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Royal Gold, Inc. (RGLD)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Royal Gold Six Month Transition Period and December Quarter 2021 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Alistair Baker, Vice President of Investor Relations and Business Development. Please go ahead.

Alistair Baker

Vice President-Investor Relations & Business Development, Royal Gold, Inc.

Thank you, operator. Good morning and welcome to our discussion of Royal Gold's Six Month Transition Period and December Quarter 2021 results. This event is being webcast live and you will be able to access a replay of this call on our website.

Speaking on the call today are Bill Heissenbittel, President and CEO; Paul Libner, CFO and Treasurer; and Mark Isto, Executive Vice President and COO of Royal Gold Corporation. Dan Breeze, Vice President, Corporate Development of RG AG; and Randy Shefman, General Counsel, are also available for questions.

During today's call, we will make forward-looking statements, including statements about our projections and expectations for the future. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties are discussed in yesterday's press release and our filings with the SEC. We will also refer to certain non-GAAP financial measures, including adjusted net income, adjusted net income per share and adjusted EBITDA margin. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are available in yesterday's press

release, which can be found on our website. Bill will give you an overview of the transition period and December quarter, followed by Mark with an operating update, Paul will then provide a financial update, and Bill will then wrap up the call with some closing comments. We'll then open the lines for a Q&A session.

I'll now turn the call over to Bill.

William Holmes Heissenbittel

President, Chief Executive Officer & Director, Royal Gold, Inc.

Good morning and thank you for joining the call. As of December 31, we closed out a six-month transition period and from this point forward, we will be reporting on a calendar year schedule. I want to thank our team for the hard work it took to complete another audit just six months after the last, while also incorporating our first property disclosures under the SEC's new S-K 1300 reporting guidelines.

Turning to the results for the six-month period, I'll begin on slide 4. In summary, we posted very solid results. Despite flat to declining precious metal prices, we still posted a 12% increase in revenue to \$343 million, which included excellent results from our royalty portfolio. Our volume of 191,300 gold equivalent ounces was an impressive 18% above the six months ending December 31, 2020.

Operating cash flow was very healthy at \$249 million, up 28% over the same period last year and earnings were \$138 million or \$2.10 per share. After adjustments, earnings were \$2.11 per share. The larger percentage increase in cash flow than revenue is indicative of the efficiency of our business and our ability to leverage a low cost base that is largely insulated from the effects of inflation.

We raised our dividend in November for the 21st year in a row. And on January 31, we were added to the S&P High Yield Dividend Aristocrats Index. This index is made up of 114 companies that have consistently increased their dividends every year for at least 20 years. We're the only precious metals company in this index and we're pleased to be included alongside the likes of well-known companies like IBM and Nike. We used our operating cash flow to repay debt and at the end of December we were debt-free with approximately \$1.2 billion of available liquidity. We also had a growth to the portfolio during the period with the previously announced acquisitions of the Red Chris royalty and NX Gold mine stream and increased our silver stream rate at Khoemacau. I'll let Mark give a more detailed update on Khoemacau in his remarks.

Finally, I'd like to welcome Martin Raffield to our team in a new role as Vice President of Operations. Martin has extensive experience in operational, corporate, construction and consulting roles. And we got to know him when he held senior project development and technical roles at Golden Star and through his participation in some of our due diligence team efforts after he left Golden Star. Martin's skills and experience will further add to our technical depth, and we are very pleased to welcome him to the team.

With that, I'll turn the call over to Mark for an update on our portfolio.

Mark E. Isto

Executive Vice President & Chief Operating Officer-Royal Gold Corp., Royal Gold, Inc.

Thanks, Bill. I'll start on slide five with some comments on our transition period production. We provided our initial guidance for the six-month transition period in early August and raised guidance in November to reflect the record GEO production we reported for the September quarter. Strong performance again in the December quarter of 93,900 GEOs allowed us to reach 191,300 GEOs for the period, exceeding the top end of our revised guidance range of 180,000 to 190,000 GEOs. As Bill mentioned, most of this outperformance was due to production volume

rather than metal price impacts, as GEOs were approximately 191,000 using the same metal prices we used to set our guidance.

Turning to slide 6, I'll provide some commentary on the December quarter. I'll note that we're reporting before many of our operating counterparties, so I don't – I won't be able to provide specifics on all of our interests. Overall revenue was \$169 million, with volume of 93,900 GEOs. Our royalty segment contributed \$57.9 million in revenue, an increase of 14% over the prior-year quarter, representing about 34% of total revenue for the quarter.

Notable revenue increases were attributed to Cortez with higher production following recovery from a pit wall stability issue that impacted the first half of 2021 and to Voisey's Bay due to higher base metal prices. We also had a large revenue contribution in the quarter due to a true-up of previous period underpayments from Leeville. These increases were partially offset by lower revenue from our South Laverton Kurnalpi net profits interest royalty, which was mostly due to the timing of revenue recognition. We recognized the NPI revenue in the September quarter of 2021 and in the December quarter of 2020.

On the stream side, revenue of \$111 million was up about 3% from the prior-year quarter. New revenue from Khoemacau and NX Gold was partially offset by lower sales from the Mount Milligan copper stream. At Pueblo Viejo, silver sales and deliveries were lower due to continued recovery issues with the silver circuit. Recoveries continued to track near minimum recovery levels prescribed in the stream agreement and we saw further delivery deferral of approximately 41,000 ounces during the December quarter. The balance of deferred silver is now approximately 459,000 ounces. We expect silver recoveries will remain highly variable until the expansion project is completed and bottlenecks associated with silver circuit and silver recovery can be fully addressed. This remains a cash flow timing issue from our perspective, and we don't expect it to have any lasting impact on silver revenue.

Turning to slide 7, I'll give an update on Khoemacau in Botswana. KCM reported continued ramp-up of mine production since our last quarterly call in November, but progress has been slow due to impacts from COVID-19. Botswana was hit hard by the Omicron variant in December and Khoemacau was no exception.

In December, approximately 25% of the operator workforce, including about 40% of the highest skilled operators, were unavailable to work due to COVID protocols, which affected about 40% of the mining shifts. When combined with shortages of skilled operators with typical operational issues related to starting up a mining operation in a new ore body, progress in the quarter was slower than expected.

Fortunately, the worst of the Omicron wave appears to have passed. Currently, only 2% of the mining workforce is self-isolating and January production was approximately 40% of the 10,000 tonne per day target. KCM has extended the ramp-up period and is now expecting to reach full production by the fourth quarter of 2022, which is about one quarter later than the schedule we gave you on our last call. While we're not providing detailed ramp-up forecast for the next quarters, I expect operational flexibility will increase as more mining areas continue to open up. It is worth highlighting the ground conditions are as expected, ore body widths and grades are in line with the resource model. Metallurgical recoveries are in line with expectations.

We are also confident that the project has the equipment and manpower resources required to support the planned production ramp-up. With respect to KCM's financial position, working capital has been impacted due to the slower ramp-up and we're currently in discussions with KCM on providing the final \$26.5 million available under the silver stream. This discussion includes RK Mine Finance as well as KCM shareholders and we expect that additional support and equity will be provided alongside any further stream contribution.

The aim of all parties is to ensure sufficient liquidity is available to allow Khoemacau to reach full production levels. In the event we contribute the full \$26.5 million, Royal Gold stream interest would increase to 100% of payable silver, which at full production is expected to be 1.8 million ounces to 2 million ounces per year. While COVID-19 was an unforeseen challenge when development started in 2019, KCM's management is handling the situation well and has a well-engineered ramp-up plan in place, and we're pleased to have increased exposure to this high-quality project. KCM provided an update on their website earlier this week at khoemacau.com and I encourage you to review that information for additional detail on the project progress.

I'll now turn to slide 8 to make some brief comments on a couple of other recent developments. At Mount Milligan, Centerra provided 2022 production guidance of 190,000 to 210,000 ounces of gold and 70 million to 80 million pounds of copper, which compares well to actual production of 196,000 ounces of gold and 73.3 million pounds of copper for 2021. They expect this production to be weighted 60% towards the second half of 2022. Also in progress is an updated life of mine plan with an expected release in the second quarter.

Turning to NX Gold, Ero announced year-end increases in M&I resources of 32% and 2P reserves of 25% and provided 2022 production guidance of 39,000 to 42,000 ounces, above actual production of 38,000 ounces achieved in 2021. They have also started the NX60 project to bring the new Matinha Vein into the mine plan in 2024 and expect to increase and sustain long-term gold production of approximately 60,000 ounces per year. We liked the near-term potential of NX Gold when we acquired the stream, and we're pleased to see how quickly Ero Copper has advanced their plans to realize this potential.

I'll now turn the call over to Paul for a review of our financial results.

Paul Libner

Chief Financial Officer & Treasurer, Royal Gold, Inc.

Thanks Mark. I'll now turn to slide 9 and give an overview of the financial results for the quarter. For this discussion, I'll be comparing the quarter ended December 31, 2021 to the prior-year quarter. Revenue was \$169 million for the quarter, a 6% increase over the prior-year period. We had strong production of 93,900 gold equivalent ounces or GEOs, which was an 11% increase over the prior-year period. Most of the revenue increase was driven by strong operating performance, as Mark mentioned in his remarks.

Also contributing to our increased revenue was the second quarter of deliveries from Khoemacau and NX Gold which, together, contributed about \$8 million during the quarter. With respect to metal prices compared to the prior-year quarter, the average prices of gold and silver were down about 4%, while the average price of copper was up 35%. Gold continued to be dominant, making up about 73% of our total revenue, followed by silver at 12% and copper at about 10%. Cost of sales, which excludes DD&A, and specific to our streaming segment, was steady at \$25.1 million compared to \$24.9 million in the prior period.

Our DD&A expense was \$49.1 million, up slightly from \$47.9 million in the prior year quarter. Our DD&A expense on a dollars per GEO basis was \$523 per GEO for the quarter compared to \$567 per GEO in the prior year. The decrease in our DD&A per GEO was a result of stronger performances within our royalty portfolio. Earnings were \$68.2 million or \$1.04 per share, a 14% increase from the prior-year quarter. After adjusting for a \$1.5 million expense related to the fair value change in equity securities, our adjusted earnings were \$1.05 per share. We reported another very strong quarter of operating cash flow at \$119 million, which was a 19% increase over the prior year and was primarily due to higher proceeds received from both our royalty and stream interests.

Turning to slide 10, I'd like to make a few comments on our performance relative to the transition period guidance. As Mark covered in his remarks, our transition period GEO sales came in slightly above the revised guidance

range due to stronger volumes within the portfolio. Our transition period DD&A of \$521 per GEO came in slightly below the bottom end of our earlier guidance range of \$525 to \$575 per GEO. The lower DD&A per GEO, when compared to our earlier provided guidance range, was largely due to the better-than-expected contributions from our royalty portfolio. As most of our royalties have been in the portfolio for many years, they then have lower overall carrying values and lower depletion rates.

Our reported effective tax rate for the transition period was 17.8%. Absent the effect of discrete tax items during the period, our effective tax rate was 18.9%, which was in line with the earlier guidance range of 18% to 22%. With our move to calendar year-end reporting, we expect to begin providing one year total GEO sales guidance. As several of our counterparties have yet to release their own production guidance for calendar 2022, we are not able to provide our 2022 GEO sales guidance today. We do expect to provide this guidance early in the second quarter or once all the information is made available.

However, looking forward to the March quarter for our stream segment and absent any potential operational impacts from COVID, we are expecting a slower start to the year's sales with the first quarter range of 50,000 to 55,000 GEOs.

I will now turn to slide 11 and provide a summary of our financial position at the end of the quarter. Our liquidity position continued to strengthen as we ended the quarter with \$144 million of cash, working capital of \$155 million and \$1.2 billion of available liquidity. In line with our strategy of using operating cash flow to manage our debt level, we repaid the remaining \$50 million revolver balance in early December and ended the year debt free, and with a full \$1 billion revolver undrawn and available.

We view the revolving credit facility as a key financing tool to provide accretive growth to our shareholders. Our business continues to generate strong operating cash flows and we are comfortable using debt in a measured way and repaying that debt as cash flow allows. With respect to our outstanding commitment under the Khoemacau stream agreement, as Mark mentioned, we currently have \$26.5 million available to KCM. KCM has advised that it intends to draw the remaining \$26.5 million stream advance payment later in February, which would then increase our silver stream interest from 90% to 100%. As part of the NX Gold stream, we also have potential payments of up to \$10 million through 2024, depending on Ero Copper meeting certain exploration and resource targets. We expect that funding for either of these will be made from our available cash resources.

That concludes my comments on our financial performance for the quarter and I will now turn the call back to Bill for closing comments.

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

Thanks, Paul. We ended calendar 2021 in a very strong position and we're looking forward to building on that strength as we start 2022. Our diversified precious metals-focused portfolio continues to perform well and our strong balance sheet and cash flow position us well to act on new opportunities. We also anticipate positive news in 2022 from several assets in the portfolio. Khoemacau is expected to continue to ramp up throughout the year and a prefeasibility study on the project's expansion is expected in the second half of the year. Our first royalty payment from Red Chris is due by the end of the first quarter.

New Gold is looking to release the optimized underground mine plan study for Rainy River in the first quarter, while Centerra plans to issue an updated technical report and life of mine plan for Mount Milligan in the second quarter. Existing royalty interests in Australia may see first gold production at King of the Hills and the initiation of construction at Bellevue in the middle of the year. We may see higher production at NX Gold with further

exploration undertaken and work expected to continue on the longer-term NX60 project. And finally, the Pueblo Viejo process plant expansion is expected to be complete by the end of the year.

On the ESG front, our short-term incentive compensation plan was modified in the transition period to include certain ESG factors and we anticipate releasing our first ESG report in the first half of this year. We will be hosting a virtual investor update on April 20 this year and we hope that you'll join us as we go into detail on these as well as other topics of interest. I'd like to finish by coming back to something I mentioned in my opening remarks, namely inflation, and how our business model insulates us from direct exposure to the pressures faced by operating companies, many of which have reported recent cost inflation of 5% to 7%. We have not seen inflation erode our margins and our 80% adjusted EBITDA margin in the December quarter of 2021 was unchanged compared to the December quarter of 2020. With our disciplined history of maintaining low and stable G&A costs, I expect that we'll continue to maintain our high leverage to gold prices while maintaining consistent and high margins.

Operator, that concludes our prepared remarks. I'll now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question will come from Tyler Langton with JPMorgan. Please go ahead.

Tyler J. Langton

Analyst, JPMorgan Securities LLC

Q

Yeah. Good morning, Bill, Paul, Mark, thanks for taking my question. Just to start, Paul, could you reiterate – I know you gave some of the guidance for Q1. Was that – was that for stream volumes, the 50,000 to 55,000? I just wanted to make sure I got that correctly.

Paul Libner

Chief Financial Officer & Treasurer, Royal Gold, Inc.

A

That's correct, Tyler. It was – the stream segment quarter sales, 50,000 to 55,000.

Tyler J. Langton

Analyst, JPMorgan Securities LLC

Q

And do you have any – can you provide any color just in terms of the kind of sequential decline, what assets are driving it? And is that anything to do with just the deferrals at Pueblo Viejo or just any kind of color there?

Paul Libner

Chief Financial Officer & Treasurer, Royal Gold, Inc.

A

Yeah. Let me turn it over to Mark, but a little bit of timing. As we've said, sometimes you have changes in delivery schedules and timing as such. But I may turn it over to Mark to give a little bit more color on some other notable items.

Mark E. Isto

Executive Vice President & Chief Operating Officer-Royal Gold Corp., Royal Gold, Inc.

A

Yeah. Sure. Paul, you're exactly right, is that really the big item, I think, is timing related to shipments around Mount Milligan and having ships come in early. They vary from between 100 and 200 days, so it can be difficult to determine exactly when we should schedule them. So we received or we had sales in the December quarter that would – could have fallen into the March quarter. So that's really the biggest item.

Tyler J. Langton

Analyst, JPMorgan Securities LLC

Q

Okay. That's helpful. And then I guess, Bill, in terms of, and I guess, geopolitical risk. And I guess we're seeing, sort of, some headlines and proposals, maybe ones in Chile like around nationalization. And I guess, are you or any of these sort of like headlines causing sort of you any pause when you sort of look at new investments or do you think, sort of, are you seeing sort of that impact developers kind of even sort of looking at new projects?

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

A

Sure, it does influence our decision making to some extent. I mean, you have to take into account the current conditions within a country. I've always been amazed at how the mining industry seems to be able to operate through very difficult situations and a lot of our investments, we typically look decades out. So, I try not to let short-term trends or moves take us completely out of the market unless those trends are significant. But it's a bit of a balancing act, but the short answer to your question is, yes, we absolutely consider those factors when we're looking at new countries.

Tyler J. Langton

Analyst, JPMorgan Securities LLC

Q

Okay. Thanks so much.

Operator: [Operator Instructions] Our next question will come from Cosmos Chiu with CIBC. Please go ahead.

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Q

Hi, thanks, Bill and team for the conference call today. Maybe my first question is on Khoemacau. KCM clearly, I think they need a bit more liquidity or more money given the COVID-19 impacts. They're exercising their \$26.5 million with you. They're asking for lender support and additional equity from shareholders. Not sure how much you can share with us, but how tight is their financial situation and how concerned are you or how concerned should we be in terms of their financial situation?

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

A

Yeah. Cosmos, thanks for the question. I think one of the things I'd like to do is give Mark perhaps an opportunity to talk about sort of the review we have done in association with this request for funds because, hopefully, it'll give you a little confidence in how we see the plan. Mark, is that okay with you?

Mark E. Isto

Executive Vice President & Chief Operating Officer-Royal Gold Corp., Royal Gold, Inc.

A

Yeah, sure. Yeah, so, Cosmos...

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Hi Mark.

Q

Mark E. Isto

Executive Vice President & Chief Operating Officer-Royal Gold Corp., Royal Gold, Inc.

With every stream draw, we do a level of diligence on that – on how things are going. I think for this one, I would say we did substantially more perhaps than we would usually do and we'll share with you a bit of what we do and what we did. I mean, we took a look at the definition drilling to make sure that definition drilling that they were carrying out now confirm the ore body grade and widths, and it is. We took a deep dive on their schedule with respect to development and stoping and found the logic all works out with their mine design and the productivities that they've assumed in the schedule all make sense and (are) supportable.

We see that on the milling side that they're achieving or exceeding recoveries. The operating costs are in line with what they've actually achieved, and we could see how they're projected out into 2022. And putting all of these things together, I mean, we get a – we look at the cash flow and the liquidity that are being projected by Khoemacau and feel very confident that they've got a well-engineered plan, and happy to try to fill in any gaps.

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Yeah. Great. I guess it really is based on the fact that COVID-19 had an impact on the startup. Could you maybe talk about what's the situation like in Botswana in terms of vaccination? And yeah, we don't want, hopefully, not another variant is going to come around, but you never know. So how vulnerable is the country and the workforce to something like that happening once again because, again, sounds like it had an impact this time around and it is getting to the point where the financial situation could be a bit tighter than they would have liked.

Mark E. Isto

Executive Vice President & Chief Operating Officer-Royal Gold Corp., Royal Gold, Inc.

Yeah. Yeah, sure. It's a good question. I mean, December was significantly impacted as we made comments about – the production was probably impacted by 40% to 50% with the skilled miners – many of the skilled miners in quarantine. But I think just actually yesterday, I was speaking to the CEO at Khoemacau, and he'd mentioned that the vaccination rate amongst their employees and contractors is over 90%. So they have a very high site vaccination rate. I don't know if – I can't speak particularly about the country, but the site is well vaccinated, and they have very rigorous testing and management protocols around COVID issues. So, a lot of confidence that they're doing everything they can around that.

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Yeah. Great. Thanks Mark. Maybe switching gears a little bit, two quick modeling questions here. I noticed that South Laverton, one of your – not small, but one of the smaller than Khoemacau, one of the smaller ones, in Australia, I noticed that the cost this time around for this quarter was \$1.8 million, last year was \$5.4 million. I think this in part drove the beat earlier today. I guess my question is, how should we look at this, and what's more of a representative run rate and how should we model going forward?

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

A

Yeah, thanks for the question, Cosmos, and I think you're referring to our NPI...

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Yes.

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

...which in and of itself means volatility. But Paul, would you want to just do a little background there? I'm not sure we can give you much in terms of forecast, but maybe Paul can help.

Paul Libner

Chief Financial Officer & Treasurer, Royal Gold, Inc.

Yeah. Good morning, Cosmos. Thanks for the question.

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Hi, Paul.

Paul Libner

Chief Financial Officer & Treasurer, Royal Gold, Inc.

As you've heard us say in the past, one of the strengths of our portfolio is the optionality and depth within the portfolio. We acquired this royalty back in 2010, I believe, when we acquired International Royalty Corporation. So it certainly has been nice to see in 2020 some contributions from this NPI, as well as 2021.

But to provide you a bit more color on the royalty, the NPI is calculated and paid annually in Australian dollars. It's actually due to us within 60 days of Northern Star's fiscal year end, which is June 30. So – but as is common with many NPI contracts, we don't have much visibility with the calculation and can only recognize revenue during the period in which we receive the royalty calculation, so more or less on a cash basis versus an accrual basis.

But as Mark mentioned in his comments, our 2020 NPI was received and recognized as revenue in December 2020, which made up the large part of that \$5.4 million that you mentioned for the prior year, while our 2021 NPI was received and recognized during our September 2021 quarter, which is really why you're seeing a decrease in the December quarter. But I would like to add that the recent acquisition of Saracen by Northern Star, the purchase accounting rules would require Northern Star to record its interest at South Laverton at fair value. So, this accounting exercise may increase Northern Star's carrying value at South Laverton, which could then increase their calculated depletion on the property, thus possibly reducing the net profits that would be attributable to our NPI calculation. So again, we don't have much visibility into this calculation, but this kind of accounting exercise, it could impact the royalty amounts that are owed to Royal Gold in the future.

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Okay.

Paul Libner

Chief Financial Officer & Treasurer, Royal Gold, Inc.

[ph] I don't know if (00:32:25) that helped.

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Q

Yeah. Yeah. It does and we'll, again, try our best to forecast what you might get from that. The other question I have in terms of modeling is income taxes. I see that for the transitional period, it was 17.8%, you have forecasted 18% to 22%. It's always good, I guess, when it comes to taxes to be slightly under. But my question is, Paul, what drove the lower than expected tax rate? And again what should we model on a go-forward basis?

Paul Libner

Chief Financial Officer & Treasurer, Royal Gold, Inc.

A

I'll answer to – what you can model, as we've said, typically, we provide our annual tax guidance during our first quarter. So I would anticipate that we'll be able to provide that guidance at our next quarterly conference call.

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Q

Okay.

Paul Libner

Chief Financial Officer & Treasurer, Royal Gold, Inc.

A

Really the – we did have a couple discrete tax items during this quarter. And there weren't too much, but it did drive down our effective tax rate by a point or two. It was a small discrete item during the period, and it really was a result of a favorable settlement agreement that we received with the foreign taxing authority on a longstanding tax dispute. The terms of that settlement agreement are confidential, so I'm not really able to comment on the specifics. But I can share that that uncertain tax position, that created the benefit; that's lowering our tax rate for the period. It was part of the IRC transaction back in 2010. So it's something that we don't anticipate seeing going forward.

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Q

Great. And then you mentioned guidance. That jogged my memory a little bit. Maybe one last kind of wrap-up question for Bill. Clearly, we're looking forward to your 2022 guidance. Have you given any thought in terms of what you – would you be giving out longer-term guidance as well? Some of your peers in the industry have given out a now 10-year guidance, 5-year guidance, longer-term guidance. Is that something that RoyalGold is also considering, Bill?

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

A

Cosmos, I'd say not for 2022. I'll just – and maybe – I know I'm a bit alone in this view, but we don't control these properties. We have some good visibility and we've got a lot of assets where we don't have visibility because we don't have contractual rights. So for me to give guidance on properties that we're just not that close to is very difficult. And we started this with the six-month guidance last year and we had to change the range three months later. I think if you own the properties, you might not end up doing that. So let's see – when we give the annual guidance, let's see how we do with respect to that guidance and if we feel good about it, maybe we'll consider something longer term, I would say three years. Maybe, you start to have five or 10 years on properties. Again, we don't own. I don't know what that's worth to you, to be honest with you.

Cosmos Chiu

Analyst, CIBC World Markets, Inc.

Got you. Thanks, once again, Bill and team, and those are the questions I have.

Q

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

Thanks, Cosmos.

A

Operator: [Operator Instructions] Our next question will come from Josh Wolfson with RBC Capital Markets. Please go ahead.

Josh Wolfson

Analyst, RBC Capital Markets

Thanks very much. Back to Khoemacau, the release mentioned some discussion with the lenders, given Royal Gold was also part of the group with its Overrun Facility. I think there was \$25 million. Is there any potential revision to the terms that were outlined there or is Royal considering other means of investment here beyond the stream and existing debt in place?

Q

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

What we're anticipating right now is what we have in the press release, Khoemacau has available to it \$26.5 million under the Overrun stream and that's really all we're looking at.

A

Josh Wolfson

Analyst, RBC Capital Markets

Okay. And there was no revision to the existing terms that were set for that debt, so I think it was repaid in something like seven years.

Q

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

Correct.

A

Josh Wolfson

Analyst, RBC Capital Markets

Okay. Great. That's all my questions, thank you.

Q

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

Thank you.

A

Operator: Our next question will come from Tanya Jakuscone with Scotiabank. Please go ahead.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Q

Hey. Good morning, everyone, and thank you so much for taking my questions. Just have two. I just wanted to circle back, if I could, on Pueblo Viejo. I'm just trying to get a better understanding on this silver recovery. I think you mentioned that as we go through the plant expansion at Pueblo Viejo, it's going to be quite variable. So, should we be thinking that, since the plant expansion isn't going to be done until the end of this year, that through 2022, we may not be getting many of these deferred ounces returning back to us or minimal contribution from Pueblo Viejo?

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

Tanya, I might turn that over to Mark. But I'm not sure there's going to be much we can add to what we've commented on. But Mark, is there anything you'd want to say?

Mark E. Isto

Executive Vice President & Chief Operating Officer-Royal Gold Corp., Royal Gold, Inc.

Yeah, there really isn't much to add. I would, I would say we've seen a lot of variability over the 18 month – last 18 months as you've seen, and I don't I don't see that variability really changing. It's been very hard to really predict what that recovery is going to be for the full quarter. So, my thinking is that the variability continues, and our expectation is these bottlenecks will get worked out with the expansion as we're being informed and then we would see a more steady silver recovery situation.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Maybe you can't give us then these sales, but maybe you can talk a little bit about the silver circuit and what is – what are now the issues and what they're doing to address them?

Mark E. Isto

Executive Vice President & Chief Operating Officer-Royal Gold Corp., Royal Gold, Inc.

Yeah. Yeah. I mean, my perspective and from reading the monthly reports and talking with folks at site is there's really been a push on tonnes through the plant. And what happens when – and it's focused on gold production as you would expect. And what happens is that push on tonnes overwhelms or comes up against bottlenecks associated with the silver circuit and the silver circuit, for various reasons, will end up getting bypassed in the process and the silver is not recovered. I think the one thing I'd leave you with is that the site is very incentivized to recover silver. I mean, the reserve grade is over 14 grams and at 9 million tonnes a year processing, they have 4 million ounces of silver going through the circuit.

So, having a 40% JV partner and having a nice credit on cash cost, on byproduct cash cost. So, we're comforted that they're incentivized at site to be very proactive on managing the silver recovery, and we think it'll be variable until the expansion is completed and expected to settle down after that.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

What comfort do you have that they just don't continue to jam the mill with the gold?

Mark E. Isto

Executive Vice President & Chief Operating Officer-Royal Gold Corp., Royal Gold, Inc.

Oh, I think – I mean, my sense is that they would continue – they will continue to push tonnes this year, but that – but the bottlenecks associated with that in the silver circuit will get addressed in the expansion. And that's the guidance we've received from the site folks.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Q

Okay. So, maybe you could just share with me what are the bottlenecks, so I can do a bit more research on that.

Mark E. Isto

Executive Vice President & Chief Operating Officer-Royal Gold Corp., Royal Gold, Inc.

A

I hate to go off the top of my head on what's the most important and the least important because I'm afraid I will not get it correct. But effectively, what is happening is the circuit on a whole gets bypassed for a number of reasons based on managing the heat into the circuit or managing lime into the circuit, both of which are key inputs to the lime boil circuit. You need heat and you need lime. And there are circumstances where one or both of those inputs get restricted.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Q

All right. Maybe we'll take it off offline. Okay. Thank you. I just wanted to come back to my second question which maybe Bill can talk or team can talk on. Just wanted to come back to the deal environment, just want to review your strategy because some strategies have changed over the last little while. Just want to review your focus, whether it continues to be in the precious metals space, in gold, or has anything changed there with what metals you're looking at?

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

A

Yeah. Tanya, happy to answer that. Nothing has changed. I think you've probably heard me say more times than you'd like to hear me say that if I was given five projects and three are gold and one silver and one is non-precious, we'll probably look at the gold ones first and then silver and we take them in that order. But I think I've been clear that if we find something that is non-precious, that we consider to be a quality project, quality operator, good jurisdiction, we absolutely will entertain it. We believe within our precious metals revenue mix that we have room for something that is non-precious. So, nothing's changed.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Q

Okay. And then just on the non-precious side, are we still talking about base metals or battery metals or there's no energy and/or other coal and/or anything else in there? Just want to clarify that.

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

A

Yeah. Not energy. I mean, it will have to be a market that we understand. And I think I'd have to say – and by market, I understand, I think there are some battery metals I might not feel totally comfortable being in. But I also think the risk profile of the operation, I would want it, I think, to be a mining operation where Mark's skills could apply on the mining side or the metallurgical side. So if we can understand the market, we can understand the operation. I think that's it.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Q

Okay. And then can we just circle back to just the opportunities in the precious metals space? We – last quarter we talked about the \$100 million to \$300 million range for a funding project development and balance sheet repair. Is that still what you're seeing?

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

A

Tanya, I like to give Dan Breeze a shot at answering some of these questions.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Q

Absolutely. Absolutely.

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

A

Dan, are you available?

Daniel K. Breeze

Vice President-Corporate Development, RGLD Gold AG, Royal Gold, Inc.

A

Sure, Bill. Hi, Tanya. Hope you're well. And good question. And I think the size range that we talked about is pretty consistent in terms of what we're seeing now, the \$100 million to \$300 million range. I think what's perhaps newer is – and if you look at the equity issuance last year for precious metals, it was down year-over-year. And so I think what's happening, Tanya, is some of the pressure on the smaller companies, developer companies, it's hard to raise equity. And so we're seeing opportunities for royalty financings that probably in a better market would attract equity and which is interesting. So I think these are sub \$50 million opportunities. And we're looking at these through the eyes of land packages, for example, where there could be meaningful upside over the longer term. They're smaller, but interesting. So I think that's the newer part in terms of the opportunities that we're seeing more recently.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Q

Okay. So development of royalties on development assets or packages on that is how I understood it?

Daniel K. Breeze

Vice President-Corporate Development, RGLD Gold AG, Royal Gold, Inc.

A

Yes, we are seeing some third-party royalties but primarily on, for development capital. So you could imagine a company that would potentially look at the equity markets for, say, \$10 million to \$30 million. If that's unavailable, then they're open to a royalty-type structure for financing.

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Q

Okay.

Daniel K. Breeze

Vice President-Corporate Development, RGLD Gold AG, Royal Gold, Inc.

And so that's a newer focus, as I mentioned.

A

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Okay. And then still I'm assuming that there are some stream opportunities in that \$100 million to \$300 million range.

Q

Daniel K. Breeze

Vice President-Corporate Development, RGLD Gold AG, Royal Gold, Inc.

There are. We like the pipeline. And looking back last year, as you know, it was – you have to go back to 2015 to see the kind of volume that transacted last year. We're seeing a good level of opportunities. We like what we see right now. I'd say it's still very much weighted towards development capital in terms of use of proceeds, a little bit on balance sheet strengthening, but not as much as we saw last year. And then it says, well, just looking at asset purchases as well to help fund that purchase is another opportunity set that we see in the market right now as well.

A

Tanya Jakuscone

Analyst, Scotia Capital, Inc.

Okay, I appreciate that. Just wanted to check if from moment to moment some strategies have changed. Soreally appreciate the insights. Thank you.

Q

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

Thanks, Tanya.

A

Daniel K. Breeze

Vice President-Corporate Development, RGLD Gold AG, Royal Gold, Inc.

Thanks, Tanya, for the question.

A

Operator: This concludes our question and answer session. I would like to turn the conference back over to Bill Heissenbuttel for any closing remarks.

William Holmes Heissenbuttel

President, Chief Executive Officer & Director, Royal Gold, Inc.

Well, I just want to thank you for taking the time to join us today. We really appreciate your interest in Royal Gold, and we look forward to updating you on our progress during the next quarterly call. Take care.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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