**Altius Minerals**

**Q3 2022 Financial Results**

**November 10, 2022**

**9 AM**

**Operator:** Good morning, ladies and gentlemen. And welcome to the Altius Minerals Q3 2022 Financial Results Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conclude a question-and-answer session. At any time during this call, if you require immediate assistance, please press *0 for the operator. This call is being recorded on November 10, 2022.

I would now like to turn the conference over to Ms. Flora Wood. Please go ahead.

**Flora Wood:** Thank you, Serjio. Good morning everyone, and welcome to our Q3 conference call webcast. Our press release and quarterly filings were released yesterday after the close, and are available on our website. This event is being webcast live and you'll be able to access a replay of the call two hours after it finishes, along with the presentation slides on the website at altiusminerals.com.

Brian Dalton, CEO; and Ben Lewis, CFO, are both speakers on the call, and then we'll open it up for questions. You'll see the forward-looking statement on slide two. That applies to everything we say, both in the formal remarks and during the Q&A. And with that, I will turn over to Ben to take us through the numbers.

**Ben Lewis:** Thank you, Flora and good morning, everyone. Q3 attributable royalty revenue of $26.2 million, or $0.55 per share was up 26% year-over-year, whereas year-to-date royalty revenue of $80.3 million, or $1.78 per share is up 33% from the same period in 2021.

With nine-month revenue currently at $80.3 million we're well on track to exceed 2021's annual revenue of $83.9 million, and setting a new record for the corporation. Q3 adjusted EBITDA of $23.7 million or $0.50 per share was up 40%, quarter-over-quarter.

The mineral royalties EBITDA margin increased to 87% for the quarter as fixed costs remained relatively stable against the higher revenues. For year-to-date period, adjusted EBITDA of $71.7 million is up 46% from its comparable period in 2021.

Q3 adjusted operating cash flow was $25.9 million, up 37% quarter-over-quarter. On a year-to-date basis, adjusted operating cash flow of $56.7 million, net of $7 million and cash taxes paid, is up 69%, again, driven by higher revenue margin growth.

We continue to see accelerated revenue ramp-up at ARR, through its 50% owned GBR joint venture. Notably, ARR achieved the milestone of first positive cash flow and operating profitability during the quarter. GBR also increased its 2022 annual revenue guidance from U.S. $6.5, or to -- sorry, to $6.5 million to $7 million, from the previously indicated U.S. $4.5 million to $5.5 million.

Brian will speak more on the strong progress at ARR, and I further encourage you to review its recently published quarterly materials and the investor conference call remarks. Now to the balance sheet and capital allocation.

We successfully deployed $18.2 million during the quarter in new investments in cash flowing and advanced stage royalties as we took advantage of weaker market sentiment conditions. This consisted of $15.9 million to purchase an additional 550,000 shares in Labrador Iron Ore Royalty Corporation, which is a pass-through vehicle for royalties and equity dividends from the IOC iron ore mine.

We also funded $2.3 million in direct royalty acquisitions under our 10% co-participation rights with Lithium Royalty Corporation. ARR also participated for its 50% joint venture share of the new U.S. $40 million royalty investment in renewable energy developer, Hudson Energy.

The corporation also paid an $0.08 per share dividend during the quarter, which was a 14% increase from the prior quarterly rate. The Board of Directors also declared Q4 dividends at $0.08 per share, which will be paid to shareholders of record on November 30th, with a payment date of December 15th.

We also purchased and cancelled an additional 158,000 shares under our normal course issuer bid, for a total cost of $2.7 million. We renewed the NCIB this past August and that will run until August 21, 2023. During the quarter, we also made scheduled debt repayments of $2 million on our term debt.

I'll take a moment and provide a little more color on our current debt level, as this is obviously becoming more topical amongst investors, given the current interest rate environment. We carry term debt of $42 million at an interest rate on that debt is locked in at 4.3% until it matures in 2025.

In addition, we have $82 million in revolving debt, which has a variable interest rate that is currently at approximately 6.3%. While we don't consider our leverage level to be onerous, relative to our total balance sheet, we are obviously monitoring rates closely and may consider shifting our capital allocation priorities towards debt reduction in upcoming periods.

This would allow us to avoid higher interest costs and quite frankly, we'd also avoid any unnecessary distractions relating to debt market volatility and possible increasing restrictiveness amongst lenders, generally. This decision will of course be weighed on an ongoing basis within the context of managing our liquidity since we also have been finding a more attractive investment environment lately, as evidenced by the recent growth investments that I already spoke about.

Our current liquidity consists of $23 million in cash at the end of Q3, and we have $93 million in unused revolver. ARR, at quarter end, had cash liquidity of U.S. $55 million. And with that, I'll turn it over to Brian to talk about the environment and the outlook.

**Brian Dalton:** Thank you, Ben. Thank you, Flora. Good morning, everyone. Our royalties continue to perform strongly within the current inflationary environment for sector capital and operating costs. These are pressuring operating level margins and increasing cost curve and incentive price requirements for most commodities.

Top line nature of our royalties, as well as the diversity that has been built into our portfolio is serving the business well and our revenue is tracking around a third higher than at this time last year. That said, there were a number of somewhat contrasting signals in developments from within the portfolio.

Thankfully, most of these were balanced as a positive. Starting with electrification focused metals, 777 has recently wrapped up production, while a sizable new high grade copper discovery has taken shape at Chapada. Their maiden resources (ph) is expected in Q1 2023, that Lundin Mining has indicated is now being considered within the context of its expansion plans for the operation.

Adventus continues to be on track with its plan to begin construction of Curipamba next year, and this morning announced that it successfully negotiated an investment stability agreement with government of Ecuador.  Happy to take this opportunity to give a shout out to the whole Adventus team for the head down progress it is making and chopping down hurdles and muting its naysayers.

LRC has several projects advancing the production as incentivization conditions remain very strong for lithium, representing a bit of a broader sector outlier or perhaps a harbinger.  And we also understand that the company has been meeting with good interest levels as it considers its strategic alternatives.

Production is improving at IOC and some previously deferred and much needed sustaining and growth capital is once again being injected into the operation.  Quality premiums remain strong but benchmark iron ore prices have come off as China steel demand has slipped.

Pantheon remains on track for releasing its DR pellet feed study results for Kami and half (ph) one 2023.  Potash prices continue to robust, particularly in Canadian dollar terms. Although, they have consolidated some of the initial crown-up (ph) that came as a result of the Russian and Belarusian supply shock early in the year.

That shock also seems to have caused buyers to overstock, early, ahead of the (inaudible) sanction constraints, and then, in turn, to buy less later in the year, which negatively impacted half two sales volumes by our operators.

This has caused a bit of market consternation but it feels a bit foolishly short term focused to also be honest.  Our operators continue to note that the market remains structurally short of its overall supply requirements, and they continue to invest in increasing capacity to whatever extent they can muster as the world faces legitimate famine threats now.

They also note inventories of potash and many crops to be quite low in certain regions, and saw nutrient levels relatively depleted, while strong crop prices continued provide incentivization for farmers to plant more and try to increase yields going into next year.

Medium and long term, we believe that Canadian based potash production is poised for significant market share growth.  The geopolitical risk premiums in the major competing regions and continue to increase and drive up Canadian based relative incentivization conditions and advantages.

The end is now in sight for our coal royalties as Capital Power works to complete gas based repowering at Genesee.  We did, however, have positive news in the form of a Supreme Court of Canada ruling that we believe considerably improves the strength of our de facto expropriation claim against the Alberta and Canadian government.

Altius Renewable Royalties, through its 50% joint venture interest in GBR, continues to quickly grow, in terms of investment deployment and adoption of its royalty financing structure for the renewable sector. It is also benefiting from increasing power prices that contributed to GBR recently increasing its four year revenue guidance and announcing achievement of the milestone of reaching positive cash flow.

Three additional royalty projects currently in construction and a big increase in the size of its development royalty portfolio came as a result of an acquisition by Enbridge and one of its investee companies.  It's embedded growth trajectory looks solid for the foreseeable future.

Importantly, we believe this growth trajectory will more than offset coal revenue declines in the near term.  This was one of the key intended outcomes when we originated the business together with the GBR team.  Back then, we called it project lemonade, and it has played out well.

AngloGold enthusiasm for the silicon project seems to be still building with recent public musings by the company, suggesting that the potential resource size is continuing to meaningfully expand. It also acquired a large contiguous land package that is located along the southern boundary of the silicone project, and likely host the extension of the Merlin deposit discovery for which a maiden resource announcement is expected early next year.

Turning now to update our bigger picture cyclical outlook. We've been asked by shareholders over the past few months that we think that the peak of the commodity cycle is now passed. This is a fair question.

We mark the cyclical bottom as early 2016 and prices have been mostly higher for the seven years since, especially if the period of deepest COVID fears can be disregarded. Now of course there is concern around recession and what these might do to near-terms in demand balances. So a reasonable question, indeed.

Our argument against the cycle having peaked, however, is a fairly simple one. Our take of history says that a commodity cycle rolls over following a period of price incentivized supply growth. If we look at copper as a proxy, it is now more than ten years, and counting, since the sector meaningfully invested in either replenishment or growth.

We almost got there late last year, in terms of incentivization conditions. But since then a combination of lower prices and increasing CapEx and operating costs have actually pushed the bar higher. We think current short-term sentiment is deeply disconnected from fundamental, long-term reality, and this is making us feel even more generally bullish about our various forms of long-term positioning and optionality.

That comment will no doubt invite the question of whether or not our investment appetite is shifted any, despite in our belief that we remain in broader procyclical conditions. The answer is yes, somewhat. While this is not a cyclical downturn, characterized by looming oversupply pressures and distressed balance sheets, but per se during 2013, 2016 period, operating margins have deteriorated quickly and competing sources of capital are acting gun shy.

We note that in past such interest cyclical windows, examples being global financial crisis, trade wars, and the pandemic panic period, the market in particular offered up select opportunities to positioning royalty based equities had less than our view of the long-term value for underlying royalties.

So yes, we are running sharp pencils again these days and making some investments. Thus far, we've added to our ownership in Labrador Iron Ore Royalty Corporation for direct -- indirect royalty exposure to the IOC mines, and co-participated alongside LRC and direct royalty purchases.

We are also looking at other select situations where we think the market is mispricing assets and dwelling on short-term noise and underweighting long-term fundamental values. Fingers crossed, for things will stay gloomy for a while, and by that most of you know we mean more attractive.

Either way it goes, over the coming periods we like our position. And that concludes my remarks. So are there any questions? Thank you.

**Operator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the * followed by the number 1 on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your question will be polled in the order they are received. Should you wish to withdraw from the polling process, please the * followed by the number 2.

If you are using a speaker phone, please lift the handset before pressing any keys. One moment please for your first question. First question comes from Craig Hutchison from TD Securities. Please go ahead.

**Craig Hutchison:** Hi. Good morning, guys. Brian, you touched on your remarks, we've seen obviously, a tremendous amount of inflationary pressure and that squeezed the margins of a number of producers. In some cases, balance sheets have actually deteriorated quite a bit, which creates an opportunity for you guys.

Are you seeing kind of larger opportunities right now, or is it more smaller size, in terms of new royalties? And I guess maybe how do you guys weigh those opportunities versus, like Ben’s comments, that your sort of shift to capital allocation is towards debt reduction, sort of, over the near term? Thanks.

**Brian Dalton:** Yeah, it’s like I said, we've been dipping our toe. Certainly -- and what we've been finding so far is situations where public markets are knocking down prices, relative to our views of valuations. It doesn't feel, yet, like it's gotten to say more private or direct negotiation type valuations.

And there’s still, I think underlying, long-term views around asset values amongst those that hold. And so -- and there, I'm talking about more direct royalty purchase opportunities. That doesn't feel that distressed at this point. And again, the difference between here and say, 2014 to 2016.

I mean, yes, there's margin compression and balance sheet deterioration. But you got to remember back then there was balance sheet decimation underway. So, generally speaking, there's better -- a better balance sheet out there. But maybe it gets deeper, I kind of hope it does.

But for now we're just taking advantage of the more sort of public markets based dislocations that we're seeing, but we're ready for whatever.

**Craig Hutchison:** Okay. Great. And just, with respect to silicon, you guys have mentioned in the past the potential to potentially monetize that or do a swap for a base metal royalty. I know that they're coming out with pre-feasibility study early next year. Any further thoughts on that? Is a tiny more post the pre-feasibility study, or could it be something we could see before that?

**Brian Dalton:** There's certainly lots of interest in the silicon royalty. I mean, obviously, world-class gold has got a (inaudible), particularly in Nevada, that have royalties on them, don't come along every day. But I think what your -- your comment is probably right.

I mean, it feels like we're going to be looking at -- like, there's some big events early in the year, you got the pre-fees on -- silicon deposit. There may even be some resource update from there, and maiden resource is to come from Merlin.

So we're pretty close now to some fairly big updates. So we'll see how that plays out and then (audio gap) to.

**Craig Hutchison:** Great. Thanks.

**Operator:** Thank you. Your next question comes from Brian MacArthur from Raymond James. Please go ahead.

**Brian MacArthur:** Hi, good morning. My question relates to the potash business. Can you just remind us when you get paid on the royalty, is it based on sales versus production? Or is it when it's actually shipped? And the reason I go into this is obviously you mentioned pricing is rolling over a little bit, but still strong.

But volumes are being rebalanced as we defer stuff. So I'm just trying to sort of get a feel for volumes that are going to flow through your business over the next couple of quarters.

**Brian Dalton:** The royalties are based on FOB Saskatchewan. So more production, I'd say, than sales because you got that lag from obviously from Saskatchewan to wherever the product ends go. And that kind of explain some of the pricing gaps we saw on the rising markets.

And (inaudible) in both directions, obviously, but you got that, typically just look at that one quarter gap if you are trying to figure out, typically -- and this shifts around a little bit. That statement is probably most true when the bulk of sales are Midwest pricing basis.

The more you get into sales into Asia or Brazil, where you get into more contracted prices, that can alter. But as a very, very rough rule of thumb, if you look at, for average pricing for the quarter, previously, you will have a pretty good clue as to what we are going to receive and report in following quarters.

**Brian MacArthur:** Okay. Great. Thanks. And my second question has to do with the coal, and I'm not sure what you can say about it. What actually happens next, are there any time data points on this as you -- I guess, I'm not a lawyer but reinstate your appeal or however I should word it?

**Brian Dalton:** Yeah. So we had the original negative ruling, which dismissed our claim, which we appealed. And the dismissal was upheld on repeal, or upon appeal, with specific reasoning being that, under that court's interpretation of the law and case law that we couldn't make the case that there had have been an actual taking.

So the Supreme Court decision that came out recently clarified that point, as to what constituted a taking and it's basically what it said is that, look. If government is gaining an advantage that’s effectively -- that meets that part of the test, as far as the taking goes.

So yes, we are -- we appealed that latest dismissal. And obviously, with this new Supreme Court case law, we are feeling pretty optimistic that we’ll have that turned over. I don't know if, Flora, if you have got a better handle on timing or when that next appeal might get heard.

**Flora Wood:** I don't yet. But I'll follow that up with our lawyers and then I'll be able to answer that, Brian.

**Brian Dalton:** Sounds good. No, I don't know specifically when that -- I don't think a date's been set for that.

**Brian MacArthur:** Great. Thanks very much, Brian for answering my question.

**Operator:** Thank you. As a reminder, should have a question, please * followed by the number 1. (Inaudible).

**Unidentified:** Hi. Good morning. (Inaudible) my question. I hope everyone's doing well. My question revolves more around strategy. We saw another M&A transaction this morning -- this one on the royalty space, on the precious side. I'm just wondering where -- how you think about that, philosophically, and whether scaling up in this market makes strategic sense?

**Brian Dalton:** We don't view scaling up (inaudible) do much. I mean, really, if you're talking -- we've done lots of M&A in our history. Of course, we would like it better in counter-cyclical type conditions. Look, I mean, really what it boils down to is does the M&A add value in any -- is it dilutive, not just to short-term metrics, but more importantly, to quality and for us.

I think increasingly, it's a hurdle around -- the hurdle is around how much embedded optionality we feel we have right now. When you do a transaction like that, yes, you're taking on assets, but you're also diluting your own. And, yeah, again, like a -- as a growth strategy, sure. There are situations. We've used them in the past and we wouldn't be shy about doing it again.

But right now, I think we just (inaudible) left building organically within the company. And we also like these more sort of smaller kind of add-on, opportunistic pieces. So we're not in that camp of, oh we gotta scale up, we gotta scale up, we gotta scale up to be relevant at any cost.

We're not going to dilute what's in this business now and what we think is going to emerge from it naturally, for the sake of that. I think that's a fool's game.

**Unidentified:** Thank you. Then, maybe just as a follow-up. I mean, in the quarter, you further increased your ownership in the Bev (ph). Should be we think about -- I'm just trying to think about the comments earlier about potentially looking to de-lever the balance sheet, just given the context what's happening with interest rates and the debt markets. Should we think about your stake in Bev as basically a funding option to accelerate that kind of deleveraging?

**Brian Dalton:** In that -- for that holding, specifically, I would say, no. I mean, we look at that incremental acquisition as being long-term and not just -- not a trading position, where we do -- look, we got -- if we really felt the need to do something dramatic with our balance sheet, it’s always available to us and we’ve always viewed that lip holding as being that (inaudible).

It’s -- intrinsically, it is a long-term hold in position growth.  I mean, you’ll recall that back in 2020, when COVID fears were at their most and none of us really knew if any mine was going to be operating.  And I think (inaudible) came right on the heels of having made a pretty significant investment in ARRs.

We were really constrained.  We actually made the choice and sell some Labrador and put more cash on our balance sheet. It wasn’t a pleasant decision but sort in the interest of keeping that balance sheet fortress-like, if you will, we made that decision.  So the option is always there, but it's, again, the new stocks, or the new shares for that is in Labrador are meant to be a long-term hold.

The comment earlier about keep everything on the balance sheet is -- we’ve -- it’s just a noisier environment, to be in debt right now and it’s increasing investor questions.  And so, obviously, as we just always continue to look (inaudible) product capital allocation priority should be, I would say that debt reduction, going forward has moved up on the list, just because noisy and distracting these days.

But, we’re not in a situation where, say 2020, where we've got to protect our assets here from our -- from debt on our balance sheet, it's nothing like that.

**Unidentified:** Okay. Appreciate the color. Thank you.

**Operator:** Thank you. (Inaudible). As a reminder should you have a question, please press * followed by the number 1. Ms. Wood, there are no further questions at this time. You may proceed.

**Flora Wood:** Thank you, Serjio. And thank you everybody for listening to the call. I know it's a busy morning today, and we’ll look forward to speaking to you again at year end.

**Brian Dalton:** Thanks, everybody.

**Ben Lewis:** Thank you.

**Operator:** Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.