

Royal Gold

Fiscal 2015 Third Quarter Earnings Call

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CORPORATE PARTICIPANTS

Karli Anderson – *Vice President, Investor Relations*

Tony Jensen – *President and Chief Executive Officer*

Bill Heissenbuttel – *Vice President, Corporate Development and Operations*

Stefan Wenger – *Chief Financial Officer and Treasurer*

PRESENTATION

Operator

Good day and welcome to the Royal Gold Fiscal 2015 Third Quarter Earnings 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. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Karli Anderson. Please go ahead.

Karli Anderson

Thanks, Alison. Good morning and welcome to our discussion of Royal Gold's Fiscal Third Quarter 2015 Results. This event is being webcast live and you'll 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 Heissenbuttel, Vice President, Corporate Development and Operations; and Bruce Kirchhoff, Vice President, General Counsel and Secretary.

Tony will open with an overview of the quarter, followed by Bill Heissenbuttel with an operational update and then Stefan Wenger will provide a financial update. After management completes their openings 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 statement in today's press release 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 and thank you for taking the time to join us today. I'll begin our presentation on Slide 4.

We had a very good third quarter as our gold equivalent volume grew 36% on a gross basis. That higher volume drove a 28% increase in revenue from a year-ago, despite a 6% decline in gold price, and in turn adjusted EBITDA increased 16% from the same period in 2014. We're proud to have paid over \$14 million in dividends during the quarter, which is about one-fourth of our nearly \$66 million of operating cash flow. Stefan will provide more details on our financial performance momentarily.

From an operating standpoint, Q3 volume was particularly strong relative to a year-ago at Mount Milligan, Cortez, Mulatos, and Robinson. We expect three major catalysts to drive our performance in 2015. At Mount Milligan and Peñasquito, wherein both cases the operators are forecasting 20% to 30% volume growth and at Rubicon's Phoenix project where production is set to begin mid-year. Bill will talk more about our operating performance and provide some insights into what to expect for the remainder of calendar 2015 in a moment.

On the business development front, we made our final scheduled payment to Rubicon Minerals for the Phoenix stream in the third quarter and made the first \$7.5 million deposit to Euromax for the Ilovitza stream. We are actively working to add new business to our portfolio and continue to believe this is an excellent time to do so.

Turning to Slide 5, you'll see that we have received record quantities of gold from Mount Milligan and are making progress towards the average quarterly run-rate at design capacity. Thompson Creek reported quarterly production at Mount Milligan of over 46,000 ounces of gold and reiterated their guidance that they expect to achieve design capacity of 60,000 tonnes per day by calendar year-end.

In our June quarter, we expect to receive deliveries from Mount Milligan based exclusively on final settlement timing and volumes, which could take three to five months after concentrate is produced at the mine. Based on the shipments we have seen so far, we currently expect slightly lower sales for Mount Milligan in the June quarter.

On Slide 6, we shared an interesting chart from Goldcorp's recent Investor Day. It highlights long-term potential growth at Peñasquito associated with their metallurgical enhancement project, which they forecast could extend mine life by five years. This is in addition to the 20% to 30% higher volume expected at Peñasquito this calendar year. I should also note, as future value embedded in our portfolio, that we have a 1.4% royalty on a portion of the El Morro project, which is also available for viewing on this slide.

On Slide 7, you'll see photos of the mill and some underground development work at Phoenix project. It's only been 14 months since we acquired our stream at Phoenix and we've enjoyed watching the project rapidly evolve through further exploration, underground development and construction. Rubicon is now commissioning the mill and continues to guide for gold production mid this calendar year.

I'll now turn the call over to Bill.

Bill Heissenbuttel

Thanks, Tony. On Slide 8, we first compare March quarter versus December quarter gold equivalent ounces on the right side of the slide and also year-over-year results on the left. Relative to last quarter, the big story is that we had higher GEOs from Mount Milligan. Moving forward we will be receiving gold from Mount Milligan based on final settlements only for all future shipments, which by agreement, must be no more than five months after it leaves the mine. As Tony stated, we expect our June quarter volume to be down slightly from the March quarter.

You'll also see in the chart that Voisey's Bay production is lower than the prior quarter. Historically, we've received nickel and copper concentrate shipment data from Vale on a regular basis, which allowed us to estimate our Voisey's Bay royalty revenue for financial reporting purposes. When actual quarterly payments differed from our estimates, we adjusted the estimates during the subsequent quarter based on actual payment information received. We did not receive nickel and copper shipment data for the December 2014 and March 2015 quarters.

For the March quarter estimate reported today, we used historic concentrate shipment data and then made an adjustment for our December quarter estimate based on the actual royalty payment we received in February. From this point forward, we intend to recognize Voisey's Bay royalty revenue on a cash basis. This means that Voisey's Bay revenue we recognized for the June quarter may only include whatever adjustments to the March quarter estimate are necessary based on the actual payment information we receive next month. And finally, volume at Peñasquito was fairly flat from the December quarter, and Goldcorp has disclosed that they expect 2015 volume to be back-end weighted.

Now, in the comments that follow I will compare third-quarter production versus the prior year quarter, which is summarized on the right of the chart. Mount Milligan production increased 18% to 46,100 ounces of payable gold during the quarter. However, throughput and production were impacted by frozen and plugged feeders and unscheduled maintenance issues in the March quarter. Thompson Creek implemented action plans to address the issues. Mill throughput averaged 39,500 tonnes per day during the quarter, compared to 33,000 tonnes per day for the prior year quarter. Throughput improved during the last half of March 2015 achieving 50,000 to 54,000 tonnes per day. Thompson Creek continues to guide to design throughput of 60,000 tonnes per day by calendar year-end.

At Andacollo, payable gold production in concentrate decreased 8% as a result of lower mill production over the last few months. Harder ore and unplanned maintenance downtime in the concentrator impacted copper concentrate shipment early in calendar 2015, while a failure of the tailings thickener and scheduled maintenance impacted mill production late in the March quarter, which may impact what we received in this current quarter. We are expecting a stronger second-half of the year at Andacollo.

At Cortez, production increased 59% over the prior year quarter as surface mining activity increased at the Pipeline Mining Complex, where our royalty applies, while no significant mining activity occurred in these areas during the prior year quarter. Production subject to our royalty interest was about 201,000 ounces in all of calendar 2014 and Barrick is forecasting about 132,000 ounces in calendar 2015, most of that front-end loaded. We have long waited for Crossroads pre-stripping to begin and we're excited to learn Barrick is commencing stripping this calendar year. Crossroads is an area of approximately 3 million ounces subject to Royal Gold's 5% NSR royalty interest.

At Mulatos GEOs attributable to our royalty interests increased 24% aided by the timing of final settlement of gold that was produced at the end of the fourth calendar quarter of 2014, but for which settlement with the refinery had not yet occurred. Alamos announced an increase in 2015 production guidance from calendar 2014 levels as a full year of mill production is expected to more than offset lower heap leach ore grades during calendar year 2015.

At Peñasquito, gold production subject to Royal Gold's royalty interest, which lags Goldcorp's reported production due to the timing of concentrate shipments, increased nearly 50% over the prior year quarter to approximately 174,000 ounces, while silver, lead and zinc production decreased by 16%, 13% and 8% respectively, over the prior year quarter. Goldcorp expects the gold production for calendar 2015 to be weighted to the second-half of the calendar year, as mining will move into the higher-grade portions of the Peñasquito pit beginning in the June quarter.

On Slide 9, we've provided operator estimates where available for calendar 2015 on the area subject to our interest. The important takeaways for 2015 are that we expect, A, a stronger second-half of the calendar year at Andacollo, Mount Milligan, Mulatos and Peñasquito, these operations comprised about 65% of our revenue in the third quarter and their performance should more than offset a weaker remainder of the year at Cortez; and B, we have no volume guidance available from Voisey's Bay, but point out that it was a nominal percentage of our revenue in the March quarter.

Today, we are also reporting our 2014 year-end reserves. Gold equivalent ounce reserve were 5.3 million ounces at year-end 2014 compared with 5.6 million ounces at year-end 2013. The reduction was due mainly to depletion.

And I'll turn the call over to Stefan.

Stefan Wenger

Thanks, Bill. I'll start on Slide 10. Today I'll summarize the financial results we reported this morning, with comparisons to the prior year quarter. I'll also discuss the tax rate and our amended credit facility.

Revenue of \$74.1 million was up 28%, driven by Mount Milligan once again. Our DD&A rate was \$408 per gold equivalent ounce for the quarter, reflecting greater contribution from Mount Milligan. We reported net income of \$25 million or \$0.38 per share, up 23% on a combination of higher revenue from Mount Milligan and a lower effective tax rate.

For the quarter, we reported income tax expense of \$1 million for an effective tax rate of 4%. Since December the US dollar has appreciated significantly against the Canadian dollar, increasing from a rate of CAD 1.16 per US dollar to a rate of CAD 1.26 during the March quarter alone. This dollar movement resulted in an \$8 million of non-cash gain, which is reflected as lower income tax expense upon re-measurement of our Canadian deferred tax liabilities to their US dollar value.

For the full-year, we have recorded lower tax expense of \$11.4 million as a result of dollar movement since July 1, 2014. Absent these foreign exchange gains in the third quarter, EPS would have been \$0.26 per share and our tax rate would have been 35%. Looking forward, we will continue to re-measure our Canadian dollar denominated deferred tax liabilities for currency movements at each balance sheet day. Today, the Canadian dollar versus US dollar exchange rate is approximately \$1.21, a decrease of about 5% from the March 31st rate. As we look ahead to our full year results a 5% movement in the Canadian dollar exchange rate would impact our full-year effective tax rate by about 7 percentage points.

Unrelated to tax, I also wanted to flag that our March quarter results have a small amount of exploration costs on the income statement. This is related to our exploration funding at the Peak Gold joint venture. And we would expect to have some costs associated with the summer exploration program reflected in the June and September quarters as well.

Now turning to Slide 11, this morning we also announced an amendment to our credit facility, which expanded our revolver capacity to \$650 million, from \$450 million on the same terms and with the same syndicate. The previous \$150 million accordion feature was eliminated. I'd like to thank our banking syndicate partners at HSBC, Scotia Bank, CIBC, Goldman Sachs and Bank of America Merrill Lynch for their support of Royal Gold through the credit facility.

You'll see on the slide that our enhanced liquidity position is nearly \$1.4 billion. Our outstanding commitments are few and are success-based. We have \$1.2 billion completely uncommitted after detecting our current and success base commitments. We've also generated over \$180 million in operating cash flow over the last 12 months, which gives us great flexibility to balance return of capital to shareholders' with growth.

And finally, on a housekeeping note, this morning we filed an updated S3 shelf registration statement, which is immediately effective. This shelf will allow us to remain flexible with respect to our capital raising decisions in the future.

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

Tony Jensen

Before closing, I would like to just take an opportunity to welcome Alistair Baker to our business development team. Alistair was most recently with Barrick Gold in their corporate development group, and brings a wealth of experience to Royal Gold. He would join Marcus in establishing our Toronto office.

Now, to wrap up on Slide 12, I'll update to you on three key themes to watch this year. The first is growth. Our gold volume from Mount Milligan will continue to grow as the mine ramps up towards full design capacity. Phoenix is expected to further enhance our growth profile of our streaming business in the second-half of this calendar year and likewise Peñasquito is poised for a strong second-half of the year as well.

The second theme is quality. Through the end of the December quarter, the average gross margin amongst our producing properties was 52%, holding fairly steady from a year-ago. As you would expect, asset quality is one of our principle screens as we look to add new business. And the third theme is opportunity. We've enhanced our liquidity today with no diluted impact to our shareholders and continue to offer an attractive cost of capital to counterparties, who like us, want to grow their business in a way that preserves and enhances shareholder value.

Operator, that concludes our prepared remarks, and we'd be happy to take any 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 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. At this time, we will pause momentarily to assemble our roster.

And our first question comes from Andrew Quail from Goldman Sachs. Please go ahead.

Andrew Quail

Yes. Hi, Tony and team. Thanks very much for taking my question and congratulations on a solid quarter. Just a couple, one on Mount Milligan. So Tony you just outlined that you guys are moving to a receipt basis, is this [indiscernible] or is it timing issue for next quarter and then will pretty much flatten out going forward?

Tony Jensen

So, Andrew, good morning, first of all. Let me just make sure, you said Mount Milligan we're going to receipt basis?

Andrew Quail

Yes, yes.

Tony Jensen

So what's happening on Mount Milligan is that we're going to a final settlement basis. So remember our first 12 shipments at Mount Milligan we had provisional payments that we got paid on as well as final settlements. And by contract that was to evolve into only payments on final settlements. So that's what's happening there. As Bill and I both mentioned, that can take about five months. And so we'll have pretty good transparency of what's in the quarter, because we'll

be able to see the ships that are on the water and things like that. There still is some unknowns with regard to what particular shipments will close in a particular quarter. So I hope that's responsive to your question.

With regard to going to cash receipts, we also talked about Voisey's Bay and I want to make sure that your question wasn't directed towards Voisey.

Andrew Quail

No, that was Mount Milligan. Sorry, I didn't want to get them mixed up. And one on Andacollo, obviously, it sort of been in obvious declined probably last 12 months of what you guys received. Do you expect— Obviously, you expect a stronger second-half. Do you sort of see going into— not just the next sort of 6 months but the next sort of 12 to 18 months, do you sort of see it getting back to levels previously seen in 2014.

Tony Jensen

No, and I go back to 2013, when we talk about the response for the question. We always knew that higher grade at Andacollo was in the first few years and we saw that higher gold grade at that time. If memory serves me correct, 2014 was a little bit flatter and I think we have a slightly stronger 2015 projected. But I think if you look forward and just keep your estimates around the reserve grade, maybe a little bit higher and as a reserve tails, the grade will deplete a little bit, but not any major movements that I foresee at that property.

Andrew Quail

Okay. And last one I think I asked you probably every second time. I mean, you guys are obviously paying at 25% of your— I think it's 25% of your operating cash flow. Do you see a scenario over the next sort of foreseeable future that that could be increased or revised upwards?

Tony Jensen

So, I've always...

Andrew Quail

...as dividends, as dividends.

Tony Jensen

Yes, I've always responded when questioned about dividend that we're very, very proud of the dividends we've had in place since the year 2000 and increased them every year since 2001. So that's a fantastic trend and having 25% of your operating cash flow payout is it pretty impressive payout ratio in any business. But for us, I wouldn't expect a real large swing. I would hope that we can continue to show the confidence in our business by having a healthy dividend. I don't see a reason why not to do that but on the other side of the allocation of capital, we see a lot of interesting opportunities in the marketplace today and most of our growth through our history has been through share price appreciation. And so that's where we're mainly focused and I think the yield will only go up in a significant way if we felt we are running low on opportunities in the business.

Andrew Quail

And last one and [indiscernible] just on Phoenix, for our modeling purposes. What do you think, when do you actually think you actually get revenue? Obviously it's ahead of schedule and that fantastic but what sort of quarter do you sort of see you guys will receive revenue that will go into your P&L?

Tony Jensen

Yes, Andrew, it's a good question. Thanks for that question, it's probably a piece of guidance that will be healthy in the marketplace. This is not a complex circuit and it's not a large concentrate circuit, so we probably expect to see gold flowing through that rather quickly. But maybe small amounts of revenue to our account— all right, let me characterize that differently—small amounts of gold deliveries to our account in September quarter. But I wouldn't be surprised, if I wasn't until the December quarter that we actually received gold sales and perhaps had few— sorry, deliveries and gold sales.

Andrew Quail

Awesome. Thanks very much for answering those questions, Tony.

Tony Jensen

Thanks for your interest, Andrew.

Operator

And the next question comes from Patrick Chidley from HSBC. Please go ahead.

Tony Jensen

Good morning, Patrick.

Patrick Chidley

Morning and afternoon, everybody. Just wanted to— you've obviously got a lot of cash on the balance sheet. You've just made some initiatives to increase liquidity and I'm wondering what kind of opportunities are you looking for with this Worcester as it were. I mean, you mentioned just now I think to help companies maybe achieve some objectives in terms of financing things. Would that be new projects or would that be production development or would it be looking at opportunities with existing production?

Tony Jensen

Patrick, let me ask Bill Heissenbuttel to respond to that and I'll probably have a follow-up comment or two.

Patrick Chidley

Thanks.

Bill Heissenbuttel

Yes. Actually, we talk about the business development as really falling into three buckets. The first one is project development, but of course, in those instances, you're probably talking about a period of time from our investment into an asset that's actually delivering gold to us. The two more recent buckets, if you will— and recent I would say over the last couple of years, we've seen the ability for us to potentially participate in mergers and acquisition opportunities. That was initially base metals and you've got a precious metal byproduct but now what we're also seeing is debt restructuring. And to the extent you got a company with a levered balance sheet, perhaps a near-term debt maturities, a stream can alleviate the financial distress, because streams are valued and paid over the life of the mine. So those three are really the areas in which we try to find new opportunities.

Tony Jensen

We'll definitely be active in all three of those areas, Patrick. And the one thing that I think has changed probably in the last 12 or 18 months is that there's more cash flowing opportunities in the

marketplace, I think today than there has been in the past. So we're excited about being able to put that money to work in getting gold deliveries associated with that relatively quickly.

Patrick Chidley

Great. Okay, thanks. It sounds encouraging. And also just on exploration and you mentioned the Peak Project. Could you give us an update on that and is that a one-off sort of thing still, or you do more of those?

Bill Heissenbuttel

Yes, sure, we're happy to give you an update on that peak joint venture, and we're just very pleased to have an opportunity to work with the Tetlin village people in Alaska there on their land and associated with a company Contango ORE in the joint venture. It is a bit of a one-off. In my tenure here, we haven't been attracted to do any exploration ourselves. You'll remember Patrick, being a long-term follow of the company, that we started in the business at Cortez as an exploration company and this company actually discovered this south part of the South Pipeline. So there is a tremendous amount of value to be created there.

And when it comes to the Peak Gold joint venture, we just saw a really interesting prospect in an area that wasn't remote like many places are in Alaska— already 1 million ounces a little bit more equivalent gold resource at this point, 3 dram kind of material. So it had a lot of the boxes picked, as far as what would attract us to be interested in the project. And we just have a real good support network in Alaska having worked there in my early career and we're using a company called Avalon Resources to help us do that exploration. So we are not happening to staff up for that, and so we just had a lot of the stars come together on their project.

And as far as what are we doing with it. This year, we have a \$5 million initial budget and as Bill, maybe Stefan, I think, actually talked about our success-based investing. This is one of them. We'll start out with \$5 million and if we continue to see encouragement, we may put additional money in this year. But it's a long-term play over a number of years here. So I don't want to get out in front of it, but we are quite excited about it.

Patrick Chidley

Okay, thanks. And then I did notice that you mentioned that Barrick have started this stripping the Crossroads Deposit for the first time, I guess. Is that on the road to a full development then and is it sulfide [indiscernible], is it?

Tony Jensen

No. I think I would— Let me answer the latter question first. It's mostly oxide and I think about 85% of that will go on the heap leach pad and just a small fraction of that will go into a refractory type, say a Goldstrike Roaster, but the rest of it will be milled. So bulk of it is heap leach and available and doesn't compete against any other ores through the mill. So that's a piece of good news.

As far as the schedule those, I don't think we're in a position yet to have confidence and be able to guide you as far as our fastest stripping might occur. So just give us a little bit more time there to understand that schedule a little bit clearer. But surely is a great thing to see a step ore because this is something we've been asked about for many, many years.

Patrick Chidley

Right. It's about 3 million ounces, is that correct?

Tony Jensen
You're correct.

Patrick Chidley
Okay, great. All right. Thanks, Tony and everybody.

Tony Jensen
Thanks, Patrick.

Operator
Again, if you have a question, please press star, then one. And the next question comes from Garrett Nelson from BB&T Capital. Please go ahead.

Garrett Nelson
Hi. My questions have already been answered. Thanks.

Tony Jensen
Thanks, Garrett.

Operator
And we have a final question from Kevin Chew from CIBC. Please go ahead.

Cosmos Chiu
Hi, Tony and team, it's actually Cosmos here.

Tony Jensen
Hey, Cosmos.

Cosmos Chiu
Hey, how are you doing?

Tony Jensen
Doing well.

Cosmos Chiu
I have a question on Voisey's Bay. Certainly, I don't know how much you can tell us, but I guess it's two parts. First off, how would you recommend us forecasting future production, future revenue coming from the stream to Royal Gold? It sounds like you might be having a bit of a trouble on your end, as well just given the reports that aren't being provided at this point in time.

And the second part of my question would be, I thought I read about two months ago that Vale had come to an agreement with the government in terms of an extension of full production at the Long Harbour until 2018/2019. It won't be exclusively processing ore from the Voisey's Bay until that point in time with the extension. Does that benefit this agreement in anyway? Do you foresee any kind of benefit to Royal Gold from that extension?

Tony Jensen
Yes, again, let me answer the latter question first, and then I'll go to the former but there has been a couple of— let me back up even further and say that the provinces had placed a limit of how much concentrate could be processed outside of the province, and that's the material that went off to the Sudbury Complex. And they also required Vale to bring that amount of concentrate back

into process through the Long Harbour facility in years to come.

So they had initially a specific amount of concentrates they felt was sufficient to build Long Harbour. And Long Harbour was not built within that timeframe and so that was extended to another term and I think that was just about the end of last year or sometime that it was already to be filled up. And then so they extended it, what I believe is the second time and that gives them a little bit more breathing room.

I think it's fair to say, and it's our belief that if they hadn't got that extension, we would not probably be able to be processing ore outside of the province today. So, yes that has come to a benefit for us, because they haven't switched over completely to the Long Harbour facility yet. That's scheduled to happen during the course of the year and we understand in the latest press release that they talked about having it almost entirely Long Harbour by the end of the year for Voisey's Bay.

So that brings me to your former question, and as far as what can we recommend as far as forecasting and here to I ask for your patience. We understand that there's has been some material that's been processed at Long Harbour already and so we'll be receiving payment schedules associated with that at some time in the near future. And once we fully understand how they intend to treat our royalty and the associated deductibles at Long Harbour, then we'll be able to give you much clearer picture, Cosmos. But I am not talking about by the end of the year we should have that clarity, I think we'll have that clarity much sooner than that.

Cosmos Chiu

Okay. Sounds good. And then—

Tony Jensen

Just one more comment I'd like to make. With all of this change happening there, we just thought it was prudent to take a more conservative approach and not forecast what's likely to be, because this is absolutely new turf for us.

Cosmos Chiu

Yes. And that's why as you mentioned in the press release as well, Tony, that you now transitioned to a more cash accounting method for the Voisey's Bay royalty, right?

Tony Jensen

Exactly.

Cosmos Chiu

Okay. And then maybe a bit more guidance as well in terms of taxes maybe for Stefan. What should we use in terms of a tax rate or given it was 4% effective tax rate in the current quarter, how should we look at again if you can give us a bit of more guidance in terms of how we should forecast for the rest of the fiscal year as well as maybe next year as well.

Stefan Wenger

Sure, Cosmos. With respect to forecast, I'm not going to give specific guidance on the full-year tax rate, because with the FX in particular, there's a lot of moving parts there. But if you look at our year-to-date full year— the 9 month tax rate's about 8%. That's obviously a big benefit from the FX that I talked about. If we keep all things static for the full fiscal year ended June, we would end the year with about 12% effective tax rate. So to get to that point, the one thing that's unclear is what that FX rate would do during the period and I said today the FX rate's about \$1.21, down

from \$1.26. So I would see, depending on where that FX rate is, you'd have to solve to get to that 12%. If the FX rate moves you might see something closer to 35% tax rate in the fourth quarter to get to that 7 point movement I talked about from that 12%.

Cosmos Chiu

Okay. Great. That's all I have.

Stefan Wenger

Thank you, Cosmos.

Cosmos Chiu

Thank you.

Tony Jensen

Cosmos.

Operator

And we have a question from Farooq Hamed from Barclays. Please go ahead.

Farooq Hamed

Hi, good morning, guys. Just I actually had a follow-up question off of one of Patrick's questions. So, Bill, you referred to kind of the opportunities that you're looking for in three buckets and one of the buckets was debt restructuring. I'm just wondering— and that's something that's kind of new for you guys. I'm just wondering how do you think about counterparty risk when entering into debt restructuring deal.

Tony Jensen

Well, I mean counterparty risk is probably first and foremost where we start and it probably starts with the people involved. I can tell you my background is actually from the lending industry. So everything I do probably starts with a bit of a credit analysis because in some of these instances the stream maybe done at levels in a corporate structure that aren't actually at the operating company level and you might be somewhat dependent on the parent company to make sure that the deliveries are there. So we pay attention to financial statements and corporate cash flows and debt ratings and everything else. But it stops and starts with the counterparty risk because if they're not financially strong to deliver we could have a big problem very quickly.

Farooq Hamed

My issue is kind of that, I mean this doesn't always have to be the case but if you're looking at partnering or buying a stream from somebody that needs— that have a short-term or near-term pressure on their balance sheet from a near-term debt being due, and so they're looking for relief and looking to sell a stream. Doesn't that by nature suggest a weaker counterparty?

Bill Heissenbuttel

It could, every situation is different. If we can elevate a near-term debt maturity with something that gets paid out over 20 or 30 years, that may actually change the credit profile of the company. Now, if that company has two more debt maturities two years after and three years after, that may be a completely different analysis. So, it really comes down to the level of debt and the timing of the maturities, and that all goes into whether or not we're willing to take that counterparty risk.

Stefan Wenger

And I think, one more thing that I would add to that it all starts with the quality of the asset that

underlines the piece of business that we do, and we have to have a lot of confidence in that and make sure that that asset can provide that cash flow. And to Bill's point, there are times where we simply— we've quite liked an asset, but we haven't been able to get comfortable with the entire debt package on the project and we've had to walk away from some of those things. So we are very much acute to what you're saying Farooq.

Farooq Hamed

Okay. No, that's fair. I just some [indiscernible] I was just thinking about kind of would be some of the trials that you went through kind of on the Mount Milligan side. And then maybe just a second part to that question in terms of participating in the M&A process. So you're thinking somewhere along the lines of kind of offering, financing too to facilitate an M&A deal between two producers, something like that?

Tony Jensen

That's right.

Farooq Hamed

Okay. And in that environment, how has the traffic kind of change in the last three, six months versus the end of 2014?

Bill Heissenbuttel

The short-term, I don't think it's changed all that much. I think probably a few years ago, you saw many of the major diversified rationalizing their portfolio and selling some, I'll call, smaller assets, non-core assets, and they had precious metal streams in them. And that's a situation where we go to a producer and we say, we believe our cost of capital is lower than your cost of capital. Therefore, we think we can add value to your bid. So that's historical, I'd say, what you see a little bit more on the project finance side is that precious metals companies willing to actually entertain steams. So who knows that could be another opportunity for us.

Farooq Hamed

Sure. Okay. No, that's helpful. Thank you for that.

Tony Jensen

Thanks, Farooq.

CONCLUSION

Operator

Having no further questions, this concludes our question-and-answer session. I would like to turn the conference back over to Tony Jensen for any closing remarks.

Tony Jensen

Well, thank you very much for taking time to join us today, and we appreciate your continued interest in Royal Gold. We look forward to updating you on our progress in our next quarterly call. Have a great day.

Operator

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