

Royal Gold

Fiscal 2017 Third Quarter Conference Call

Thursday, May 11, 2017, 12:00 P.M. Eastern

CORPORATE PARTICIPANTS

Tony Jensen - *President and CEO*

Stefan Wenger - *CFO and Treasurer*

Bill Heissenbuttel - *Vice President, Corporate Development*

Mark Isto - *Vice President Operations*

Bruce Kirchhoff - *Vice President, General Counsel and Secretary*

Karli Anderson - *Vice President of Investor Relations*

PRESENTATION

Operator

Good day and welcome to the Royal Gold Fiscal 2017 Third Quarter Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad; to withdraw your question, please press star (*) then two (2). Please note this event is being recorded. I would now like to turn the conference over to Karli Anderson, Vice President of Investor Relations. Please go ahead.

Karli Anderson

Thank you, Operator. Good morning and welcome to our discussion of Royal Gold's third quarter fiscal 2017 results. This event is being webcast live and you will be able to access a replay of this call on our website. Participating on the call today are Tony Jensen, President and CEO; Stefan Wenger, CFO and Treasurer; Bill Heissenbittel, Vice President, Corporate Development; Mark Isto, Vice President Operations; and Bruce Kirchhoff, Vice President, General Counsel and Secretary. Tony will open with an overview of the quarter and then Stefan will follow with the financial update. After management completes their opening remarks, we'll open the line for a Q&A session.

This discussion falls under the Safe Harbor provision of the Private Securities Litigation Reform Act. A discussion of the Company's current risks and uncertainties is included in the Safe Harbor and cautionary statement in today's press release and slide presentation and is presented in greater detail in our filings with the SEC.

Now I will turn the call over to Tony.

Tony Jensen

Thanks, Karli, and good morning, everyone. Thank you for joining us. I'll begin on Slide 4. To summarize the highlights of our solid and straightforward financial results, we're reporting our second consecutive quarter of record operating cash flow. We paid down \$45 million in debt and made our final scheduled payment to Wassa and Prestea. We have no additional capital commitments, so all cash going forward will be available for acquisitions, debt reduction, and dividends.

In addition to the quarterly results, I would also like share a bit about the future with you today. We have a sequential growth catalyst expected in each of the next three calendar years, Rainy River in 2017, Cortez Crossroads in 2018, and Penasquito Pyrite Leach in 2019. We believe this growth profile, with three near-term projects already bought and paid for, is unique within the royalty and streaming business. I'll speak more about this later. We also have significant interest at Pascua-Lama and Voisey's Bay, and there are some updates in those areas I would like to discuss with you, as well.

Let's delve into the details on Slide 5. Today, we are reporting another quarter of strong revenue in earnings from our diverse portfolio of 38 operating properties: Mount Milligan, Pueblo Viejo, Penasquito, Wassa, and Prestea were the main drivers of higher revenue over the prior year quarter and offset lower sales of Andacollo due to the timing of concentrate shipments. When you compare our recent results over that of the last few years, you'll see that we've experienced a step change in operating cash flow. The chart on the left side of the slide illustrates that we've averaged about \$170 million in operating cash flow per year from 2013 to

2016. However, over the last 12 months, we've generated \$250 million, an increase of about 50%. This performance demonstrates how the recent streaming acquisitions at Andacollo, Pueblo Viejo, Wassa, and Prestea have ushered in a new era of growth for our Company.

Turning to Slide 6, we provided a few notable highlights from our 38 operating properties. At Pueblo Viejo, Barrick reiterated its calendar 2017 production guidance, which calls for 625,000 to 650,000 ounces of gold production. Barrick reported slightly lower than expected first calendar quarter production due to the timing of autoclave maintenance. The impact of that shutdown was partially offset by higher gold recoveries. Full-year production guidance was reconfirmed at Wassa and Prestea, where Golden Star expects to produce 255,000 to 280,000 ounces of gold with production weighted to the second half of the calendar year. Commercial production was declared at Wassa Underground back in January and Golden Star expects the Prestea Underground to reach commercial production in the second half of this year. I'd like to remind you that our streaming interest is scheduled to increase from 9.25% to 10.5% on the earlier of commercial production at Prestea Underground for January 1, 2018.

Finally, at Mount Milligan, Centerra also reiterated its full year production guidance. Centerra is expecting gold production of 260,000 to 290,000 ounces and 55 million to 65 million pounds of copper production in 2017. This results in 91,000 to 101,000 ounces of gold and 10 million to 12 million pounds of copper attributable to Royal Gold. This profile is also weighted to the second half of the calendar year with 64% of the copper and 60% of the gold production expected in the last two quarters of the year. As we schedule that revenue into Royal Gold, I should emphasize that there's about a five-month lag between production and delivery to us. Centerra recently undertook an operational review process with subject matter experts within their organization to identify several value-adding projects, which when implemented, are expected to improve recovery, throughput, and unit cost performance. That said, Mount Milligan is already one of the lowest cost producers in the world. As expected, we will have our first copper sales from Mount Milligan in the June quarter. When we announced our amended agreement with Centerra nearly a year ago, we evaluated the impact of taking some copper in exchange for gold. We continue to estimate that we'll have about 85% of our revenue from precious metals even after the copper stream goes into effect.

I'll now turn the call over to Stefan for a financial update. Stefan?

Stefan Wenger

Thanks, Tony. On Slide 7, I've summarized a few of our financial highlights. Third quarter revenue of \$107 million was up 14% from last year. We benefited from strong volume at several of our streaming interests as well as Penasquito on the royalty side. The gold price averaged \$1,219.00 per ounce for the quarter, an increase of 3% from last year. Our effective tax rate was 23% in Q3 and 20% for the full nine months ended March 31. For fiscal 2017, we expect that our full-year effective tax rate will be approximately 20%. DD&A was about \$455.00 per GEO for both the quarter and the nine months ended March 31, and that's on the low end of guidance of DD&A per ounce of between \$450.00 and \$475.00 for the full year. We took steps to strengthen our balance sheet in the third quarter. You may recall that last quarter, Tony told you that all cash flow going forward will be available for acquisitions, debt reduction and dividends. Well, during the March quarter, we generated \$76 million operating cash flow, made our final payment of \$10 million to Golden Star, paid down \$45 million on our revolver, and we paid \$16 million in dividends, resulting in a 20% cash flow payout ratio. We ended the quarter with about \$460 million in total liquidity, an increase from \$420 million last quarter. This includes about \$110 million of working capital plus \$350 million of revolver capacity. Looking ahead, we expect to continue to pay down debt aggressively while maintaining the increased

availability under our credit facility to fund acquisition opportunities.

I'll now turn the call back over to Tony.

Tony Jensen

Thanks, Stefan. Turning from our current quarter to development stage projects on Slide 8, you will see three properties that will contribute to our next phase of growth. Starting with New Gold's Rainy River project in Ontario. The construction has matured significantly and commissioning of the crusher circuit is expected to commence in the coming days. In the September quarter of this year, New Gold plans to begin dry and wet commissioning of the full process circuit followed by first ore to the mill thereafter. New Gold is working closely with authorities to obtain the Schedule 2 permit, which is necessary for the long-term operations to the tailing facility and I note that there could be an interruption and milling at the final tailings facility where it cannot be completed timely. New Gold is pursuing options to sustain production while the tailings facility is completed after their permit is received.

From our standpoint, we are much more focused on the long-term quality of the build and more than a decade of strong contributions thereafter. Royal Gold has a stream of 6.5% of the gold and 60% of the silver at Rainy River, which has an impressive 3.8 million ounces of gold reserves and 9.4 million ounces of silver reserves.

On the photo in the middle of the slide, you'll see an aerial view of pipeline, South Pipeline, Gap and Crossroads with deposits at Barrick's Cortez property. With reduced need for open pit equipment at Cortez Hills, Barrick began stripping and de-watering the Crossroads in calendar 2016 in preparation of ore production, which is expected to begin next year. Much of the Crossroads ore will be heap leach, so will not complete with mill access with higher grade Cortez Hills Underground ore. Royal Gold has a sizable interest at Crossroads, comprised of both a 4.4% net value royalty and a 5% GSR royalty. We are also looking forward to the Penasquito Pyrite Leach project. The project will result in winning more metal from ore by recovering gold and silver now reporting to tailings. Goldcorp reports that it achieved 6% construction progress and 81% engineering progress at the end of the first calendar quarter. The project is expected to generate an incremental 100,000 to 140,000 ounces of gold and 4 million to 6 million ounces of silver beginning in 2019. Both gold and silver are subject to our 2% NSR royalty, which also includes lead and zinc.

Turning to Slide 9, I want to briefly discuss two properties which have the potential to influence our portfolio over the next few years. Barrick recently announced a joint working group with Shandong Gold to explore and develop the Pascua-Lama project on the Chile-Argentina border. The pre-feasibility study currently underway will explore the possibility of developing the Argentina, or Lama, side of the deposit first with a block caving approach. It is envisioned that one of the three lines of the partially completed infrastructure will be used for Lama at an initial 15,000 ton per day capacity with the potential to add more throughput as the Pascua deposit is developed. Royal Gold has a 5.45% royalty on all gold production from the Pascua deposit, which had nearly 15 million ounces of gold reserves in 2011. To provide scale, if that was in production today, our Pascua-Lama royalty would be our fourth largest revenue source.

Meanwhile, we continue to enforce our rights with respect to Voisey's Bay, the Voisey Bay royalty. Litigation efforts have progressed and we recently received a trial date for the second half of 2018. The trial will take place in St. John's, Newfoundland Labrador. As a reminder, our claims disputing calculation of the royalty date back to the beginning of production in 2005. In addition, Vale has not paid any royalty to Royal Gold since the first calendar quarter of 2016

when they began deducting operating costs, capital costs, and cost of capital associated with the new Long Harbour Processing Plant. We obviously believe these are inappropriate deductions when calculating an NSR royalty. Prior to commencement of Long Harbour operations, our Voisey's Bay royalty was among our top five largest revenue generators. Both the Pascua-Lama and Voisey Bay royalties are meaningful to Royal Gold, yet neither figures into our growth projections at this time.

Turning to Slide 10, you will see in our press release that we issued last evening that we updated our reserves and resources attributable to our royalty and streaming interests. We think of these figures net of the required payment of streams, so we have comparable figures between our royalties and streams. Attributable gold equivalent ounces are 6.7 million, down only about 100,000 ounces due to net consumption during the year.

So in summary, Royal Gold continues to benefit from prior investments. We are seeing a step change in cash flow growth thanks to our recent acquisitions of interest at Andacollo, Pueblo Viejo, Wassa, and Prestea. While those acquisitions of producing properties are now integrated, we still have attractive growth ahead of us at Rainy River, Cortez Crossroads, and the Penasquito Pyrite Leach project, all of which requires no additional funding from us. We are rebuilding the balance sheet by repaying debt, diligently returning capital to our shareholders and keeping our powder dry for future opportunities.

Operator that concludes our prepared remarks. Now I'll open the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). Our first question comes from Lucas Pipes of FBR and Company. Please go ahead.

Lucas Pipes

Hey, good afternoon, morning, everybody.

Tony Jensen

Good day, Lucas.

Lucas Pipes

So Tony, I wanted to follow up a little bit on the comments that you made in your prepared remarks and you highlighted that the use of cash is for acquisitions, debt reductions, dividends and I wondered if you could maybe elaborate in terms of where you see the best opportunity at this point. Is it all three? Is it maybe a little bit more debt reduction still at this point? Or is there maybe the acquisition market getting a little bit more attractive? Just if you could maybe give us some color around your capital allocation strategy that would be very helpful.

Tony Jensen

Sure, Lucas, happy to do that. First, let me start with our dividends. We have a very lasting commitment in our strategic plan to pay a growing and sustaining dividend. We've been able to do that for the last 18 years, I think, probably and so that's something that we always have discipline and dedication to so, well, you can expect that to continue and then, really, it's an

opportunistic thing. Stefan is going to be attacking our debt aggressively in the absence of a deal and that debt, as we pay it down, is immediately available to us again by way of our revolver. So we don't look at those two things competing against each other, simply as a good use of our cash flow in the absence of Bill finding our next transaction. So we're very busy looking at different things and we still see things out there that we like and we're working hard to see if they fit into our portfolio.

Lucas Pipes

That's helpful and in terms of the things that are out there, is it more maybe earlier stage projects given that, by and large, the metals and mining sector has somewhat recovered? Could you give us a flavor in terms of what is keeping you the busiest, so to say? Thank you.

Tony Jensen

Yes, be happy to. A lot of the restructuring of the balance sheets that happened over the last 24 months are so are starting to heal and so while we may not see the size and transaction that was in the marketplace before, there are still some interesting high quality things out there that would make an important difference to a company like Royal Gold. I like to often say that it's a strength to be the smallest of the three biggest because we can do transactions that are still important to us in \$200 million or \$300 million range that still are material to our business. So we still like what we see in the business development sector at this point.

Lucas Pipes

That's helpful, thank you, and then if I could maybe squeeze in one last one. You highlighted the scale of Pascua-Lama and I wondered how quickly could this maybe show up in your results. I would appreciate your perspective.

Tony Jensen

Yes, that's a very hard question to answer because number one, we've got to see Barrick get through the pre-feasibility on the blockade potential and see whether that make sense at all and then, of course, after that, I'm sure they'll go into a feasibility type of schedule. So that will take some time. But overprinting all of this is some of the regulatory, social, and permitting issues that have to be solved on the project. So it's a very, very hard thing for me to guide. But I just emphasize that there's a tremendous amount of capital that's already in place there on the property. It's not a Greenfields project. So when all those things do get cleared up, it could be an exciting point in time for Royal Gold and certainly for Barrick, as well. So hard to guide, but it is a very interesting option that's already embedded in our portfolio.

Lucas Pipes

Great, that's very helpful. Thank you and good luck.

Tony Jensen

Thanks, Lucas.

Operator

Again, if you have a question, please press star (*) then one (1). We will pause momentarily to assemble our roster. And our next question comes from Mike Jalonen of Bank of America. Please go ahead.

Michael Jalonen

Oh, afternoon, I guess, or morning for you, Tony. Just following up on the questions there on acquisitions. You laid out a nice growth plan there, I guess, through '19 and give you a nice

boost to revenue. Does that put you in a position for future acquisitions that are more long dated? Because I look at companies like New Gold, Blackwater, IAMGOLD, Cote Gold, and, well, even Goldcorp, now, [indiscernible]. Barrick's got some other things other than Pascua-Lama, like Alturas. There's a lot of long dated projects out there and just wondering if you guys have your eyes on those?

Tony Jensen

Thanks for the question, Mike, and good day. We're looking at everything in all spectrums from near term to longer term items and we do have the luxury of not having to quickly go out and look for some ounces that might help our growth profile. As you mentioned, it is a nice growth profile embedded in the Company already. But I wouldn't really classify that giving us direction in how we look at projects. Bill is looking at things that make sense in any spectrum of the market. So we're trying to be creative in looking sometimes where other people aren't and also looking at some of those things that we expect to come into production over the near term.

Michael Jalonon

Now maybe I can just follow on, 85% revenue from gold or is it precious metals against gold? Is that kind of a benchmark for Royal Gold or are you looking at a variety of metals or more focused on the precious metals?

Tony Jensen

Always a strong focus on the precious metals. I think if we ever hit the bottom end of that spectrum, we might say no less than 70% precious metals. But that's just kind of a guide in our company that we won't pierce, but we really are looking at precious metals and we don't have a growth strategy in other commodities.

Michael Jalonon

I guess if you prevailed at Voisey's Bay, you'll probably head to that 70% pretty quickly, but I guess that would be a high class problem.

Tony Jensen

That would be a high class problem and I think we can probably still fit that into the portfolio quite nicely. Remember, Mike, when we bought that company of International Royalty's and that was a, it was never a material asset and it certainly was much more material to us then than it is now and we still stayed right at that 70% threshold when we brought it in. So I don't look at that one alone tipping us down close to that level. But you're absolutely right, I think the market will respond very, very well if that royalty was back on.

Michael Jalonon

Maybe just one question on Rainy River. Obviously, you saw New Gold refinance itself there in the first quarter, equity issue, selling the El Morro stream. Was there any discussion, another financing avenue, a higher stream line on Rainy River through Royal Gold, like you did with Mount Milligan where you built that up over time?

Tony Jensen

Well, I'm not going to answer your question directly, you'll forgive me for that. But what I can say is we often like what we own already. We know it's the best and we're always going to look at opportunities where we can be helpful to our partners and we've been able to do that a number of times. You've seen that at Mount Milligan, for example, when we added a couple of different tranches to that original investment and as long as we like the asset, as long as we feel that we're not taking too much of that asset and we have confidence in the partner, as we do in

our portfolio, we surely would look at more business opportunities at a number of different assets.

Michael Jalonon

Okay, that's all from me. Thanks.

Tony Jensen

Thank you, Mike.

Operator

Our next question comes from John Kratochwil of Canaccord. Please go ahead.

John Kratochwil

Hi, good afternoon, guys. I've got actually two questions largely related to the balance sheet financial statements. The debt, I see you continue to pay that down. Is there a target level that you're trying to get to either on an absolute number or on, say, a net debt-to-EBITDA basis?

Stefan Wenger

Sure, John, it's Stefan Wenger here. Thanks for the question. Right now, we're just under two times net debt-to-EBITDA and that's a very comfortable level for us. I'll point out two levels of capacity that we're, when we talk about acquisitions, I think we're comfortable going up to about three times net debt-to-EBITDA on a short-term basis as long as we see it delever down in a pretty fast fashion. And then on the lower side, we do feel like there is some reasonable level of debt that we can keep within the Company and something about around one times our EBITDA is pretty comfortable for us. So as we go forward into long-term, every acquisition we look at, we look at our capital structure, we look at our cost of capital, and we make decisions about how we go forward and that's something I work on continuously and hope that gives you a little bit of a guide to where we think about debt.

John Kratochwil

Yes, no, actually that was absolutely great. The other question that I had is on G&A. I noticed a fair drop over from last year. Is that something that's supposed to carry forward or are we supposed to see that creep up as the quarters go on?

Stefan Wenger

You know, the G&A should be pretty consistent except for one item that drove our quarter and we pulled back on some non-cash compensation expense during the quarter.

John Kratochwil

Okay.

Stefan Wenger

It's just a function of every quarter. We're estimating what the future earn outs will be under certain performance share agreements. In this quarter, we pulled that back really just to reflect current prices. So that's probably the largest level of volatility within our income statement up in that G&A line. So I'd look back more on a trailing 12 months basis from what our G&A is and use that as a guide rather than any single quarter.

John Kratochwil

Okay, no, that's great. That answers my questions, thank you so much.

Stefan Wenger

Thanks, John.

Operator

Our next question comes from Andrew Kaip of BMO. Please go ahead.

Andrew Kaip

Hi, thanks very much and congratulations on a pretty decent quarter. I just have one question, Tony, and it's what's the long-term strategy with the Peak Gold joint venture? How does that fit in from a long term perspective into Royal Gold and what its goals are?

Tony Jensen

Thanks, Andrew, for the questions, good day. Let me just take a step back and describe that a little bit more for perhaps the broader audience. We had an opportunity to participate in a project in Alaska, an exploration project, which is not specifically within our D&A. But we saw an opportunity here that we thought was extremely attractive that the rest of the market had not been, perhaps, seeing it as we did and we've gotten involved with a company called Contango ORE to develop exploration possibilities of a project called Tetlin, and the joint venture is called Peak Gold. We've invested enough to now get about a 25% earn over 25% joint venture interest there. But we really have built that structure to exit back into our core business and we want to perfect that perfect that. We still think there are some things that we can do there to add value. We haven't had to add any staff. It's been very, very efficient and we've been investing there on a quarterly basis somewhere between \$2 million and \$3 million a quarter. And so we want to come back to the markets in the June quarter to tell you what we found. We're doing an evaluation on the resource as we speak and we should have that available then.

Let me say that we already have a royalty on the project, a 2% to 3% royalty depending on whether we're on private ground or state ground and when we do exit that, we want to be able to do things that, perhaps, are a little bit more controlling of our destiny, being able to participate rather than simply just waiting for the phone to ring for the next deal to come around. Perhaps there are some things like this that we can actually control our destiny on a bit. So things are going well at the present time, but we'll just take it quarter-by-quarter and see if it continues to make sense to invest there and if some point in the time, we'll be making a decision to put that likely into stronger hands, developer's hands.

Andrew Kaip

Okay, so at this point in time, should we continue to model at that \$2 million to \$3 million per quarter level? And then I guess the other question was, based on historic expenditures, we would have thought that expenses in this quarter would have been a little lighter than what they were but still pretty healthy.

Tony Jensen

Interesting comment. Yes, good observation. So I would encourage you to think about that \$2 million to \$3 million going forward for the rest of this calendar year and the reason that we are a little heavier in this quarter is that Mark was able to establish a water well that has been producing all winter long and we actually started drilling there in February. So the climate has not been a significant factor for us. We've been able to drill year round on the project and part of that is just the location of the project is just a little bit more arid area of Alaska, but it also has good infrastructure access. The drillers stay in a hotel complex that's in the town of Tok and they drive 15 minutes to the drill site. So it's not a traditionally remote location like many other places in the northern climates. But that's why we had a little bit heavier March quarter than

what you've seen in the past.

Andrew Kaip

Thanks and then also, is this is a strategy that we can see you embarking upon more if the opportunity arises or is this just kind of a one-off thing?

Tony Jensen

No, look we, our skillset is not necessarily in exploration in greenfields projects and we, our talent set just doesn't necessarily yield us to do better than all those other companies that are out there trying to look and explore for it and this is definitely a one-off opportunity. But having said that, this management team prides itself on being able to see an opportunity when it comes across their desk and so we'll continue to think creatively in how it is that we can exit every one of those back into our core business.

Andrew Kaip

All right, thank you.

Tony Jensen

Thanks, Andrew.

Operator

Again, if you have a question, please press star (*) then one (1). We will pause momentarily for additional questions. And we have no additional questions at this time. So I'd like to turn the conference back over to Tony Jensen for any closing remarks.

CONCLUSION

Tony Jensen

Thank you for taking the time to join us today. We very much appreciate your interest and the healthy questions that you've asked are very much appreciated, as well. We look forward to updating you on our quarterly results and also the Tetlin project next June quarter. Thanks very much.

Operator

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