Altius Minerals

Q4 & Year-End 2022 Financial Results Conference Call

March 8, 2023

9:00 AM

Operator: Good morning, ladies and gentlemen and welcome to the Altius Minerals Q4 2022 and year end 2022 financial results conference call and webcast. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call, you require immediate assistance, please press * 0 for the operator. This call is being recorded on Wednesday, March 8, 2023. I would now like to turn the conference over to Flora Wood. Please go ahead.

Flora Wood: Thank you, Michelle. Good morning, everyone and welcome to our Q4 call. Our press release and annual filings, including the AIF, 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, along with the presentation slides, on our website at altiusminerals.com.

Just a note on that, because of a website issue today. Normally, you see it in the view presentation button right beside the webcast registration. Today, you have to scroll down on that same page, under webcast and presentations, and you'll see it under presentations, Q4 and financial results conference call.

And Brian Dalton, CEO, and Ben Lewis, CFO are both our speakers on the call. There will be a Q&A afterwards. There's a forward-looking statement on slide 2 that applies to everything we say, both in our formal remarks and during the Q&A session. And with that, I'll turn over to Ben to take us through the numbers.

Ben Lewis: Thank you, Flora. And good morning, everyone. Annual royalty revenue for 2022 was $103.5 million, or $2.27 per share, up 23% over last year. Q4 royalty revenue of $23.1 million, or $0.49 per share compares to $23.5 million in the fourth quarter of last year. Attributable royalty revenue for 2022 represents an annual record for the corporation, mainly based upon higher realized commodity prices and the ramp-up of renewable, royal revenue.

Our EBITDA margin of 82% is up from last year's 80% and the mineral royalty's EBITDA margin for -- was 87% for both years. Annual, adjusted EBITDA of $89.7 million, of $1.97 per share, increased by 34%, in relation to 2021, while Q4's adjusted EBITDA of $18 million compares to $17.7 million last year. Annual, adjusted operating cash flow of $75.9 million or $1.65 per share, increased 54% from 2021. And Q4 adjusted operating cash flow of $19.2 million is 21% higher than the $15.9 million generated in Q4 2021.

These increases are largely reflective of the higher mineral royalties revenue. Net earnings for the year of $39.5 million, or $0.82 per share, compares to net earnings of $38.3 million, or $0.97 per share in 2021. Net earnings during the fourth quarter were $6.8 million, or $0.14 per share. The results for both the year and quarter were positively impacted by strong royalty revenue, partially offset by foreign exchange and fair value adjustments on diver -- dividends -- sorry, on derivatives.

Adjusted net earnings of $0.10 per share for the quarter and $0.74 per share for the full year, followed a trend of revenue (ph), partially offset by higher taxes. We continue to see revenue ramp-up at ARR, through it’s 50% owned GBR joint venture. ARR achieved the milestone of first, positive cash flow and operating profitability during the year. GBR also added two, new operating royalties, slated (ph) in 2022, and two more royalties from the TGE and Apex investments had (ph) commercial operations in late 2022, with another one expected in the coming months.

As a result, GBR expects to realize annual, royalty revenue in the range of U.S. $11.5 million to U.S. $13.5 million in 2023, based on the current royalty holdings. Brian will speak more on the strong progress ARR is making. And I further encourage you to review its recently published annual filings and investor conference call remarks.

Now to the balance sheet and capital allocation. We successfully deployed $47.8 million during the year in new investments. This consisted of $25.9 million to purchase an additional 866,000 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 $3.9 million into Lithium Royalty Corp., including our direct, royalty acquisitions on our (ph) 10% co-participation rights.

In February, LRC has filed preliminary prospectus indicating its intent to IPO. ARR from the -- its 50% into GBR of U.S. $43.9 million during the year, representing its portion of new, renewable royalty investments. ARR also completed an equity offering of $38.4 million late in 2022, with Altius investing $20.7 million to maintain its pro-rata ownership, which stood at 58% after the equity financing.

The board of directors approved an $0.08 per share dividend that will be paid to shareholders of record on March 17th, with a payment date of March 31. The corporation paid cash dividends of $13.1 million in 2022, to its common shareholders, and issued 34,000 common shares under the corporation's dividend re-investment plan during 2022. We purchased and canceled an additional 268,000, at a cost of $4.8 million, under our normal-course issuer bid, which was renewed for another year, on August 22nd, and will continue until August 21, 2023.

In addition, we re-paid $8 million in scheduled, principle repayments on our term debt. Earlier in 2022, we completed a drawdown on our revolver of $10 million to acquire investments. Our current liquidity consists of $15 million in cash as of the end of Q4, and we have $93 million in unused revolver room. ARR, at quarter end, held cash of U.S. $50 million.

And with that, I'll turn it over to Brian for his remarks.

Brian Dalton: Thank you, Ben. Thank you, everyone, for joining, pleasure, as always. Today, we're putting our wrap on our 25th year or annual reporting as a public company. It was certainly a good one for Altius, on multiple funds (ph) -- achievement of the milestone of reaching $100 million in revenue. Royalties really do love inflation.

Far more important than the revenue milestone this past year, however, were the unusual number of positive development signals that came in from across our diverse fund portfolio of long-term assets. Many of these add to our confidence in the embedded growth that will serve to bate (ph) The next 25 years of Altius' development.

There was a considerable shifting of the sands concerning some of the major macro-trends that our portfolio has been aligned with during the past year. A lot of this has to do with the accelerating de-globalization that is in response to the war in eastern Europe, which we are convinced will be particularly inflationary, with respect to our broader industry. We get into this topic in more detail in our letter to shareholders that will be posted to our website later today.

Now to summarize some of those growth signals we are seeing across the portfolio. In our base and battery metals portfolio, we are seeing strong growth potential emerging in the form of expansion and new build actions and intentions. Chapada continues to be evaluated for expansion and is now being supported by the discovery of the Saúva deposits on the property. A significant, maiden resource has recently been declared there and the indicated grade is considerably higher than that currently being mined, proving clear, positive implications for mine-life extension and/or production rate growth.

Lithium stands almost alone as a mine commodity but is experiencing incentivization (ph) conditions, and this is working to purpose. Our direct and indirect exposure to lithium, through our past investments in and alongside Lithium Royalty Corporation, are benefiting from the rapid construction advancements and increasing production level objectives of several royalty portfolio projects. We expect to receive first-ever lithium royalty revenue this year.

LRC is currently marketing an IPO and this has the potential to daylight significant value for our equity-level holdings. Adventus' Curipamba project continued to knock down major hurdles during the past year. These included project-finance arrangements, technical-level environmental approvals, and a government investment protection agreement completed in advance of a potential construction decision later this year.

We continue to be very bullish about the prospects for high purity component of the iron ore market, with the current lithium market, perhaps, acting as a bit of a harbinger for what we see ahead. In lithium, the writing was put on the wall several years back, when massive amounts of new investments in transition to EV-based manufacturing was collectively committed by global auto makers. This was done in the absence of knowing where the necessary, raw input materials would come from and the result has been strong incentivization pricing for lithium, and more recently, even direct level investments by auto makers to secure various supplies.

Today, not tomorrow, large amounts of capital are being committed by global steel makers to similarly transition their platforms to electric-arc (ph), furnace-based steel making, as the logical future expense of blast-furnace-based production market share. And EAF relies exclusively on scrap steel and very high purity iron ore inputs to produce cleaner steel, meaning without associated coal inputs.

The vast majority of the world's currently established iron ore supply and production base, which by the way has been steadily deteriorating in average quality, has no utility on EAS steel making. No one really knows how the looming increase in high purity input demand will be met, explaining why we invoked the lithium market parallel. We feel this represents a very underappreciated story, but one that we're very excited by.

One of the very few global iron ore districts that can technically deliver increasing levels of this material and that has available infrastructure and that is not party to the war in eastern Europe, is Canada's Labrador Trough region. There, we hold royalty interests in several projects that include the producing IOC mines that are seeing resurgent, reliability and growth-based investments, Champion's Kami project, with updated feasibility results for DR grade production plan expected later this year, as well as additional resource and earlier study-stage projects.

Our majority-owned, Altius renewable royalties business experienced a pivotal year in 2022, as it hit several, key milestones along its sector-level adoption and growth trajectories. It made a number of new investments in operating projects, as well as development project platforms, while also seeing strong acceleration of its revenue profile and the achievement of first, positive operating level cash flow.

This growth is expected to continue to continue to ramp up as a result of both the maturing and progressing of the investment that has already made, as well as the rapidly expanding pipeline of new investment opportunities that it experienced -- it is experiencing. Both equity and debt capital became considerably more expensive for the renewable sector over the past year and this is prompting builders of projects to look for alternative sources of capital and ARR is certainly feeling the benefits of this.

Also significant, and a gratifying relief to us, is the recognition that ARR’s embedded revenue growth profile is matching up nicely to not only replace, but to eclipse our quickly facing coal revenues. It was anything but a boring year for boring, old potash. 2022 was, obviously, a bigger than expected revenue year for us in this segment, on the strength of the price surge in the immediate aftermath of the Ukraine war and its resulting supply shock.

Prices have since corrected to below pre-war levels. We think that they have likely over corrected, based on what amounts to an absurdly short-term, yet sentiment-dominating demand destruction noise. There is an actual fact that serious structural supply deficits that have opened and current prices only incentivize the limited part of the immediate and long-return replacement and grow requirements.

Global food production yields are intrinsically linked to the replenishment of essential nutrients in proportion to agricultural depletion. This requirement was not met in 2022 and it seems like it won't be in 2023, either, while global food stocks have fallen to historic lows. Fertilizer is not a discretionary investment over anything but very short time frames and in the past, periods of under application have been naturally met with succeeding periods of higher application.

To put this in proper context, the alternative amounts of food availability shortfall that will disproportionately impact the world's most vulnerable regions. Our long-term royalty mines are incredibly position -- or incredibly well positioned, competitively, to be the solution for the new supply that is required both today and for a great many tomorrows. Of particular, potential relevance in this regard is that, until at -- at least until recently, the majority of medium-term, new global supply requirements are expected to be met by Russia and Belarusian growth projects. We'll keep our bets on Saskatchewan, thank you.

Our operators see the challenge, too, and are meeting it as an opportunity by investing to accelerate in alternative source of growth supply to the world, from their best-in-class mines and resources. AngloGold Ashanti continues to advance exciting discoveries at the Silicon project in Nevada and recently provided increased and upgraded resource estimates for several deposits. They also noted that it decided to bypass the concept study stage for the Merlin deposit and to instead integrate it with its ongoing, pre-feasibility study for the adjacent Silicon deposit.

While a maiden resource for Merlin is still anxiously awaited, AGA did refer to it as the gem in the crown of the district. We love the promise and suspense of discovery. Before closing, allow us to dip our toes a bit into a debate that seems to be emerging in our industry. Some of you will be aware that MPD-based models in mining have come under fairly prominent attack lately, for doing a poor job of approximating tier 1 asset values.

While we don’t believe it’s time to throw out the baby with bath water, we are in the camp that says that some of the input conventions used in typically -- typical industry MPD models tend to over-value marginals, average-type projects, while significantly under-valuing those ever-so-rare, top-tier, long-life, multi-cycle mining assets.

We get into this in more detail in the letter to shareholders, in case you wanted to explore the debate further.

We certainly hope that additional logic being applied by capital market participants might help to break the log jam for growth funding, as the reality of significant, looming supply deficits for many critical metals and minerals continues to be met with a don't-look-up attitude.

Otherwise, we expect that more of the world's potential replacement in coal (ph) mines will have to be funded and controlled, mainly out of desperation, as strategic interests, such as car makers, steel makers, and even governments. If you think this sector suffers from inflationary inefficiencies today, imagine forward to that one. Either way, we continue to like our position. Thank you, very much. And now we can open to questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press * followed by the 1 on your touchtone phone. You will hear a three-tone prompt acknowledging your requestion. Should you wish to decline from the polling process, please press * followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

The first question comes from Craig Hutchison from TD. Please go ahead.

Craig Hutchison: Hi. Good morning, guys.

Brian Dalton: Hi, Craig.

Craig Hutchison: Good morning. Just a question on the lithium royalties and, obviously, signals ramping up here in the next quarter or so and you've got a couple more coming online next year. Can you just give us kind of, maybe, a broad sense, a range of potential revenues that you expect from these three royalties that are from your discretion (ph) and kind of current spot prices, or some kind of long-term prices, so we can get a sense of what these could mean to Altius, with respect to your co-participation rights in these assets?

Brian Dalton: Well, there's actually a lot boiled into that question, because, ramp-ups, obviously, are uncertain and timing can be whatever it is. But if I think forward to, say a couple years from now, and when we think these things would be successfully ramped up, now the next big uncertainty here is plugging your favorite lithium price over the next few years and long-term.

But, generally speaking, these are pretty small royalty interests. They were co-participation in royalties. But the thing about the mines that they become progressively bigger. Each one of them has seen significant escalation, planned production grow rates. So, anyway, I guess if I were to ballpark the next few years, if we were thinking about, sort of, current consensus, long-term pricing, these things could deliver in the order of a few million dollars a year to us, for sure.

Craig Hutchison: Okay. And then, just for some years to Silicon -- I know you guys -- there's some, I guess, debate over the land issues and how the royalty extends onto (ph) some of the adjacent lands. But, does the Merlin deposit itself -- would that be fully covered by your royalty, then, if it sort of extends over to the adjacent lands?

Brian Dalton: We would, again, we don't have that detail to sort of resource estimate that would pinpoint it more precisely. But just looking at drilling patterns we would think that the majority of the lands would be on the core part of the area of interest. But there's certainly some spill-over onto lands that Anglo recently acquired from core mining.

They had a target that they referred to as Seahorse, which now appears to simply be an extension of the Merlin land. And, I guess just to pre-empt anymore questions on the difference of opinion that you referred to -- so under our agreement, there's a base area of interest provision, and then a paragraph behind that, that basically, at least in our reading, suggests that the royalty area of interest expands to the extent that contiguous land emanate outwards from that AOI.

So that has -- actually has become a pretty substantial piece of geography right now. We submitted a schedule of those expansion AOI lands to AngloGold, under the agreement as a requirement there for Anglo to support the registration of titles, decisions, and interests and land royalty that we hold. And there is a difference of opinion as to how far that area of interest expansion provision goes.

So we’re working with them in trying to come to an amicable solution and it’s a very cordial discussion and relationship. We’ve got a long future together. But in the event that we’re not able to reach that amicable solution, our agreement provides for -- provides a dispute resolution mechanism in the form of arbi -- international arbitration, based in British Columbia. So that remains an option and a fairly straightforward way to sort things out, as well. So, we’re not going to pre-judge outcomes here.

But we are confident in our reading of the agreement and believe that the royalty does factor the full extent of this very exciting and very significant-looking new discovery and district.

Craig Hutchison: And probably just one last question from me. With respect to liquidity -- any plans to upsize the RCF, just in case there’s some synapchase (ph) in percent (inaudible) us there?

Brian Dalton: That’s probably a better question for Ben. But I don’t think there’s anything imminent along those -- on those -- along those lines. And we have pretty good relationships with all of our lenders. And if something popped up quickly, I don’t think there would be a tremendous amount of problem with working with them and meeting whatever needs we might have. Ben (inaudible) --

Ben Lewis: Yeah, (inaudible), I don’t think there’s -- no concerns there. (Inaudible) --

Craig Hutchison: Thanks, guys.

Operator: Thank you.

Brian Dalton: Once again, ladies and gentlemen, if you do have a question, please press * 1 at this time. There are no further questions at this time. I’ll turn the conference back to Flora Wood for closing remarks.

Flora Wood: Thank you, Michelle. And thank you, everybody for dialing in. Craig, thanks for questions. And we’ll talk to you soon on the Q1 call.

Brian Dalton: Thanks, everyone.

Operator: Thank you.

Ben Lewis: Thank you.

Operator: Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.