Australian Securities Exchange Notice

20 October 2021 ASX: DRR

CHAIR AND MANAGING DIRECTOR ADDRESSES TO ANNUAL GENERAL MEETING

Deterra Royalties Limited (ASX: DRR) ("Company") attaches hereto the Chair's and Managing Director's addresses which will be given to the Shareholders at today's Annual General Meeting.

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

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Company Secretary

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Deterra Royalties Limited
2021 Annual General Meeting
20 October 2021
Jennifer Seabrook, Chair and Julian Andrews, Managing Director Addresses

Chair's Address

It has been a very busy year for us at Deterra. It is almost one year to the day since we began trading on ASX in our own right and when I look back on the past year, clearly there were a number of significant milestones for Deterra.

- Most importantly, the Company completed its successful demerger from Iluka and commenced trading of its shares on the ASX in October 2020. This was a considerable achievement in a period of substantial global economic disruption and we would like to thank all the Deterra and Iluka employees and their advisers who contributed to this outcome. We would also like to welcome our new shareholders to the Company and thank continuing shareholders for their support through this process.
- A second important milestone for the Company was BHP's announcement in May this year of the completion of the South Flank expansion project at Mining Area C. This marks a meaningful development for the Company as it signals a period of significant growth in production from the Mining Area C royalty area as the South Flank mine ramps up to full production capacity over the next three years.
- Thirdly, we published our inaugural financial results in August this year and declared a final dividend which, combined with the interim dividend declared in February, was in line with our stated dividend policy of paying out 100 per cent of net profit after tax, fully franked.
- Fourthly, we are well aware that Deterra represents a new investment proposition for the Australian investment community and as a result we have put considerable focus on educating new and continuing shareholders about who we are and where we are going. As with any demerger, we started with an inherited register but there has been a gradual but steady evolution and I'm pleased to see natural owners of Deterra come onto our register or build on their existing positions.

Turning now to business performance, and financially, it has been a very pleasing year with strong performance from our producing royalties. In particular, our cornerstone asset, the Mining Area C Royalty, had an outstanding result generating $140 million of royalty revenue on record production of 59 million dry metric tonnes supported by strong iron ore pricing. The scalable nature of the royalty investment business model enabled the business to report underlying earnings before interest tax depreciation and amortisation of $135 million and net profit after tax of $94 million for the reporting period. Of this, nearly $74 million, representing the profit for the period since separation from Iluka, was returned to our shareholders by way of fully franked dividends of 13.97 cents per share.

As I noted a moment ago, the Company expects to enter a period of organic growth as the South Flank mine delivers an additional 80 million tonnes per annum of production capacity over the next three years[1]. This expansion is expected to support growth in production volumes in our portfolio over the medium term, however we are also actively assessing opportunities to add to our portfolio by making value-accretive acquisitions or investments. Our approach in this area is to be patient and disciplined, focused on adding long-term value over time. Our expenditure on these activities add option value to our existing asset base.

[1] BHP Operational Review for the quarter ended 30 June 2021, 20 July 2021

We are committed to pursuing value sustainably and in our 2021 annual report we have outlined our commitment to sustainability in our business, and our approach to transparency in reporting on our environmental, social and governance commitments. This is an area of increasing focus for our business, something that is reflected in our recent decision to establish a Sustainability Committee to guide our activities and an area of focus for me personally as I Chair this committee.

Although our direct environmental and social impact is minimal given our small physical footprint, we are indirectly exposed to the environmental, social and governance risks of the assets in which we invest and accordingly have developed a framework that reflects our particular ESG risk exposure.

We have also spent time since our listing refining our Board and Committee charters, reviewing accounting policies and risk frameworks, debating our strategy, meeting with owners of existing royalties and prospective mining projects and educating new and continuing shareholders about our business model. We are confident we have established a solid platform to support a streamlined but thoughtful governance process going forward.

We have also been active in reviewing the remuneration arrangements for our executives, as we seek to implement a framework that reflects our particular business model. With the help of expert consultants and external benchmarking, we have adjusted our remuneration structure for the financial year ending 30 June 2022 to provide for a short-term incentive mechanism that addresses the near-term goals of the company and have introduced a minimum shareholding requirement for our key management personnel to provide greater alignment between management and shareholders.

In summary, it has been a busy and productive year for the Company. With the support of our shareholders, board and management team, I look forward to the Company growing and evolving over time to become a significant contributor to the broader Australian resources landscape.

I will now hand over to our Managing Director, Julian Andrews for his address.

Managing Director's Address

Thank you Jenny

The past year has certainly been a busy and exciting time for Deterra, as we establish both the company and, in many ways, a new proposition for the Australian investment community.

Our business model is simple and transparent with two key pillars built around a core objective to deliver attractive and sustainable returns to you, our shareholders:

- First, we are focused on maximising value from our existing portfolio, and in particular our core asset the Mining Area C royalty. The business has been set up to provide our shareholders with a clear line of sight to this value through a small corporate team, modest overheads and conservative capital structure, together with a target dividend policy of paying 100% of net profit after tax, fully franked to the extent possible; and
- Second, by executing our disciplined growth strategy. We will do this by investing in new royalties that are complementary and value accretive in order to build, over time, a portfolio of royalties that provides strong earnings growth and diversification.

A key attraction of this model is that revenue-based royalties provide investors with exposure to commodity price; exploration and production expansion upside; and the potential for earnings and dividends while limiting exposure to capital and operating expenditure.

Two elements of the power of this business model are evident already in our first twelve months of operation:

- The first is the scalability of the model and the margins it can offer as revenues increase on a fixed cost base. This is illustrated in the underlying EBITDA margins we achieved in the period since demerger – 96 per cent;
- The second is the option value that royalties can provide through exposure to the potential for expansion of a mine and/or extension of its life. I think there is no better example of this than the Mining Area C Royalty itself. We are already benefiting from the more than three-and-a-half billion US dollar investment BHP, Mitsui and Itochu have made at South Flank to more than double production capacity at Mining Area C[2], all without having to contribute any capital to the project.

Our producing royalties performed well this year. In particular, our cornerstone asset, the Mining Area C Royalty, recorded increased production, as a result of which we received $2 million capacity payment as part of the overall $140 million revenue it generated in the period.

Although on a much smaller scale, the Yoongarillup and Wonnerup mineral sands royalties generated revenue through the year of $800,000. In October 2020, mining operations ceased at Yoongarillup and the site entered a decommissioning and rehabilitation phase. However, the operators of the two minerals sands mines at Yalyalup and Wonnerup North have submitted permitting applications to extend the lives of these assets.

Financially, as Jenny noted, the business has also performed well. With corporate costs of $10.1 million, including one-off demerger transaction related costs of $4.6 million, underlying earnings before interest, tax, depreciation and amortisation was $135.5 million and net profit after tax for the reporting period was $94.3 million, of which $74 million was attributable to Deterra shareholders. Iron ore pricing is a key determinant of our revenue and late last calendar year, we saw a significant increase in spot pricing. In recent months these spot prices have declined back to levels consistent with those at the time of demerger, although current prices remain above historic averages.

Turning now to the future, in terms of growth I have spoken many times about the significant volume growth we already have in the portfolio through the Mining Area C royalty. This is a world class asset – it is low cost and long life and with significant leverage to the more than doubling in production we expect to see in the next three years as South Flank ramps up to capacity, and I note that yesterday BHP announced production at Mining Area C for the September 2021 quarter of 22.3 million wet metric tonnes, an increase of 19 per cent on the prior quarter[3]. We benefit from this growth through both the royalty we receive over the increased sales volumes and from the one-off capacity payments based on any increase in achieved production.

In addition to this organic growth, we are also actively looking for opportunities to add to our portfolio in a value accretive way, either through creating new royalties or acquiring existing royalties. The Mining Area C Royalty and the organic growth it will provide is a very solid platform on which to base this growth strategy – in particular, it provides us the time and capacity to employ a disciplined and patient approach to evaluating opportunities.

Discipline is a very important part of how we think about growth, and for us that means maintaining a very clear focus on value – that is an opportunity's ability to generate a return in excess of its cost of capital.

Whilst there has been increasing activity and competition in some sectors of the royalty and streaming market as we see an increasing number of participants entering the market, particularly in commodities such as precious metals, our focus remains on sectors we believe offer greater opportunity. Accordingly, our activity to date has been focused on areas where we think we can bring value to transactions, which is more likely to be in the bulk commodities and base and battery metals.

We have been busy looking at opportunities, having reviewed more than 40 in the past twelve months. A sizeable number of these can be screened out relatively quickly if they are not a clear fit with our investment target parameters, but we are seeing a number that are worth investigating further. To date, we have not seen sufficient value in any to take to execution, but we continue our activity in this regard.

When it comes to funding growth, we will evaluate each funding decision on its merits having regard to the specific investment opportunity and the circumstances at the time. We will not use Mining Area C cash flows to

[2] BHP Operational Review for the year ended 30 June 2021, 20 July 2021
[3] BHP Operational Review for the quarter ended 30 September 2021, 19 October 2021

subsidise an investment that would not otherwise make sense. We are confident that the quality of our portfolio provides us with the balance sheet strength to fund growth as required.

As Jenny noted, our ESG framework has also been an area of focus for us since demerger. We recognise both the importance of sustainability to our long-term business, and many of our shareholders' interest in this area. Accordingly, I am very pleased to have released our plans in this important area in our recent Annual Report, outlining our commitment to implementing and providing transparency in reporting our ESG performance and objectives. To date, our focus has been on embedding practices and policies to support our commitments, although I am pleased to note that we have taken some important early steps in this regard; committing to net zero direct emissions by the end of this financial year and applying to become a signatory to the United Nations Global Compact. These will be important in driving our future actions in this area, as we prioritise areas identified with the greatest materiality and further enhance our performance disclosures as well as establish community engagement initiatives.

I would also like to join with Jenny in thanking all of the Deterra team that has worked very hard to build the business over the past twelve months, as well as all of our advisors and the Iluka staff who helped implement the demerger successfully.

In summary, I am pleased to be able to report to you what is a very simple message. In our first year, we've completed the demerger as planned, the business has performed well financially which has enabled the Directors to deliver one of the core aspects of the business model by declaring a fully franked dividend equal to 100 per cent of the net profit after tax, and we are now committed fully to executing the business model we outlined at the time of the demerger.