountain.

I liked Castle Mountain in that it has humongous gold resource. It's about 6 million-ounce gold resources. It is an old producer. It produced for many years in the '90s. And I know it well, I visited them. The same partner who operated that mine is operating our gold mine in California, the American Girl Mine.

So we know the deposit type. We know the size. It's gigantic. It has existing permits. Grandfathered permits for a rather small scale operation of around 50,000 ounces a year that we're planning to start going in 2020, about a year and a quarter from now. A very small capital cost to get that going. That's what we call phase 1. Rather low risk, good size, should generate some decent cash flow, very easy to finance.

*But the real story there is the larger 200,000 ounces a year gold mine that is going to take some permitting work. And we're very active on that. It has been in permitting now for several years. And that is an operation that we hope we will be able to finance and build in about three years. That's what we'll operate at Castle Mountain, around 200,000 ounces a year. The pre-feasibility study we finished this year in June had I think a 16-year mine life on that. Wide open so it has got lots and lots of room to growth.*

Those things are rare deposits. Those long life, large producers that can operate with low cash [cost] in a safe jurisdiction once permitted in an area that I've worked for much of my career in California and it has been a successful place to work.

So with those two operations, 140,000 ounces from Brazil, a couple of hundred thousand ounces from the Castle Mountain deposit, what we wanted to do is to add another deposit to bulk the company up again while times are tough, things are cheap, and we ended up — we've been trying to buy a producing mine all year this year. We've offered on several projects. Didn't get the deal. We weren't prepared to pay a high price.

Finally, we were able to reach an agreement with New Gold Inc. to buy their interest, one hundred percent in the Mesquite Mine. And that deal closed at the end of October. And that gave us the third plank or the third leg of the stool, one Brazil, one Castle Mountain in California, and then just South of Castle Mountain, the big-producing Mesquite Mine that runs at about 140,000 ounces a year. We own a hundred percent of that. We got immediate cash flow. Great income statement. And then add Aurizona [next year], add Castle Mountain [in 2020].

So when I say we want to become an intermediate producer we already are there or we will be there in a few months when we get Aurizona going.

From that point, it's really how much bigger can we get? I am going to give this company a hard bit of work for a few more years, really trying to make it into something big and important as a true legacy company.

At this moment, we have reserves of 5 or 6 million ounces, resources of 8 or 9 million ounces. We will have production of close to 300,000 ounces by the end of next year. That is a great start after one year to have that as kind of the first year result in this company.

*And beyond this, all I can say is just watch us. We're going to keep seeking good acquisitions. We may not do any if we can't get the right price. We are not known as aggressive deal makers. We may be aggressive but we're not drunken sailors. We treat the money like it's actually our own. And in most cases, it is our own because we're all investors in the company.*

So, if we can find a creative deal, we're going to keep adding. And ultimately, build something that we can all be really proud of as an industry leader in gold.

**Rick Rule:** Now, the money question, Ross. You always lead me to the right question so I lead you to the right conclusions. "Treat the money like it's our own." Lumina is completing a fairly good size financing which Sprott has had the pleasure of participating in a major way. As did you.

Perhaps you could talk about that fact that you eat your own cooking: a) because it tastes good of course, but b) because it's the right thing to do. How much money (roughly) do you have involved now?

**Ross Beaty:** In Equinox? Well, actually, I have a lot of money in both. Well, going back to the Lumina Copper companies, basically, I own 25% of all the companies and I invested in every single financing and I bought more stock and I only sold it once. I only sold when there was a happy ending.



Lumina Gold: I'm about 15% shareholder and I will continue to hold that in every financing we do and there will be one time I sell, when everybody sells, because I expect that will be sold in the not too distant future.

And moving on to Equinox, of course, I started Equinox with a cash shell called Anfield that I held about 30% or something like that. I had invested tens of millions already in that company. And then I added another — I think this year, I've invested 20 or 30, maybe 30 or 40 million. I mean fairly a big chunk of money.

*I've been very lucky I've done quite well in the business. I have a lot more capital than I ever had before. And I'm able to fund these companies to at least prorate the financing that I already hold. I hold about 12% of Equinox Gold. And I'll keep funding at least that share.*

But you're right. [In] every single deal we do, I will be a cornerstone shareholder. In fact, we have a number of great cornerstone shareholders in Equinox Gold, and that makes it one of the strengths of the company. Richard Warke has come up with some massive successes — a brilliant, brilliant man, brilliant financier, and company builder. He is a major shareholder of Equinox. He participates. Sprott participates. You guys are big backers. We're very proud of that.

Lukas Lundin is a shareholder. He is always supporting us. We've got some great, great shareholders. And that's why in this \$75 million deal we just did [to buy the Mesquite Mine], we were able to put in most of the money with friends and family of the company in a tough, tough market.

**Rick Rule:** Ross, I'd like to thank you for 40 years of friendship and profits. I have millions of reasons personally to wish you every success in Lumina and Equinox. Thank you for your time and attention.

**Ross Beaty:** Thanks, Rick. You've been a big part of the journey. It has been a great, great ride. Thank you for all of your friendship and support over the years. You've been in every single one of my deals. I'm very happy to say that and it has been a lot of fun.

