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In today's Bulletin, we look at two of my favorite companies, both of which have royalties on the same asset.

ALTIUS: ROCK SOLID WITH SOME WORLD-CLASS ASSETS

Altius Minerals (ALS, To., 21.94) reported second-quarter earnings lower than analyst expectations largely due to higher depreciation and stock compensation, as well as lower earnings from the renewables unit. Royalty revenues, which had been pre-announced (see Bulletin #873), were lower largely due to the closure of the 777 Mine as well as the lower commodities prices, including potash which spiked at the onset of the Russia-Ukraine war. These factors will also weigh on full-year revenues compared with last.

Altius has a good financial position, ending the quarter with almost $25 million in cash (excluding $54 million held at majority-held Altius Renewables), and $117 million in debt. It has about $94 million still available on its revolver. The company holds equity interests of almost $400, including $173 million in Altius Renewable and $116 million in Labrador Iron Ore Royalty Corp., neither of which is, however, viewed as a short-term source of cash. Its portfolio of prospect generators is valued at $42 million. Together with other shares, the total share portfolio stands at a total of C$387 million.

In addition to scheduled debt repayments of $2 million during the quarter, the company also spent another $2.1 million buying back 98 million shares. It has recently renewed its share repurchase program, allowing it to buy up to 4.21% of shares outstanding over the next 12 months. Altius said that the value of Altius is "from time to time" greater than the market price of the shares. The company has had an active buy-back program since 2010.

Some projects pushed back

On the project front, there were some setbacks, but for the most part postponements of expansions and nothing that will affect near-term revenues. The major exception is the long-anticipated closure of the Genesee coal operations in Alberta (but see below). Altius has no other current source of revenue that is running down or nearing its end of life.

Other than that, there have been some delays in future projects. Nutrien announced the suspension of plans to expand its potash output, on which Altius has a royalty, though this is likely to be temporary, and will not affect near-term revenues. In addition, a planned expansion at the Chapada copper mine has been delayed, though several expansion opportunities are being evaluated by miner Lundin, following positive results at the

Sauva discovery there, and the Chapada mine continues to generate royalty revenue for Altius. In many ways, these delays are for positive reasons.

On the other hand, there are projects that are growing and can reasonably expect to generate significant long-term revenues for Altius. What it calls its "option value realization progress" is well underway, with several projects which Altius discovered approaching production.

Exposure to world-class gold camp

Most notably, AngloGold provided resource estimates for its Merlin deposit, adjacent to Silicon, in southern Nevada, over which Altius holds a 1.5% royalty. Anglo has a "exploration target", similar to a resource estimate, of 6-8 million ounces at Merlin, in addition to 4.2 million at Silicon, making this an emerging world-class asset, with the advantages of being in a strong jurisdiction with a major operator. (See Bulletin #875 for report on Orogen, which also holds a royalty on these deposits.) The deposits remain open, Merlin in three directions and at depth, so the potential for the resource to grow further is very strong.

Altius also believes its royalty extends to the whole area of adjacent claims, though this is disputed by Anglo and is the subject of arbitration, set for April. Add the entire area together, and 20 million ounces is within sight, with several areas not yet properly drilled. Potentially this could be a 500,000 a year producer for 30 years. If Altius' claim is upheld, not only would it have a royalty over many more ounces, but those ounces would start generating revenue sooner.

How much is it worth?

A reasonable valuation on just the royalty that is not disputed could be north of $150 million, representing about 15% of Altius' NAV. (Other analysts value the royalty variously at $64 million, another at $75 million, but I believe these lowest are grossly undervaluing the asset, while others are meaningfully higher. Given the top location as well as the major operator, a premium is justified.) Although part of the project (North Bullfrog) is expected to start production in 2025, Silicon and Merlin—which may yet be one large pit—are not expected to commence operations until 2028 or 2029, though no firm mine plan has been been announced.

Altius has not yet decided how to maximize the value of this asset. It has looked at swapping the royalty for non-gold royalties—since gold royalties are generally valued higher Altius could exchange for great future cash flow in non-gold royalties—but finding royalties of comparable quality and value has proved challenging especially as the project has grown. It has also considered putting its royalty together with Orogen's royalty on Silicon and Merlin in some fashion, in the belief that a combined royalty would be more valuable to an acquirer. Altius is the largest shareholder in Orogen, with 15% of the shares plus warrants. It is known that general discussions have taken place but nothing definitive has come out of them. In all likelihood nothing will happen on any front until Anglo releases what it calls a "concept study", similar to a PEA, scheduled for year end, and Altius' arbitration has been decided. It is now possible that the company may simply decide to hold on to the royalty for the tremendous, long-life cash flow it will provide.

An iron ore deposit advances

Altius also has another very significant project moving towards production, the Kami iron ore deposit, over which Altius holds a 3% royalty, now owned by Champion. The miner is planning to announce an updated feasibility study by year end. Kami is very high quality iron ore, making it potentially attractive to major companies with lower-quality ore for blending to meet European standards. Although Champion is unlikely to want to sell the project, it could seek project financing from a major in return for offtake agreements. Kami may be four years away from production but that could be up to $50 million a year fully ramped up (likely to be $25 million/year in the first stage but double that after a couple of years.)

On the forced closure of the Genesee coal royalty, Altius has a takings lawsuit against the government of Alberta. Although it lost the lower court case, a subsequent Supreme Court ruling in an unrelated but similar case, gives ground for some optimism when Altius' appeal is heard, expected in the fall.

Altius also sees a path from existing projects to increase revenues at 57% owned Altius Renewable Royalties, to as much as $17 million attributable revenues within three years. There are many other assets within the Altius portfolio, both cash-generating and non-producing, that we have not touched on here. Some others, such as Voisey's Bay nickel mine, have the potential to surprise by their upside beyond existing mine lives.

People most important asset

Altius is a core holding, offering exposure, mostly through royalties, to a broad range of commodities, from copper and nickel, to phosphate and renewables. Although it does buy royalties, it has also generated many royalties through its own exploration efforts. The Altius model involves finding partners to carry forward projects it finds, but it does this usually by creating a new company, retaining both shares and royalties. When the company eventually goes public, Altius sells down its share positions, keeping the royalties. There is a broad range of royalties on long-life assets, with several offering meaningful upside in coming years, a solid balance sheet, and above all a group of some of the smartest people in the industry.

Led by co-founder and CEO Brian Dalton, they include Chief Geologist Lawrence Winter, VP Project Generation Chad Wells, and Chairman and co-founder John Baker. The first three were at university together. Dalton not only understands the cyclical nature of the sector, but he has the patience and discipline to act in a counter-cyclical manner. He has the imagination to think outside of the box and see opportunities that others miss. I could similarly sing high the praises of other members of the team—Lawrence is as keen a geologist as I have met, while Chad's returns managing the prospect generator portfolio put most money managers to shame. The very high-quality board, includes, *inter alia*, our old friend from Virginia Gold Andre Gaumond, and possesses a range of experience and independent thinking. I like to get to know top management of companies in which we invest, and in the case of Altius, the more one knows them the more one comes to respect them.

No wonder Altius is a core holding for us, and one that has several opportunities to meaningfully increase, and in combination well more-than double, revenues in the coming years. If you do not already own, you should buy, and use any pullbacks to add to positions.

Orogen has solid cash flow and upside from Silicon

Orogen Royalties (OGN, To., 0.62) announced another profitable quarter, underpinned by increased revenue from its royalty at Ermitaño. New milling equipment at First Majestic's Santa Elena mine has increased recovery rates to record levels; most of the ore going to the mill is now coming from Ermitaño. Overall royalty income of $1.2 million was up 25% from the same quarter a year ago, though down 10% sequentially. Production at Ermitaño is expected to increase in the second half by 27%.

Significantly, too, recent drilling has shown the potential for reserve replacement, with strong results from central Ermitaño but also good results to the east. Orogen also holds royalties on the adjacent Ermitaño East and Cumobabi deposits. The company has reduced its G&A expenses by 36% compared with the previous quarter. Debt free, it has working capital of C$16.8 million, up $4.7 million from the previous quarter. On the current mine plan, Orogen will receive royalty revenue through 2027, but we expect the mine to last beyond 2027, as Ermitaño East and Cumobabi are more fully explored. At any rate, this revenue should continue until the Silicon royalty kicks in.

In total, over 100,000 metres of drilling is estimated on Orogen's royalty ground in 2023. Most of the 24 projects on which it holds royalties were generated through the prospect generator business.

One asset worth more than current value

Orogen holds a 1% royalty on the Silicon and most of the Merlin deposit. Altius holds a 1.5% royalty on these two deposits (though with slightly different boundaries) as well as the disputed claim over the larger district. We would value Orogen's royalty at US$100 million, and one that will likely grow. Again, though some analysts put the value considerably less, one respected analyst puts the value at $150 million to $180 million. We don't calculate that it's there quite yet, but could easily get there with more drilling. If we take $100 million to be conservative, plus $40 million for Ermitano, another $18 million for the project generation business (a competitor's estimate of the value), and $12 million in cash and shares, you get on a sum-of-the-parts basis to US$170 million on a very reasonable basis. The current market cap is less than US$90 million, providing an enormous gap between share price and value.

Again, as discussed previously (see Bulletin #875), Orogen has current cash flow, a world-class royalty, an active prospect generator portfolio, well executed, plenty of cash, and solid management. Although it is a small cap company—currently C$120 million—it is a stock that belongs in all portfolios; size does not determine quality! Orogen is a strong buy at this level.

TOP BUYS this week, in addition to above, include **Osisko Gold** (OR.NY, 13.16); **Barrick Gold** (GOLD.NY, 16.12); **Agnico Eagle** (AEM.NY, 48.13); **Fortuna Silver** (FSM.NY, 2.99); **Midland Exploration** (MD, To., 0.48); **Lara Exploration** (LRA, To., 0.74); and **Hutchison Port Holdings** (HPHT, Singapore, US$0.166, 10.4% yield).

QUESTIONS FROM READERS

After reading your report on Pan American Silver, it's hard to believe that it is losing money again. MS

Pan American's recent quarterly loss was the result largely of expenses related to its acquisition earlier this year of Yamana, including a one-time accounting loss on the sale of the Morococha mine. Excluding these special expenses, Pan American had a profitable quarter. Perhaps I was not clear enough. I like Pan American here.

UPCOMING APPEARANCES Next Saturday, 9th, I'll be speaking at the always stimulating Capitalism & Morality Conference in Vancouver. If you are in town, it's well worth attending. See the program and registration details here.

November, 1st to 4th, is the annual New Orleans Investment Conference. Always educational, challenging and fun, it is a must event on my annual calendar. Speakers, too many to list, include Peter Boockvar, a walking almanac of all things economic; Robert Prechter, George Gammon, and the always-controversial Prof. Dave Collum. Details can be found here.

A BREATH OF FRESH AIR Javier Milei, the self-described "minarchist" and follower of the Austrian School, who led in Argentina's presidential primary round last month, says that "one of the biggest thieves in the history of humankind is the central bank. We should try to get out of the blinders that the statist indoctrination imposed on us." The media, of course, not understanding his philosophy, lazily calls him "far right".