

24 October 2024

ASX: DRR

## CHAIR AND MANAGING DIRECTOR ADDRESSES TO 2024 ANNUAL GENERAL MEETING

Deterra Royalties Limited (ASX:DRR) (**Deterra** or **Company**) is pleased to attach a copy of the address to be given by each of the Chair and the Managing Director at today's Annual General Meeting.

This document was approved and authorised for release by Deterra's Managing Director.

**Bronwyn Kerr**  
Company Secretary

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## CHAIR'S ADDRESS

2024 was a very important year for Deterra, with a focus on both growth and investment: we saw the successful completion of the ramp-up of the South Flank expansion at Mining Area C, an expansion that has driven significant organic growth for the Company through the more than doubling of nameplate capacity; and we announced the first step in the execution of our investment strategy with the acquisition of the Trident portfolio.

Our Managing Director will talk in more detail about the particulars of the Trident acquisition shortly, but I would like to spend a few moments to talk again about the rationale for our strategy and our approach.

There is no doubt that the Mining Area C royalty is a world class asset that has delivered outstanding returns. In the four years since our listing in 2020, its annual revenue has more than doubled, and it has generated more than \$800 million in revenue, which has allowed us to distribute more than \$550 million in fully franked dividends – all our profits in that period.

It will no doubt continue to deliver outstanding returns for many years – Mining Area C is the world's largest iron ore hub accounting for ~9% of global sea-borne iron ore trade with a multi-decade life ahead of it and the potential for further extension or expansion.

It is very important not to lose sight of the value of this royalty in its own right. However, we need to acknowledge that the MAC royalty is nearing the end of the South Flank driven growth phase. Over the past four years we have spoken consistently about our strategy to build the business beyond just a single asset exposure. To be clear, this is not a case of pursuing growth for growth's sake, rather it is a recognition that by introducing new sources of earnings and resources successfully over time there is an opportunity to have that reflected in improved market ratings because of increased optionality, as has been demonstrated by some of our large-diversified peers in the precious metals space.

We acknowledge that executing on such a strategy can take time, but that lag effect is the same for any company investing in new assets, and more so in the royalty space. We have shown we have been disciplined, patient and value-focused in our execution of this strategy, and we will continue to be. We believe that the Trident acquisition is well timed, both in terms of the development and de-risking of key assets, it is counter-cyclical with respect to key commodities, and it will deliver significant value for shareholders over many years.

In that regard, we must also remember it took a long time before the value of the Mining Area C royalty was reflected in the market - it only had value to the market when it began to be developed by BHP even though its optionality existed well before that time.

When a company grows it usually needs to fund that investment and we are no different. We've been very clear that when it comes to doing so we will look to all options including debt, equity or cash generated from our existing portfolio. In funding the Trident acquisition, having regard to the state of capital markets as well as the short-term cash generating capacity of the portfolio, we chose to use the debt facilities that we had put in place for exactly this purpose. Although the company has headroom available under these

facilities we have flagged a minimum dividend payout ratio of 50% to provide the option of using earnings to replenish these facilities.

To be clear, this does not reflect a change in our capital management philosophy and decisions on funding future growth opportunities will still consider all options, including debt and equity.

We are aware that this shift in our focus from organic growth to investment and associated changes in capital management, whilst consistent with our strategy, has resulted in some changes in our shareholder base, with investors selling out because of the move beyond MAC and I note the feedback the Board has received from some shareholders in that regard. We will engage further with our shareholders on our strategy and their feedback. Consistent with our strategy, we look forward to establishing a more balanced business that derives consistent value over time with the support of our shareholders.

From a governance perspective, March this year saw the retirement of one of our original directors, Dr Joanne Warner. Dr Warner was a member of the Board and Chair of the People and Performance Committee from the time of our listing and I would like to thank her once again for her contribution to the Company.

This reduced the number of non-executive directors down to four. We are continuously reviewing the composition of the Board to ensure we have the skills and experience to meet the needs of the Company depending on its strategy in the medium and long term and to allow for succession.

All independent NEDs are pulling their weight with Jason Neal as Chair of the People and Performance Committee, Graeme Devlin as Chair of the Audit and Risk Committee as well as the Nomination and Governance Committee, and myself chairing the Board and Sustainability Committee. Adele Stratton brings a wealth of strategic, corporate and financial advice to the Board and we value her contribution as the representative of our 20% shareholder Iluka.

In closing, investing in royalties is a long-term business. It should not be judged by the iron ore or lithium or gold price of the day - it should be judged by the resources in the ground and the opportunity for more resources to be found, developed, expanded and extended.

We have been transparent about spending the last four years looking for other opportunities which could add value to our existing portfolio - and during this period we did not build a 'war chest' by retaining earnings to create liquidity for investment (a model that is used by most other royalty companies). Rather, we exercised capital discipline by establishing liquidity facilities and returning earnings to you our shareholders when they were not required for investment. Throughout that period with the support of shareholders we have employed Board and executive skills which matched this strategy of growth through investment.

This year we found an opportunity, in Trident and Thacker Pass, that the Board believes will add value in the medium term. We also determined that utilising our debt and replenishing these debt facilities through dividend payout ratio policy over time is an efficient way to fund this investment.

I note, with concern, comments we have received that any investment will dilute the value of MAC. This is not our plan. Our plan is to add value to our asset base. The Board looks forward to further conversations with shareholders about these concerns.

**Jennifer Seabrook**

## MANAGING DIRECTOR'S ADDRESS

Looking back on FY24, it was another year of strong performance from our producing assets. Although overall production volumes from Mining Area C were down slightly on the previous year at 125 million wet tonnes, revenue from the royalty was up 5 per cent on stronger realised pricing. Receipts from our mineral sands royalties were also up, 16 per cent.

Although we did not receive any capacity payment from Mining Area C this year, as full nameplate capacity was achieved on a run-rate basis late in the period, to the extent that these production rates are achieved for an extended time in the current year, the potential for additional capacity payments remains.<sup>1</sup>

Consistent with the royalty model, earnings margins remained high and we reported a net profit of \$155 million, which was passed through to shareholders as fully franked dividends. This brings our total dividend payments since listing in late 2020 to more than \$550 million.

Looking forward, clearly we are at an important stage for the company. We are approaching the end of a period of organic growth that we've experienced through the significant increase in iron ore volumes from the ramp-up of the South Flank expansion at Mining Area C – at a time of resiliently high iron ore prices.

Right from the time of our listing four years ago, we have consistently articulated our strategy to build the company beyond only this organic growth in the existing portfolio into one that can continue to deliver sustainable value for all shareholders over the medium and long term.

This strategy and its rationale are straightforward and have not changed.

We believe that through the introduction of quality assets that provide diversification benefits and growth optionality over time, we can attract higher market ratings over what is otherwise essentially a single asset business.

To put it at its most simple, our focus remains to create value by building a globally diversified royalty portfolio with strong and resilient cash flows, multiple sources of optionality and growth over time, and leverage to our scalable operating cost structure.

Our acquisition of Trident Royalties is consistent with this strategy.

As we have spoken about in the past, we have considered a large number of potential investment opportunities over the past four years, but have not executed on any of them as we did not believe they would deliver appropriate value to our shareholders. We chose to execute on Trident as we firmly believe it does deliver appropriate value for the following reasons:

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<sup>1</sup> The Company is entitled to one-off MAC capacity payments of A\$1 million per one million dry metric tonne (MdmT) increase in annual mine production for the period ending 30 June. The current demonstrated annual capacity level is set at 118 MdmT.

- First, in its flagship asset, a royalty over Lithium America's Thacker Pass project, we see the hallmarks of a MAC-like asset 25 years ago. It is a large deposit that has the potential for multiple decades of production, and extension or expansion, ahead of it, and is located in a tier 1 mining jurisdiction. Thacker Pass will provide exposure to lithium, one of the key materials for energy transition that we believe has strong long-term fundamentals. The project is well advanced with permitting in place, significant conditional funding commitments from the US Department of Energy and General Motors, amongst others, and a final investment decision expected by the end of the year. Lithium Americas has stated this would have commissioning and first production in 2027 – and therefore first royalty flows to Deterra – or as early as three years.<sup>1</sup>
- Second, Trident's suite of gold offtake agreements provides immediate cash flow and earnings. These contracts operate somewhat like a streaming arrangement under which we receive delivery of gold at a price based on the traded price within a quotation period of 6 to 8 days. By selling these ounces within that period we are able to generate a margin while having significant downside protection. These offtake agreements historically have generated realised margins of 1.34%. This might sound modest in the context of Mining Area C royalties, but in calendar 2023 the offtakes delivered more than 270,000 ounces and more than \$10 million in revenue. These contracts generate meaningful cash flow, particularly at a time when gold is at record levels above A\$4,000 an ounce, and are valuable assets.
- Third, Trident brings a portfolio of eleven other royalties across a range of commodities, including copper, at various stages of production or development. As with any portfolio, this 'tail' of development assets is important as a source of future growth options. As with the Thacker Pass lithium royalty and the suite of gold offtake agreements, the overall portfolio of royalties and income streams we acquired with Trident provides significant upside with minimal – if any – downside. Deterra does not have to contribute to capital expenditure calls as these various underlying mining projects are developed, expanded or extended. Rather, Deterra is now in a position where our portfolio spreads from the existing, mature income-generating operations like Mining Area C and the gold offtakes to near-term growth generators like Thacker Pass and long-term opportunities like New World Resource's Antler project and Avino's La Preciosa project.
- Finally, Trident has already brought us intangible benefits in raising our profile and enhancing our networks, particularly in North America where most of the world's leading royalties companies – and our direct peers and competitors – are based.

Our Chair has already touched on feedback from shareholders but I want to take this opportunity to also provide some more context.

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<sup>1</sup> See Lithium Americas Corporation announcement dated 16 October 2024.

We value greatly our engagements with all investors – and proxy advisory groups – and appreciate and respect your opinions and feedback.

At Deterra, we are committed to delivering attractive and sustainable shareholder returns. It is an unwavering commitment which we are able to execute on because of the strong foundations provided by the Mining Area C royalty.

As I have just outlined, the strategy underpinning the Trident deal aligns with Deterra's stated vision – since we listed this company four years ago – to diversify our income streams to provide these long-term, sustainable returns.

Trident fits that bill.

Let me also comment on Thacker Pass, Trident's flagship asset.

Some shareholders have expressed surprise at the timing of our investment in lithium given the commodity's recent performance. But we see this as a deliberate counter-cyclical investment – an opportunity to get exposure to a quality asset of scale at a time when pricing is low.

We believe the long-term supply and demand fundamentals of lithium are positive and will support the return from our investment of the project's multi-decade life. Recently we have seen others express positive views of the future of lithium and as I flagged a little earlier, just last week General Motors – one of the world's largest car makers – increased its investment in Thacker Pass by US\$295 million, bringing its total investment in the project to US\$945 million, as well as extending its offtake commitments with Thacker Pass' owner and developer, Lithium Americas.

Once finalised, this agreement between Lithium Americas and General Motors - together with the US Department of Energy's US\$2.3 billion conditional commitment - will see Lithium Americas having largely secured the capex it needs for the first phase of Thacker Pass' development.

While the Trident acquisition is an important investment in its own right, it is not the end of our investment strategy. As we have done for the last four years, we will continue to evaluate opportunities to add to our portfolio through value accretive investment in bulks, base and battery commodities – consistent with our commitment to deliver attractive and sustainable shareholder returns.

We firmly believe sensible additions to the portfolio will provide attractive returns and ultimately grow our earnings over time, and this will add more value for shareholders over the medium and long term than a simple passive strategy based on a single asset.

In closing, it's been an important year in the development of the Company with continued strong financial performance and an acquisition aligned with our investment strategy. We remain focused on our core principles of creating value for shareholders and building the business and portfolio in a patient and disciplined way.

On behalf of the Deterra team, I thank you for your ongoing support and interest in our Company.

We truly value your engagement with the Company and look forward to providing more updates – and having further discussions – as we continue the execution of our strategy.

**Julian Andrews**