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Royal Gold, Inc.

Calendar Year 2022 Third Quarter Conference Call

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CORPORATE PARTICIPANTS

Alistair Baker, *Vice President of Investor Relations and Business Development*

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Paul Libner, *Chief Financial Officer and Treasurer*

Mark Isto, *Executive Vice President and Chief Operating Officer*

Dan Breeze, *Vice President Corporate Development of RGAG*

Randy Shefman, *General Counsel*

CONFERENCE CALL PARTICIPANTS

Cosmos Chiu, *CIBC*

PRESENTATION

Operator

Hello everyone, and welcome to the Royal Gold, Inc. Calendar Year 2022 Third Quarter Conference Call.

I'll now hand over to your host, Alistair Baker, Vice President of Investor Relations and Business Development to begin. Alistair, please go ahead.

Alistair Baker

Thank you, Operator. Good morning, and welcome to our discussion of Royal Gold's third quarter 2022 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 Heissenbuttel, President and CEO; Mark Isto, Executive Vice President and COO of Royal Gold Corporation; and Paul Libner, CFO and Treasurer; Randy Shefman, General Counsel; and Dan Breeze, Vice President Corporate Development of RG AG 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.

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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 adjusted net income, adjusted net income per share, and adjusted EBITDA to the most directly comparable GAAP measures as well as a definition of Adjusted EBITDA margin are available in yesterday's press release, which can be found on our website.

Bill will start the call with an overview of the quarter, Mark will provide an operating update and Paul will provide a financial update.

After the formal remarks, we'll open the lines for Q&A session.

I'll now turn the call over to Bill.

Bill Heissenbuttel

Good morning and thank you for joining the call.

I'll begin on Slide 4. We delivered solid operating and financial results in the third quarter, despite pressure from lower metal prices. Revenue for the quarter was $131 million, operating cash flow was $95 million, and earnings were $46 million, or $0.70 per share. After removing an FX loss related to the Great Bear acquisition and a minor change in the fair value of equity securities, adjusted earnings were $0.71 per share. Our Adjusted EBITDA margin of 77% remained high and in line with last quarter.

While we are not immune from inflationary pressures, our low and stable costs provide protection against margin compression. We were very active on the business development front during the quarter, and we completed two transactions, both of which were previously announced. The first was the acquisition of a royalty on Kinross's Great Bear project in Ontario. The second was the acquisition of an additional royalty on the Cortez Complex in Nevada. Both of these transactions are in line with our strategy of acquiring long-life and high-quality assets operated by leading counterparties in safe jurisdictions.

With respect to the Cortez Complex Royalty, we received notice from Nevada Gold Mines that the 15 million ounce threshold was reached late in the quarter, and approximately 3,300 ounces of mine production was attributable to the 1.2% royalty.

The royalty revenue for the September quarter was nominal, and we expect that the royalty will be fully payable in the December quarter.

We recognize that our royalty position at the Cortez Complex has become more complicated with the acquisition of this new royalty. We expect to provide some new disclosure guidelines soon to help simplify and clarify how to think about our multiple royalty interests at Cortez.

Our balance sheet remains strong and our cash flow in the quarter allowed us to repay $50 million of the $500 million that we drew on the revolver for the Cortez Complex Royalty acquisition. At the end of September, we had $550 million of revolver capacity undrawn and available.

During the quarter, we paid our dividend of $0.35 per share. We are a leader in the precious metals sector in terms of our commitment to the dividend regardless of short-term gold price volatility.

Finally, we achieved the full recovery of our total $781.5 million stream advance payment at Mount Milligan, which is a significant milestone after only nine years of commercial operation. For those of you who have followed us for years, you will appreciate that Milligan performance has not always been

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consistent in the past. I am pleased to report the return of our investment at the same time as the announcement of the updated technical report by Centerra, which provides for several positive read-throughs for Royal Gold in terms of mine life and production.

I'll now turn the call over to Mark for some comments on our portfolio.

Mark Isto

Thanks, Bill.

Turning to Slide 5, I'll cover portfolio performance over the quarter. Volume for the quarter was 76,000 gold equivalent ounces, or GEOs. This volume was in line with our expectations, and while there was a decrease year-on-year, keep in mind that the GEO volume in 2021 September quarter was a record for the Company, and our 2022 guidance reflected our expectation of reduced production from certain mines.

Our Royalty segment contributed $33 million in revenue, a decrease of 44% over the prior year quarter with lower contributions from Cortez, Penasquito, Robinson, South Laverton and Dolores.

Our Stream segment revenue was $99 million, about 15% lower than the prior year quarter. Lower contributions from Mount Milligan, Pueblo Viejo and Rainy River were partially offset by new revenue from Khoemacau.

I'll now turn to Slide 6 with a few specific comments on operations. We visited Khoemacau in late September and saw a well-managed and equipped operation. Production ramp-up is continuing, and the mining rate reached an average of 8,000 tonnes per day in September, up from the 7,300 tonnes per day in June.

Production has reached the targeted mining rate of 10,000 tonnes per day for short periods during this ramp-up period, but the mining rate has yet to be consistently sustained at this level. KCM expects to reach the full run rate of 10,000 tonnes per day on a sustained basis towards the end of the fourth quarter or the first quarter of 2023. This is slightly later than what we said in our last conference call, mainly due to the availability of key mining equipment. The equipment issues are well understood, and the mitigation efforts are advancing well.

At Mount Milligan, as Bill mentioned, Centerra issued the updated life of mine plan in early October. Compared to the 2020 plan, the life of mine has extended over four years to 2033, with increases of payable gold of 800,000 ounces and payable copper of 191 million pounds, all of which are positives for Royal Gold. The technical report is expected to be released in mid-November.

Centerra also reported that resource expansion drilling is underway to the west and below the current pit boundary, while exploration drilling is underway east of the current ultimate pit boundary. According to Centerra, the results so far support the potential for future resource growth, all of which fall within the stream area of interest.

At Pueblo Viejo, silver deliveries were approximately 319,000 ounces in the quarter, and an additional 47,000 ounces of silver were deferred, resulting in a total of 530,000 deferred ounces. We expect that silver recoveries could remain highly variable until the plant expansion is completed and bottlenecks associated with the silver circuit and silver recovery can be fully addressed. Barrick expects plant expansion commissioning in the first quarter of 2023, and we don't expect material deliveries of deferred silver this year. We continue to see this as a cash flow timing issue, and we don't expect it to have any lasting impact on silver revenue.

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We also visited Wassa during the quarter and saw an operation focused on increasing gold production. Chifeng indicated that they expect 2022 production to come in at or above the high end of the previously provided guidance range of 155,000 ounces to 170,000 ounces. At Andacollo, a significant rainfall event in July caused operations to shut down for five days. We expect the impact of the shutdown will affect stream deliveries in the first quarter of 2023.

More generally, at Andacollo, gold production has trended lower since the beginning of 2021 due to lower ore grades in the mine plan. Teck has advised that it expects that it expects the period of lower grades to last through 2023, after which there will be a transition to higher grade ores as the next phase of mining is developed over the following years.

Finally, we also saw a handful of positive developments at some of our smaller portfolio assets over the quarter, which were detailed in yesterday's press release. For example, New Gold announced the start of underground production at Rainy River. Red 5 continues to ramp up production at King of the Hills. Bellevue Gold reached the first development ore. Hochschild reported construction is already 16% complete at Mara Rosa, and Sabina made a formal decision to start construction at Back River in early 2023.

We are pleased with the organic growth from the quality assets within our portfolio.

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

Paul Libner

Thanks, Mark.

I'll now turn to Slide 7 and give an overview of the financial results for the quarter. For this discussion, I will be comparing the quarter ended September 30, 2022 to the prior year quarter.

Revenue was $131 million for the quarter, a 25% decrease. As Mark mentioned, this quarter's GEO volume was in line with expectations but fell short when compared to the prior year quarter, which was a period where Royal Gold achieved both record revenue and GEO volume. We expected lower volumes in the current quarter, but prices of our key metals were also weaker compared to the prior year, with gold down 3%, silver down 21% and copper down 17%. Gold remains the dominant revenue source making up 76% of total revenue, followed by silver at 11% and copper at 8%.

G&A expense increased to $7.6 million from $7.1 million in the prior year quarter. The slight increase in our G&A cost was attributable to higher non-cash stock compensation expense. Although inflationary pressures have impacted some of our producing peers, our cash G&A costs have remained low and continue to be less than 5% of our revenue.

Our DD&A expense decreased to $38 million, down from $51 million in the prior year quarter. The decrease in our DD&A expense was primarily due to lower gold production at Cortez, lower gold sales at Mount Milligan and lower depletion rates at Mount Milligan. The decrease in depletion rates at Mount Milligan was due to the increase in proven and probable reserves, which were recently announced in Centerra's updated life of mine plan. On a unit basis, this expense was $497 per GEO compared to $519 per GEO in the prior year.

Note that with the announced addition to reserves at Mount Milligan, the gold and copper depletion rates for our stream have decreased as of September 30 to $416 per ounce of gold and $1.06 per copper pound compared to $703 per ounce of gold and $1.53 per pound of copper in prior quarters.

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Tax expense for the quarter was $11 million, resulting in an effective tax rate of 19.3%. This compares to income tax expense of $16 million and an effective tax rate of 18.5% in the prior year period.

Earnings for the quarter were down over the prior year to $46 million or $0.70 per share. After adjusting for a one-time foreign currency translation loss of $2.1 million related to the closing of our acquisition of Great Bear Royalties and adjusting for a small gain in the fair value of equity securities, our adjusted earnings were $0.71 per share. Earnings in the prior year were $70 million or $1.07 per share.

The main contributor to decreased earnings this quarter when compared to the prior year was our lower revenue. The lower revenue also impacted our operating cash flow. Although operating cash flow remained strong at $95 million this quarter, it was lower than the record $130 million we reported in the prior year.

I will now turn to Slide 8 for a short discussion on guidance. As results through the end of the third quarter have largely been as expected, we are not adjusting our earlier guidance ranges for GEO sales and the effective tax rate for the full year. We expect total GEO sales to come in around the midpoint of the previously reported range of 315,000 to 340,000 GEOs. Gold sales are tracking towards the high end of the earlier 220,000 to 240,000 range while other metals are expected to come in at the lower end of the 95,000 to 100,000 GEO range.

For DD&A, as a result of the lower gold and copper depletion rates at Mount Milligan that I just mentioned, we expect our 2022 DD&A guidance range to decrease to $510 to $560 per GEO from the original range of $535 to $585 per GEO. Note that these guidance ranges assume the same metal prices we used to set guidance in April this year, and we are not including any contribution from the Cortez Complex Royalty in these figures.

With respect to the Cortez Complex Royalty, we expect the fourth quarter to be the first full quarter of contribution from this royalty, which we estimate will be approximately 3,000 royalty ounces.

For DD&A, and in line with what I stated during our last quarterly call, we have assigned 38% or nearly $200 million of the purchase price to production stage mineral interest, and we are expecting a DD&A rate for this royalty of $1,393 per royalty ounce based on the current 14.2 million ounce reserve. The remaining value is assigned to exploration stage, which is not currently subject to depletion and will be reclassed to production stage as additional material classified as reserves.

I will now turn to Slide 9 and provide a summary of our financial position at the end of the quarter. During the quarter, we repaid $50 million of the outstanding balance on the revolving credit facility and ended the quarter with $450 million drawn on the facility. The $550 million undrawn revolver capacity, combined with $117 million of working capital, provided a total available liquidity of approximately $670 million at the end of the quarter.

In keeping with our approach to capital allocation, we expect to repay the $450 million outstanding revolver balance as cash flow allows over the short to medium term. Beyond our current debt outstanding, we have no other significant financial commitments as of the end of the quarter.

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

Bill Heissenbuttel

Thanks, Paul.

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I am pleased with the progress we made this quarter. When we think about our capital allocation priorities, they are to reinvest in the business when we find the right opportunities, keep a strong balance sheet and pay our regular dividend, and that is what we did this quarter. We added two world-class royalties to the portfolio using available cash resources and without issuing any equity, we paid down $50 million of debt and returned $23 million to shareholders in dividends.

We continue to look for new opportunities to further grow and diversify the portfolio, and we remain focused on finding the right opportunities to add long-life revenue and cash flow from the best assets.

In the meantime, our portfolio is performing well, and we have good embedded organic growth from several assets that should continue to maintain our healthy margins, cash flow and balance sheet.

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

Operator

Thank you.

Our first question comes from Cosmos Chiu of CIBC. Cosmos, your line is open. Please go ahead.

Cosmos Chiu

Great. Thanks Bill, Mark, Paul and Alistair.

Maybe my first question is on Khoemacau. As you mentioned, the operator's trying to target 10,000 tonnes per day by the end of December, maybe into Q1 2023. That represents a fairly big jump. I guess, the average was 7,300 tons per day in June—8,000 tons per day in the September quarter. Could you maybe elaborate a little bit in terms of what's needed to get to 10,000 per day on a consistent basis? Is it just the equipment issues that you had talked about? Maybe as well, I guess, maybe it was impacted by COVID, as you mentioned, during earlier conference calls. Is that now behind us in terms of those issues, COVID issues, and that's been resolved? Maybe that's the reason as well.

Bill Heissenbuttel

Hey Cosmos, it's Bill. Thanks for the question.

I think I might hand that off to Mark to give you his thoughts.

Cosmos Chiu

Thank you, Bill.

Mark Isto

Yes. Yes, sure. I guess, what we talked about was the maintenance issues. We were there at site in September, and that certainly was the bottleneck that we saw. We saw that they had plenty of equipment and manpower to achieve the production rates, they do achieve the production rates. I think I can share with you that in October, they achieved an 8,400 tonne a day average underground mining rate.

They are continuing to ramp up from when we visited. We didn't really see anything as we've reported in the past that would indicate that they will not make it to the 10,000 tonnes a day. Ground conditions are

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great. They've got three access points. They've got plenty of active stopes, and they've got the equipment that they need and the manpower.

Cosmos Chiu

The COVID-19 issues that you had talked about earlier on this year, that's all behind us?

Mark Isto

Yes, I think it is. I mean, obviously, they still have some precautions, but that certainly doesn't show up as a variance item very often. I think, you could say that there are some supply chain issues that still have some impact. But, as far as COVID-related issues at site, we certainly didn't see that on our visit.

Cosmos Chiu

That's good to hear.

Maybe switching gears on Mount Milligan. As you mentioned, Centerra recently put out the Mount Milligan mine plan, extending the mine life to year 2033. Maybe if you can comment a little bit more in terms of how that compared to your internal sort of expectations? Was it better as expected? If you can quickly comment on that as well.

Bill Heissenbuttel

Mark, do you want to take that one?

Mark Isto

Yes, for sure. It certainly met our expectations. Obviously, we have dialogue with Centerra on a regular basis. We were guided some time before the release that it was going to be in the order of three years to four years. Frankly, I think it was actually slightly better than what they had guided earlier, internally. We were happy to see the results, and we're also happy with the additional drilling that's going on that we feel will ultimately add additional resources and ultimately reserves to the mine plan. Yes, we're very happy with it.

Cosmos Chiu

That's great.

It's also good to hear that the full repayment has been made on the advanced stream deposit. I guess, my question on that is, that should be a pretty simple answer, but any tax implications now that it's been repaid? I forget how it works from that accounting—also tax perspective. But I just want to make sure to see if there's any implications now that the entire advanced deposits been repaid.

Bill Heissenbuttel

Paul, that sounds like one for you.

Paul Libner

Hey, Cosmos. Good to hear from you.

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No, there are no changes to the current—as a result of the full repayment. It's business as usual from a financial results standpoint as well.

Cosmos Chiu

Great.

Then, maybe one last question, more generally speaking, in terms of the financial side. Bill, as you mentioned, you had to draw on your line of credit for some recent purchases, but you've repaid it. Now you have $550 million on your facility, plus $120 million in cash. Is that enough firepower for what you're seeing out there in terms of potential new streams and royalties? Maybe if you can comment on the overall sort of deal environment as well.

Bill Heissenbuttel

Yes. Cosmos, I'll take the first part.

I do think it's sufficient for the—we've talked for probably a few years now that the size of the deals we're seeing are $100 million to $300 million. The Cortez Royalty purchase at $525 million, just to put it in perspective, I think that's tied for our third largest investment. I would say that's a little out of the norm of what we see. Between the revolver availability and the cash flow that you're seeing quarter-over-quarter, I'm very comfortable with where we sit.

Dan, if you're on the line, I don't know if you wanted to sort of chime in on what you're seeing in the market?

Dan Breeze

Sure, Bill. Hi, Cosmos. Yes. Thanks for that question.

Cosmos Chiu

Hi, Dan.

Dan Breeze

Hi, there.

I think when we look back in the year, Cosmos, obviously, the first half of this year all the way through really to August when we announced our royalty transactions, it was a very strong market. Then, we saw it slow down a little bit through the summer and through September. Maybe it's the time of the year, maybe it was the market volatility that we were seeing at that time.

But I'd say our pipeline has really filled up in the last four or five weeks or so. It's mainly gold opportunities, mainly development-type projects. I think that number we always referred to in terms of size, the $100 million to $300 million is still very much applicable here in what we're seeing.

Then the Royalty side: The third-party royalty market has been really strong. Obviously, we were part of that with the purchases that we made this year. The other part of the royalty market I would mention is really the smaller, new royalties over earlier-stage projects. These are generally less than $50 million in size, and really just to move forward projects, and I think that's really a function of what we're seeing in the market.

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When the GDX is down, and I think it's down 50% from its April highs, and so it's very difficult to raise equity in the market, as you know. That's certainly helping out our industry. I mean, we do want to see the equity markets function and be able to act to raise equity to go into a project, but we can certainly be helpful. I think that's all driving the business development side in the last few weeks. Hopefully that answers your question.

Cosmos Chiu

Great. Thanks. Yes, it was a great answer. It sounds like, Dan, you're fairly busy these days, which is good. But those are the questions I have. Thanks again Bill and team and I am looking forward to another conference call later on.

Bill Heissenbuttel

Thanks, Cosmos.

Operator

Thank you.

At this stage, we have no further questions. I'll hand back over to Bill Heissenbuttel for any closing remarks.

Bill Heissenbuttel

Well, thank you for taking the time to join us today. We certainly appreciate your interest in Royal Gold. We look forward to updating you on our progress during our next quarterly call.

Take care.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.

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