Royal Gold, Inc.

Q2 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Alistair Baker – *Vice President of Investor Relations & Business Development*

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Dan Breeze – *Vice President, Corporate Development of RG AG*

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PRESENTATION

Operator
Good day and welcome to the Royal Gold Fiscal 2021 Second Quarter Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your touchtone phone. To withdraw your question, please press star (*) then two (2). Please note, this event is being recorded.

I would now like to turn the conference over to Alistair Baker. Please go ahead.

Alistair Baker
Thank you, operator. Good morning and welcome to our discussion of Royal Gold's Second Quarter 2021 Results. This event is being webcast live and you will be able to access a replay of this call on our website.

Participating on the call today are Bill Heissenbuttel, President and CEO; Paul Libner, CFO and Treasurer; and Mark Isto, Executive Vice President and COO of Royal Gold Corporation. Dan Breeze, Vice President, Corporate Development of RG AG; and Randy Shefman, General Counsel are also available for questions.

During today's call, we will make forward-looking statements, including statements about our projections and expectations for the future. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties are discussed in yesterday's press release and our filings with the SEC.

We will also refer to certain non-GAAP financial measures including adjusted net income, adjusted net income per share, net debt and net cash. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures are available in yesterday's press release, which can be found on our website.

Bill will give you an overview of the quarter followed by Mark with an operating update. Paul will then provide a financial update and Bill will wrap up the call with some closing comments. We'll then open the lines for a Q&A session.

Now, I will turn the call over to Bill.

William Heissenbuttel
Good morning and thank you for joining the call. Before beginning, I would like to remind you that Royal Gold continues to operate remotely, and we'll do our best to offer a coordinated response to any questions. Also, please bear in mind that this reporting period is quarterly for us, but annual for most of our operators. We may not be in a position to offer in-depth answers to questions on our operating assets to the extent the information for the December quarter has not yet been released.

I'll begin on slide 4. We continued our strong start to fiscal 2021 with another quarter of record revenue. Total revenue of $158 million was driven by excellent operating results across the portfolio, particularly from our royalty segment. Relative to the prior year quarter, our Cortez revenue and our Australian royalty portfolio revenue were both up over 100%, while our Peñasquito and Marigold revenue increased over 50%. We had a couple of new contributions

this quarter from royalties that, while small, demonstrate the optionality embedded in our portfolio.

Commercial production was declared at Relief Canyon in January and we received our first revenue from the 2% NSR during the quarter. We also received the first payment from our 4% NPI royalty at Kurnalpi, which is part of Saracen's South Laverton mine in Australia. We acquired both these royalties over a decade ago as part of multi-asset transactions.

Earnings for the quarter were $60 million or $0.91 per share and operating cash flow came in slightly below $100 million. Adjusted earnings were $0.92 per share after adjusting for a minor mark-to-market change in the fair value of our equity securities. We raised our dividend in November for the 20th consecutive year to $1.20 per share per year which represented a 7% increase over the prior year payout. This record of increasing annual dividends is unmatched in the precious metals space.

We paid down a further $75 million on our revolving credit facility during the quarter, leaving us with a net cash position of $182 million and over $1.2 billion of liquidity at the end of the quarter. We made a further reduction in the balance outstanding on the revolving credit shortly after quarter end, which Paul will touch on later.

We continue to fund our investment in the Khoemacau project, and we've now completed the funding of the 80% base silver stream. Mark will give you a further update on the project in his remarks. We also continued our practice of board renewal, adding Fabiana Chubbs to the board following the retirement of Chris Thompson in November. Fabiana brings a wealth of experience to Royal Gold from her career in finance, auditing and internal controls, and I look forward to working with her.

I would like to thank Chris for his many contributions to Royal Gold since 2014 and wish him well in his retirement. Maintaining a board with relevant industry experience and diverse backgrounds is important to protect and promote long-term value for all stakeholders, and I believe that Royal Gold has one of the best boards in the precious metals sector.

With that, I'll turn the call over to Mark for an update on progress at Khoemacau.

Mark Isto
Thanks, Bill. I'll start by making a brief comment on the excellent performance across the portfolio. Our royalty segment contributed 32% of revenue, while typical contribution has been in the range of 28%. We saw especially strong contribution from the Peñasquito royalty and many of the smaller royalties also performed well which demonstrates the significant upside and optionality in the smaller and older portfolio assets.

Moving on to slide 5, I'll give you an update of the Khoemacau project in Botswana currently under development by Khoemacau Copper KCM. Construction activity progressed well during the quarter despite challenges caused by COVID-19 and the continued state of emergency in Botswana. Construction completion reached 85% at the end of the quarter, up from 70% at the end of the September quarter. Underground development in the three mines reached 8,300 meters, and, as of last week, there's a surface ore stockpile of over 100,000 tons, up from 70,000 tons at the end of December.

Ore is being produced from development drives, and overall ore grades and widths, so far, are consistent with expectations. Mapping and sampling the ore zones in these drives continues to

provide high confidence in the quality and dimensions of the Zone 5 ore body and confirms results from previous surface grade control drilling. Ground conditions are in line with the geotechnical model and no significant changes have been required to planned ground control measures. Confirmation of the resource and geotechnical models are both positive results at this stage of development.

With respect to start-up, KCM expects to begin plant commissioning activities late in the second quarter of calendar 2021, and they continue to target shipment of first concentrate late in the third quarter. Production is expected to ramp up to nameplate capacity in the fourth quarter of 2021 and reach sustained production levels in the first quarter of calendar 2022. All of this assumes no escalation in COVID-19 challenges.

We made our sixth advanced payment contribution of $32.6 million on January 6th and have now advanced a total of $212 million towards the project, which completes our investment for the 80% base silver stream. Logistical and scheduling delays attributed to COVID-19 since last March have caused a modest increase to the project capital budget, and KCM expects some further costs due to working capital and operating costs resulting from the extended construction schedule.

If you recall, when we announced the transaction, we committed to providing additional funding of up to $78 million. We provided KCM with options to draw up to $53 million by increasing the silver stream to 100% of payable silver, and/or draw up to $25 million from a subordinated debt facility. These options were intended to provide KCM with confidence that the project would be fully funded regardless of reasonable potential cost increases. KCM expects up to $50 million of further funding will be required to reach commercial production and we are currently in discussions with KCM to finalize sources of that additional funding. It's too early to say what Royal Gold's obligations may be and we expect to have more clarity in early April as to KCM's funding plans. Regardless of the timing KCM anticipates, it will reach commercial production without requiring further funding beyond $50 million.

Next, I'm going to show you a few slides regarding progress on the project site. Turning to slide 6, you can see a couple of photos from the boxcuts at Zone 5. The photo on the left shows substantial completion of the geocell placement on boxcut slopes requiring erosion control. The photo on the right shows concrete work underway at a boxcut sump, part of the mine's water management system, all of which was completed during the December quarter.

Turning to slide 7. On the left you can see a segment of the 35-kilometer haul road and access road looking from Zone 5 towards the Boseto mill site. Final surfacing is being applied, and a 15-kilometer section of the haul road is complete and open to traffic. At the right, you can see construction progress on the new concentrate bagging facility.

Finally, on slide 8, on the left you can see the permanent potable water treatment plant at Zone 5, which is currently being commissioned, and on the right side, you see the Boseto substation which is substantially complete with commissioning of electrical infrastructure and the connection to the national grid expected later this month.

In summary, the Khoemacau team is doing an excellent job at advancing the project in spite of COVID-19 challenges. The ore body dimensions and grades are consistent with expectations and surface construction advance is at 85% completion.

I'll now turn the call over to Paul to discuss our financial results.

Paul Libner
Thanks, Mark. I will now turn your attention to slide 9 and give an overview of the financial results for the quarter. For this discussion, I'll be comparing the second quarter of fiscal 2021 to the prior year quarter. We experienced another consecutive quarter of record revenue, as we recognized a 28% increase in our revenue to $158 million on volume of 84,500 gold equivalent ounces or GEOs. The increase in our revenue when compared to the prior quarter was due to higher average metal prices and a strong contribution from our royalty segment, including the two new royalty contributions that Bill mentioned earlier in his remarks.

With respect to metal prices, the average price of gold, silver, and copper increased 27%, 41%, and 22% respectively when compared to the prior year quarter. Contributions from gold continue to be dominant within our portfolio as the revenue mix for the quarter was 76% in gold, 11% from copper, and 10% from silver.

G&A expense for the quarter was $6.8 million, which was stable and comparable to the $6.7 million we recognized during the prior year quarter. Our G&A expense, which also includes noncash compensation expense, was again in line with the typical quarter for Royal Gold and is what we anticipate going forward absent any large or unusual items.

Our DD&A expense for the quarter was $47.9 million or $567 per GEO, up from $480 per GEO in the prior year quarter. The increase in our total DD&A expense in the quarter was primarily due to higher gold sales and a higher depletion rate from Mount Milligan, partially offset by lower gold sales at Andacollo.

However, we came in below the low end of our previously provided guidance range of between $590 and $640 per GEO, primarily due to the stronger performance in our royalty segment. Many of our royalties, including the two royalties that provided new contributions this quarter, have been in the portfolio for several years and have lower remaining carrying values. The result of strong production contributions and lower carrying values within the royalty segment contributed to the overall lower DD&A expense per GEO during the quarter.

Looking forward, we are forecasting our DD&A for fiscal 2021 to remain within the previously provided guidance range of between $590 and $640 per GEO. Exploration costs which were specific to our Peak Gold joint venture were reduced to zero during the quarter due to the sale of the joint venture during the September 2020 quarter. We do not expect to incur additional exploration costs in the future.

Earnings were $59.9 million or $0.91 per share, up 45% compared to the prior year quarter. We had limited adjustments to our earnings this quarter with only a $0.01 per share loss due to the fair value decrease in our equity holdings. Fair value increases or decreases in our equity holdings and the related adjustments to our earnings will continue as long as the company holds these securities.

After moving this one item, our adjusted EPS was $0.92 per share for the quarter. We had another very strong quarter of operating cash flow as our cash from operations was up 20% to nearly $100 million. This increase was driven by our higher stream and royalty revenue less the cost of sales specific to our stream revenue.

At the end of December, we held approximately 29,500 GEOs in inventory, which was slightly higher than the guidance range provided last quarter. The increase was primarily due to deliveries that were received earlier than forecasted.

Looking forward to the March quarter and absent any potential operational impacts due to COVID-19, we expect stream segment sales to be in the range of 48,000 to 53,000 GEOs, and inventories for the quarter end to be in the range of 26,000 to 31,000 GEOs. We also continue to expect our fiscal 2021 effective tax rate to range between 19% and 23%, absent any unusual or discrete items.

I will now turn to slide 10 and provide a summary of our financial position. Our liquidity position continues to strengthen as we ended the quarter with cash of $382 million, working capital of $393 million, and a net cash position of $182 million. During the quarter, we repaid $75 million on our revolving credit facility and in early January we repaid an additional $50 million. Upon the $50 million repayment in early January, we now have $150 million outstanding and $850 million available under our revolving credit facility. Combined with our available cash resources, this provides us with about $1.2 billion of total liquidity.

We believe we have sufficient liquidity to cover G&A costs, any of the remaining commitments at Khoemacau, and our expected dividend payments for the foreseeable future. However, we also remain cautious with respect to the operating environment amid potential COVID-19 impacts. We remain committed to reducing our debt, and, absent the requirement to fund any new business opportunities, we expect to manage our debt levels accordingly once the operating environment returns to normal.

With respect to Khoemacau, we made a $32.5 million advance payment in October and a $32.6 million advance payment in early January, completing our total contribution of $212 million for the 80% base silver stream. As Mark mentioned in his remarks, at KCM's election, we expect to provide further financing to the project in the form of additional silver stream and/or subordinated debt. The remaining amount, form and timing of this funding will be decided in the next several weeks, and we expect that any final contribution will be made from our available cash resources.

That concludes my comments on our financial performance for the quarter and I'll now turn the call back to Bill for closing comments.

William Heissenbuttel
Thanks Paul. Our financial and operating performance in the second fiscal quarter continued our strong start to fiscal 2021. Solid performance from our operating portfolio has allowed us to take full advantage of the robust metal price environment, and, over the 12 months ended in December, we have invested $114 million at Khoemacau, moved from a net debt position of $54 million to a net cash position of $182 million, and paid dividends of $73.5 million.

We see an active business development market today, but we remain mindful of long-term returns when we bid for opportunities. The financial performance of our portfolio allows us to be patient with new investment opportunities, and we will remain disciplined as we continue to evaluate our new business pipeline. Our strong balance sheet and access to liquidity positions us well to execute on new transactions in a timely manner.

Operator, that concludes our prepared remarks. I'll now open the line for 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 (1) 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 (2). At this time, we will pause momentarily to assemble our roster. Our first question comes from Cosmos Chiu with CIBC. Please go ahead.

Cosmos Chiu
Thank you. Thanks, Bill, Mark, Paul and Alistair, and great to see that you've increased your dividend once again. I guess, my first question is on Khoemacau here. Just to confirm, I guess, the additional $50 million that's needed to get the mine to commercial production that's -- is that in essence a cost increase due to COVID-19?

William Heissenbuttel
Yes. Cosmos, this is Bill. Can you hear me okay?

Cosmos Chiu
Hi, Bill. Yes.

William Heissenbuttel
Yes. Okay. Great. Yes. Essentially it is. I mean, the impact of COVID-19—it's due to a number of things. I mean, you have your quarantine costs, you have to have some extra staffing that's necessary just to sort of fill in when you have people in quarantine. So, it is all related to the pandemic.

Cosmos Chiu
Bill, I guess, based on your understanding after the additional funding of $50 million, how much cushion do they have? Because as Mark said earlier in the prepared remarks, never say never, there might be potentially more -- could be more COVID-19 impacts to it. Like I'm just trying to get some confidence around that number to try to figure out how much cushion they have built in at the operator level?

William Heissenbuttel
Yes, and that number is probably not something we can disclose. I will say that what they've come forward with is that's the maximum they think they'll have to spend to get to commercial production. So, Mark, is there anything else, any other color you might add to that? We just might be limited in what we can say.

Cosmos Chiu
Of course.

Mark Isto
Right. I mean, I think the only thing I would add Bill is that we make our -- it's advanced funding and we're only a portion of the funding that comes in. So, they started the year with pretty substantial funding available to them. So, they're well-funded certainly for the construction they have left to complete given the fact that we're only a portion of it.

Cosmos Chiu
Then, in terms of the actual construction itself, to the extent that you can, what's the critical path item here for them to get to sort of ramp up by Q2 -- calendar Q2 commissioning by Q2, and then sort of getting the concentrate shipment by Q3? Is there one or two critical path items that they're looking at, at this point in time, and concentrating on?

William Heissenbuttel
Mark, I'll leave that to you, maybe you can…

Mark Isto
Yes. Sure. Yes, the critical path certainly for the last several quarters, has been running through the mill refurbishment work, and this has really been an area where they have seen some COVID-19 impacts due to just contractor productivity. So, just the -- I would say, it runs to the mechanical and electrical work -- getting that completed would be the critical path, which wouldn't be atypical for a project at this point in time. The mining and development is not a critical path. It's been going quite well.

Cosmos Chiu
Okay. Great, and then maybe switching gears a little bit. Bill, as you mentioned, this is your fiscal Q2, but a lot of the operators' full year 2020, and looking at your operator performances, I see that for example, Cortez actually did very well in terms of what they have projected for 2020 versus actual. One of them, I think, SSL -- or the first revenue was 101 to 700 ounces versus 67,000 ounces. So that's GSR1, for example. I guess what I'm trying to ask here is that could you maybe recap what happened in 2020? And then, what should we expect, to the extent possible that you can share with us, what we should be expecting for 2021? And maybe putting Crossroads as well, I think, two quarters ago, Mark or Bill, you talked about Crossroads and that's going to have a positive impact on 2021. I'm just trying to figure out if the outperformance in 2020 is sustainable looking ahead.

William Heissenbuttel
Yes. Cosmos, I'll actually start with the latter part of the question, and then maybe I'll ask Mark if he has anything to say about looking back to just 2020. It's usually sort of in the first three or four months of the calendar year where we get a new forecast from Cortez. So, we will be in a much better position on the next quarterly call, we think, to be able to give you a better look. In terms of what this year looks like, I know last year we also went out a couple of years. I can't promise you we'll be able to do that -- that's up to discussions between us and Barrick -- but we just -- we have to defer what does 2021 look until the next quarter. Mark, anything you want to add on last year's production?

Mark Isto
Well, just you're right that calendar 2020, actually they did exceed their plan by a small margin. So, we're very happy. It tended to be weighted more in calendar Q1 and Q2 than back-end weighted, but overall, they did do a good job at providing an estimate.

Cosmos Chiu
Okay and then maybe my last question, again, switching gears a little bit here. On taxes, with the new administration in the US (Biden and Harris) hearing some chatter about potential changes to corporate taxes, corporate tax rates and whatnot, should we be aware of any potential impacts to Royal Gold in terms of when it might happen? Or if it happens is it going to impact Royal Gold at all? Could you give us a bit more color on that?

William Heissenbuttel
Sure. Like it's early days, and I think the soft answer, if you will, is it's too early to tell. The – Biden does have a tax plan that would show increased corporate tax rates. I am personally skeptical that he's ever going to get to it only because he's got a pandemic. He's got a vaccination program. He's got an economy that he's got to deal with first, and then he's also turning his attention to immigration and health care, and a 50/50 senate split does not give the democrats carte blanche to pass whatever they want and there are some vulnerable senators that are going to be up for reelection in 2022. So, if Biden's going to get anything done, it's going to be really in the next 12 months. I just – again, this is my personal view. I don't spend time awake at night worrying about the tax rates going up.

Cosmos Chiu
Okay, great. Those all the questions I have. Thanks a lot.

William Heissenbuttel
Thanks, Cosmos.

Operator
Our next question comes from Josh Wolfson with RBC Capital Markets. Please go ahead.

Josh Wolfson
Thanks. I just had a quick question for the Khoemacau funding outlook. As it stands for that $50 million, or up to $50 million number, are the three different financing options the team has outlined the only available options? Is there some sort of restriction in place that would require Cupric to utilize strictly those options? Or could they go elsewhere for capital?

William Heissenbuttel
There are other sources that would probably require our approval. So, I wouldn't want to say just because something may not be permitted under the agreement, it doesn't mean they can't come to us with other options and we'll consider it. I think within the agreement they have the options that we have laid out and, relative to the size of the funding gap right now, those amounts would be sufficient, but, look, we're open to other sources, and I think it's a great project. So, I'm not too worried about them finding sources of capital if they need it.

Josh Wolfson
Got it. Yes. I guess the question is more so, do you expect to contribute more towards the project which would -- the two options at least that were available for Royal Gold would seem to be accretive options, as opposed to just accumulating cash at the current time?

William Heissenbuttel
Yes. I mean, I guess, I look at it and say, if you've got a $50 million hole, and we've got $78 million committed to you, and there's yet another basket, again, it's more than sufficient, but if they were to come back to us and say, notwithstanding what's available we want to go in this direction, we would certainly look at it.

Josh Wolfson
Great. That’s -- those were all my questions. Thank you.

William Heissenbuttel
Thank you.

Operator
Our next question comes from Jackie Przybylowski with BMO Capital. Please go ahead.

Jackie Przybylowski
Thanks very much. I think I just wanted to follow up on one of Cosmos's questions about the guidance for 2021 or I guess for, sorry, for the next quarter Q3 2021, it looks like the guidance the 48,000 to 53,000 ounces is sort of below where you came at for the current quarter, and I was just wondering, if you could give us a little more color on that. Or if you can give us some color as to how that gold equivalent ounces breaks down between gold, silver and copper, if that's possible?

William Heissenbuttel
Yes. So, what I'll say, the one thing that's important to recognize about our revenue is that two of the assets in Milligan and Andacollo can be really lumpy, and when we just sort of say, "timing of shipments," it's sort of a general comment, but we have heard this question, and I wanted to turn this over to Mark to try to give you a little more -- a little more flavor.

Jackie Przybylowski
Thanks.

Mark Isto
Yes. Thanks, Bill. Yes. I think the simplest way to think about it is, when you look at Mount Milligan, every shipment of concentrate that they make, we think about it as containing 4,000 to 5,000 GEOs combined gold and copper to us. So, with the shipment coming early or later than we expect, that will shift 4,000 or 5,000 GEOs. So that's -- and the same thing happens with Andacollo, although the amount of gold in a concentrate shipment ranges from 2,000 to 2,500 ounces, or GEOs to us. So, what you'll find is between those two and being able to take production from six months ago when they produced the concentrate, it goes into an inventory -- concentrate inventory depending on how the owner wants to ship that, it goes onto the ship and eventually makes it to its -- the smelter. That has a window, and so, simplistically thinking, 4,000 to 5,000 GEOs on Milligan and 2,000 to 2,500 GEOs on Andacollo swing. You can -- you look in Table 2 in our press release, which I think gives you a very good view on variability and how the numbers swing around. So, I don't know if I can provide any more color to that, but I'm happy to try.

Jackie Przybylowski
Okay. That's helpful. Thanks, Mark. I guess, yes, that's a helpful answer. If I can just ask a second question. Your total available liquidity keeps going up -- it's at $1.2 billion at the moment. Can you give us a little bit of an update into your thoughts on opportunities? And that -- do you see growth investment opportunities on the horizon for yourselves? And if maybe you could talk about that $1.2 billion and how much would you be comfortable putting out in a single transaction sort of at the maximum level would be helpful color as well? Thanks.

William Heissenbuttel
Sure, and maybe I'll just address the liquidity. I think, we have Dan Breeze, I might turn over -- turn this over to him on the business development side of things. I think we've always consistently said we'd be comfortable putting $1 billion into a transaction, and I think that still stands. It wouldn't be a preference. We don't want to create a concentration issue, and I think anything of that size would probably -- we would probably want to be in production. So that $1 billion doesn't apply to every single type of transaction that we see.

Dan, are you on? Do you want to walk through the environment?

Daniel Breeze
Yes. Thanks. Hi, Jackie. Hope you're well. Can you hear me okay?

Jackie Przybylowski
I can. Thanks. Hope you're well too.

Daniel Breeze
Good. Yes. Thanks, and so I think the first thing to say is that we're not under pressure to complete transactions. As you know, we've got a strong portfolio and, of course, Khoemacau is going to be coming online here over the next number of quarters.

So, we're excited about that, but I think it's very similar to what we've talked about in the last few calls. We're seeing a pretty healthy market. I think in the $100 million to $500 million range is how I would describe it, and we've adopted to the realities of not being able to travel very easily. So, we're getting a lot of our work done remotely and processes are continuing. We've seen as you -- like we see in the market -- some transactions happen as well. So, we feel pretty good about deploying that capital at some point, and as Bill has pointed out, we've got ample liquidity to do so.

Jackie Przybylowski
That's really helpful. Thanks, Dan. That's it for me. Thanks.

William Heissenbuttel
Thanks, Jackie.

Daniel Breeze
Great. Thank you.

Operator
Our next question comes from Mike Jalonen with Bank of America. Please go ahead.

Michael Jalonen
Hi, Bill. Hopefully, you're doing well. Just calling you from my basement. I might be here a lot longer. I have just a question on strong performance on the royalty side but on the [unintelligible] side, but I assume the whole royalty wasn't part of that since the market was shut down. I'm just wondering, if there's been any discussions with Kirkland Lake with your royalty to maybe reopen -- get that mine reopened? Or even what Kirkland Lake is thinking? It is a very lucrative royalty at these prices. So just wondering where it stands?

William Heissenbuttel
Yes, and I'm going to answer you from my basement. So, the -- look we spent months talking to both Kirkland Lake and Newmont trying to solve something that wasn't really our issue. As you know, our royalty does not burden the property and it's paid by Newmont. We were surprised by the statement or the option agreement if you will that was announced in August, and all I can really say to you is that we are in contact with counsel. We are reviewing our options with respect to that agreement, and that's, Mike, that's all I can really offer you.

Michael Jalonen

Okay. Thanks, and good luck.

William Heissenbuttel
Thanks.

Operator
Our next question comes from Tanya Jakusconek with Scotiabank. Please go ahead.

Tanya Jakusconek
Hi. Good morning, everyone. Can you hear me?

William Heissenbuttel
Yes. We can hear, Tanya.

Tanya Jakusconek
Okay. Great. Thank you. I have got three questions. I just wanted to circle back on your fiscal Q2. Other revenue, which we don't have the details on. We have Peñasquito and Cortez, but just on the other royalties, can you give us a breakdown of what are the bigger ones in there? Because that was a lot better than we were anticipating, and we'd just like to have a bit of clarity on the bigger items in that other revenue.

William Heissenbuttel
Paul, can I ask you to maybe…

Paul Libner
Yeah.

William Heissenbuttel
Maybe give a few names there. I mean, I think we say in the quote that none of them represent 5% but maybe we could just take off some of the bigger ones.

Paul Libner
Yes. Hi, Tanya. How are you?

Tanya Jakusconek
Good. Thank you.

Paul Libner
A couple of items that I'll just point out, and, two, that Bill mentioned in his remarks as well, but probably the bigger one was the 4% NPI that we have on Kurnalpi. It's the Kurnalpi NPI, which is -- it covers certain tenements on South -- Saracen South Laverton property in Western Australia. That royalty generated $3.7 million to us this quarter or approximately 2000 GEOs. So that was really the big item for the quarter, but I'll also say too is the rest of our Australian royalties, we had a nice contribution from a lot of our Australian royalty portfolio. Just to let you know, I mean including that Kurnalpi of $3.7 million, we had total contributions in Australia, of $40 million for the quarter and that compares to $34 million in our Q1. So those are probably the two big -- or the bigger ones that I would probably point out to you if that helps.

Tanya Jakusconek
Okay. What -- are you thinking of providing us a bit more information on that other category going forward?

William Heissenbuttel
Yes. I think, we've always tried to keep the disclosure to what we phrase as our principal properties, but I'm happy to take that request on and talk to the team about it and see if it makes sense to give you a bit more detail in the future.

Tanya Jakusconek
Yes, that would be helpful. Thank you, and maybe just moving on to the Q3 stream outlook, and I know Jackie asked this and just for us to understand, the outlook suggests again that the what you will receive is going to be similar to the level of stream deliveries as Q2, but, given that the production outlook for both Mount Milligan and Andacollo as we're ramping up through the second half of this year appears better, is it just the timing of these deliveries that are causing this swing because we would have expected the second half to be stronger.

William Heissenbuttel
Yes. I mean, don't forget that the one thing about Milligan and Andacollo there is this six-month delay. So when we look at our December quarter, and I'll just sort of focus on Milligan a little bit, you'll remember that in the second calendar quarter they cut back production due to COVID-19. Well, that starts showing up well after -- people tend to forget about it and then it can show up in our results. I think the thing -- when Mark pointed to Table 2 in the press release, and you look at the variability of each of the individual assets if any of those two bigger assets suddenly match up where you might have lower numbers, you can see these swings, but I don't see the range that we've given being completely outside of what we've done before. It is very much timing driven, but if you see production increases of the mine, hopefully, you'll see that in our results, but you won't see that in our results for six months.

Tanya Jakusconek
Okay. So, it's the timing of it. And then maybe my last question, just on the M&A and you mentioned your $1 billion transaction, those would be something that you would do, obviously, asset being in production and a $100 million to $500 million range that you're seeing now. Are those more in the development stage type of acquisitions, or are they producing? And are you still focused on gold or have you shifted to silver? Maybe just a bit more on that. Thank you.

William Heissenbuttel
Yes. Dan I may turn this back over to you. The one thing I will say is that we're always going to be gold focused, and you've probably heard me say it before. If you give me five transactions to look at and three of them are gold and two of them are silver, I'm going to look at the gold ones first. So silver is in the box, but we're very much focused on gold. We don't sort of take strategic shifts and say, okay, now we're going to do some silver. We tend not to be able to pick the market that way. You take the deals as they come in.

Dan is there anything you want to add?

Daniel Breeze
Sure. Yeah, hi, Tanya. Hope you're well. Thanks for the question. I would just add that when you think about the buckets of where the use of proceeds are generally directed towards -- project development, M&A and strengthening the balance sheets -- and I think right now what

we're seeing mostly is on the project development side and some of the equity raises that are happening in the market they're small and they're moving forward the projects, which is good for us as well. We're seeing more of those kinds of projects move forward where we can be part of the capital structure on the development side. So, it's probably skewed more towards project developments, I would say.

Tanya Jakusconek
Okay. That makes sense. Okay. Thank you so much for that.

Paul Libner
Thank you.

William Heissenbuttel
You're welcome.

Operator
Our next question comes from Greg Barnes with TD Securities. Please go ahead.

Greg Barnes
Yes. Thank you. Bill, I just want to double-check if the $50 million funding gap at KCM is the entirety of the funding gap. It's not just what you could -- they could cover via your funding options?

William Heissenbuttel
That is the funding gap.

Greg Barnes
Okay, and secondarily, your comments at the end of your prepared statements about being disciplined and focusing on returns and being patient, if I'm reading between the lines, obviously the loyalty space has got a lot more competitive. Are you not seeing the returns on the latest deals that have been done particularly attractive for you?

William Heissenbuttel
I think the industry as a whole, I think you've seen a compression in returns, but I think when I look at it -- it's -- you've got the initial return based on a reserve that you see at the time and I've said time and again, that's not the return we're ultimately looking for. We're looking for the assets that have upside, where I can say to you a number of years later, “See, you might calculate a really low return at the beginning, but this is what we saw coming in the future.” It is more competitive, and I would say it's more -- it's not just the fact that the space has more people in it, it's that the equity markets are open a little bit more. Interest rates are low so the debt markets -- and we haven't seen sort of all of that come together in a long time. So, the point really is we can be patient. We're not going to chase deals because we have to fill something -- some pipeline in the future. We're going to find the transactions that we want to do, but to your point, I would say that the competition in the sector is greater because these other sources of capital are now more available.

Greg Barnes
When you review some recent deals, are you -- do you think the other participants are pricing in too much for the upside beyond the basic reserve? Or is that not the case yet?

William Heissenbuttel
I'll be honest with you, when one of our competitors announces a transaction, we dissect it, but everybody has a different technical team. Everybody has a different view of upside. They may have some familiarity with the asset. So, it would be -- it would be really hard for me to start saying, okaym Company X thinks that this mine is going to – instead of having a 5-year life, it is going to have a 20-year life, but you can't really do that.

Greg Barnes
Okay. Fair enough. Thank you.

William Heissenbuttel
Thank you.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Bill Heissenbuttel for any closing remarks.

CONCLUSION

William Heissenbuttel
Well thank you very much for taking the time to join us today. I very much enjoyed the questions. We appreciate your interest in Royal Gold and we look forward to updating you on our progress during our next quarterly call. Take care.

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