The Precious Metal Royalties Industry – Valuation Framework & Growth Potential

COULOIR CAPITAL

Report Highlights

- In this report, we look at the gold royalty industry in relation to traditional gold mining companies and the commodity itself. As specialty financiers, royalty companies provide project financing to miners via various contracts, purchase third-party royalties, and even accumulate properties or property options of their own (with the intention of selling or optioning them to miners in the future for profit and/ or royalty agreements).

- **Outperformance vs. Gold Miners:** In terms of share price performance and valuation multiples, the major gold royalty companies have largely outperformed the major precious metals miners. We believe that this is in large part due to differences in operating models and the relative strengths of the royalty model that minimize operating cost and CAPEX intensity, as well as risk and operating complexity.

- **Valuation Multiples Expansion and Returns to Scale:** A phenomenon that has been well recognized in the mining royalty industry is the positive value accretion with scale. As royalty companies accumulate royalties and other holdings, they benefit from organic asset growth on royalties that comes at no additional cost, combined with de-risking benefits related to portfolio diversification. As a result, we have seen major royalty companies exhibit higher multiples as they grow their portfolios.

- **Small-Scale Gold Royalty Companies Poised for Growth:** Due to the aforementioned effect, smaller royalty companies with the right equation and catalyst to drive royalty portfolio growth can see dramatic increases to their valuations. In this report, we will be examining Ely Gold Royalties Inc. (TSXV: ELY) as a benchmark example of this.

*Note that all $ amounts are C$ unless stated otherwise.

January 3rd, 2021

2020 has proven a strong year for multiple assets, but precious metal commodities in particular have broken out to levels not seen since the aftermath of the great recession. As a result of the strength in gold, junior mining companies with gold exploration ambitions have seen dramatic share price movement on the upside, spurred by investor confidence that such explorers may uncover mineral assets in a time of strong prices. The TSX Venture Index, a junior mining heavy composite, has posted strong returns, with over 50% on a YoY basis and almost 150% upside from March lows. The GDX VanEck Vector Gold Miners ETF has similarly performed well, returning over 25% YoY. With strong equity value appreciation has come greater access to capital, facilitating accelerated project development and incentivizing miners across the development spectrum to raise capital at attractive prices.

Despite the strong returns precious metal mining and exploration companies have demonstrated during 2020, we believe another segment of the gold eco-system has been relatively under-bought. That segment is the gold royalties and streaming sub-sect, which like the mining space, features players of differing scales and asset focus. We believe that the gold royalties space is a segment that could offer attractive forward returns whilst still providing investors significant exposure to the bull cycle in precious metals. In this report, we will explore the operating differences between miners and mining royalty companies, the forward outlook on gold royalty companies, and outline key players we believe could deliver strong returns.

Royalty Companies & Their Role in the Precious Metals Mining Industry

Because developing, permitting and building a gold mine (before ultimately bringing it to the commercial production milestone) is a CAPEX and time intensive process, many prospective miners lack the internal funding to successfully finance mine exploration and development. As a result, miners turn to external sources of capital in a bid to finance their projects, with traditional debt and equity sources being the most common sources of financings. However, both sources of capital come with significant drawbacks. In the case of equity financing, the cost of new capital is considered the highest of all funding methods, and significant dilution may take place before a mine makes it to commercial production. For mine builder-operators who are at the development stage, initial capital costs can be considerable relative to the miner's own market capitalization, with new share issuances likely to significantly dilute existing shareholders. Whilst debt comes at a comparatively cheaper cost, the high risk associated with mine development will constrain the pool of potential creditors, and any lenders will likely demand restrictive covenants to keep miners in check. This will ultimately impact operating flexibility whilst also subjecting mine developers to ongoing cash burn as interest expenses accrue.

Against equity and traditional debt financing, gold royalty and streaming has become an increasingly popular form of project financing for miners, with royalty players fulfilling specialised financing needs tailored to the gold mining industry. A gold royalty company is company that helps fund exploration, development and/ or production projects in return for royalties on the project's metal production. In addition to signing royalty contracts with prospective miners, some mining royalty companies also look to acquire third-party royalties. Some will also look to acquire properties or options on properties, with the express intention of monetizing such assets through sales to miners more willing to develop the properties (including embedded royalty agreements).

A royalty agreement can be structured in several ways, but typically features the royalty financier providing upfront fixed financing in return for a fixed percentage of a mine's revenue, production, or profits. The most common types of mining royalty contract structures are summarized below:

- **Stream Contract:** Technically different from a mining royalty, streaming agreements comprise the majority of mining royalty contracts. In gold streaming agreements, the miner agrees to sell the royalty company a set percentage of gold ounces at either a fixed price or fixed percentage of the market spot price for gold bullion. The pricing of streamed ounces is typically at a major discount to spot prices at the time of delivery, securing the royalty company an operating profit margin regardless of market pricing. The below provides an example of a gold streaming agreement between our coverage company Steppe Gold Ltd. (TSX: STGO) and Triple flag Precious Metals Corp., a private royalty company.

STGO Streaming Agreement with Triple Flag

10. Streaming arrangement

In connection with the ATO Acquisition, the Company, Steppe Gold LLC ("Steppe Mongolia") and Steppe Investments Limited ("Steppe BVI") entered into a metals purchase and sale agreement (Stream Agreement) dated August 11, 2017 with Triple Flag Bermuda to sell gold and silver produced from the ATO Project. Under the terms of the Stream Agreement, Steppe BVI is obligated to sell to Triple Flag Bermuda 25% of the gold and 50% of the silver produced from the ATO Project until such time as Steppe BVI has sold an aggregate of 46,000 ounces of gold and 375,000 ounces of silver, respectively. Thereafter the annual amounts that Steppe BVI is obligated to sell to Triple Flag Bermuda is capped at 5,500 ounces for gold (plus 250 ounces of gold for each three month period in which the commercial production date follows September 30, 2018) and 45,000 ounces for silver (plus 2,045 ounces of silver for each three month period in which the commercial production date follows September 30, 2018). The obligation of Steppe BVI to sell gold and silver to Triple Flag Bermuda continues for the life of mine and includes any gold or silver produced by Steppe Mongolia within the stream area, which is the area within 20km from the boundary of the original mineral licenses comprising the ATO Project.

As additional consideration for entering into the Stream Agreement, the Company granted 2,300,000 purchase warrants to Triple Flag Bermuda, with each warrant (a "Stream Warrant") entitling the holder to acquire one unit of the Company (a "Stream Unit") at a price of CAD$2.00 per Stream Unit on or before September 15, 2022. Each Stream Unit is comprised of one common share and one common share purchase warrant, which entitles the holder to acquire one additional common share at CAD$2.00 per on or before September 15, 2022.

On September 30, 2019 the Company entered into an agreement to amend the terms of its existing gold stream with Triple Flag Bermuda. Under the terms of the amendment, Triple Flag Bermuda advanced an additional deposit of $5,000 to Steppe Gold, bringing the total amount advanced to Steppe Gold by Triple Flag Bermuda under the gold stream to $28,000. The proceeds received from Triple Flag Bermuda were used to repay the final $5,000 promissory note issued as part of the purchase price for the acquisition by the Company of the ATO Project.

As consideration for the additional advance of $5,000 the parties agreed to reduce the variable gold and silver price payable by Triple Flag Bermuda on delivery of gold and silver from 30% to 17% of the relevant market price. As additional consideration, Steppe West granted a 3% net smelter returns royalty to a subsidiary of Triple Flag Bermuda on minerals derived from the Uudam Khundii property owned by Corundum.

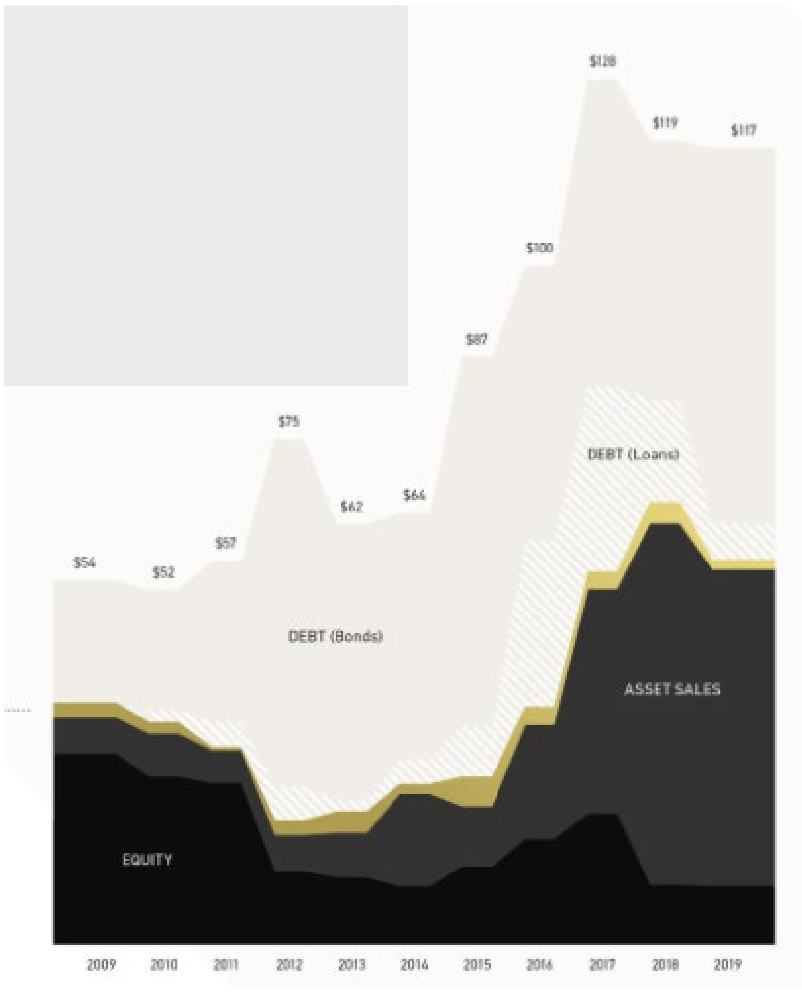
Source: Steppe Gold Ltd.

- **Net Smelter Returns ("NSR"):** An NSR agreement is a sales-based contract, where miners agree to pay royalty companies a fixed percentage of mine revenue (less refining costs) over the life of the asset.
- **Net Profits Interest ("NPI"):** An NPI provides royalty companies with a fixed percentage of net profits from the mine's production. Given that it is the least lucrative of the royalty contract structures typically signed, it is also the least popular.

Of the approximately $23.4 billion in aggregate mining royalty deals between 2010 and 2019, around 74% (or approximately $17.2 billion) were streaming agreements, demonstrating the contract structure's attractiveness to royalty financiers. Looking at mining financing in general, mining royalty funding makes up the smallest portion of financing, representing a minority niche versus more traditional external sources of capital as well as internal sources such as asset divestitures.

Mine Financing by Type

(Royalty Funding in Gold Colour Below)



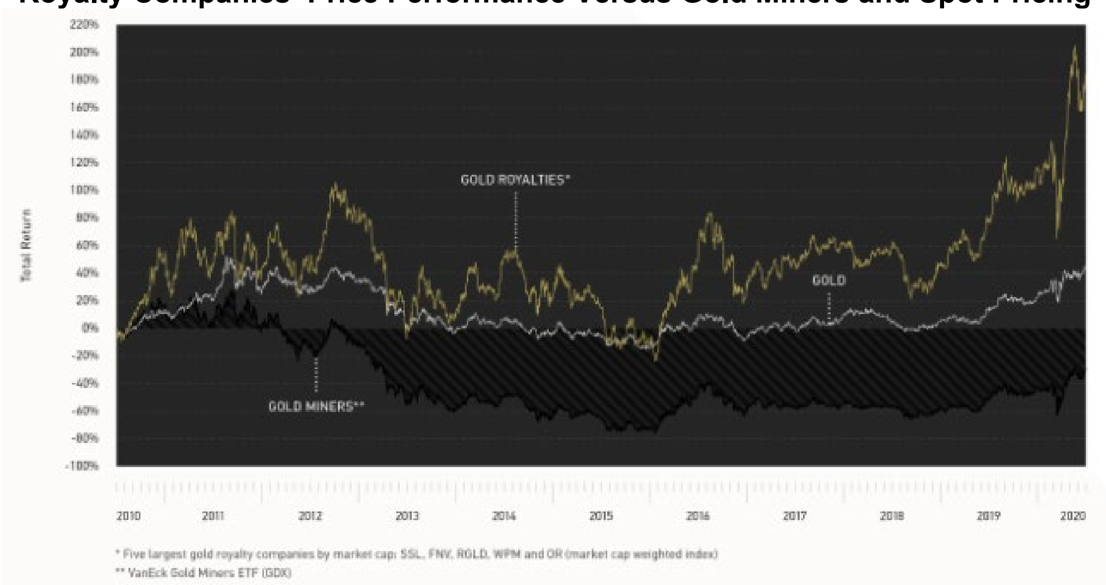
Source: Sandstorm Gold Ltd.

From the perspective of the miner, gold royalty agreements offer a number of benefits that make it attractive as an alternative financing model for prospective projects. Unlike equity issuances, royalties do not directly dilute the shareholder base and the degree of impact to free cash flow to equity ("FCFE") is dependent a number of factors. In comparison to debt, royalty financing is significantly less restrictive (from a covenants perspective) and payments only begin once cash flows do (upon production commencement). Because of this, we see royalty financing as a particularly attractive form of capital available to gold miners.

Relative Strengths of the Gold Royalty Model Versus Traditional Gold Mining

From the perspective of the investor, there are a number of reasons to view the mining royalty model with a positive lens. Looking at historical performance, the five largest precious metal royalty companies have typically outperformed the price of gold as well as the share performance of the top gold miners. As shown below, the degree of outperformance has historically been significant, and the spread has persisted over the last ten years (the chart below covers June 30, 2010 through June 30, 2020).

Royalty Companies' Price Performance Versus Gold Miners and Spot Pricing



Source: Sandstorm Gold

Apart from absolute equity returns outperformance, gold royalty companies have typically exhibited higher multiple relative to miners, with multiples expansion noted as companies amass royalties and reach scale. We believe the richer multiples on royalty companies reflects their greater earnings power relative to capital outlay and operating expenditure. As we will come to shortly, royalties carry few expenses apart from the upfront capital injection to the miner, and as result margins tend to be significantly higher for royalty holders.

In addition, we believe multiples tend to be higher on royalty companies because there is an expectation of organic growth in the asset base at little to no cost. Because royalties tend to last the length of a mine's life, there is potential blue sky growth opportunities on any reserve expansion initiatives undertaken by miner owners at a future date. Less any provisions excepting the royalty holder from production off expanded deposits or royalty buyouts, the royalty owner typically is entitled to royalties on production from the expanded mine. As a result, the ongoing payments on a royalty can be continuously extended and/ or expanded at no additional cost, providing an organic source of growth on an existing royalty. We believe that the multiples premium royalty companies enjoy recognizes this phenomenon and prices it in to market valuations.

In addition to this, we believe that the costless asset growth potential expected from royalty companies also scales with the size of the company, so that as a company grows its portfolio of royalties and property options, so too does its intrinsic valuation expand. We believe this positive return to scale reflects the compounding of potential upside available to companies as royalties accumulate, and we will return to this later when we discuss our valuation framework.

Royalty Companies' Valuation Multiples Versus Gold Miners

Company	P/S	EV/ EBITDA	P/E	P/FCF	FCF Yield	P/B	EV/ Ounces
Franco Nevada Corp.	24.06	29.40	89.15	41.79	2.39%	4.48	$ 56,589
Wheaton Precious Metals Corp.	17.78	26.67	42.91	27.54	3.63%	3.31	$ 35,639
Royal Gold Inc.	13.24	16.98	29.59	34.76	2.88%	2.95	$ 28,102

Company	P/S	EV/ EBITDA	P/E	P/FCF	FCF Yield	P/B	EV/ Ounces
Newmont Corp.	4.25	9.07	19.64	15.29	6.54%	2.00	$ 10,334
Barrick Gold Corp.	3.25	6.15	13.09	14.43	6.93%	1.25	$ 10,436
Newcrest Mining Ltd.	4.12	9.12	25.00	24.39	4.10%	1.88	$ 10,022

Source: Public Disclosures, Couloir Capital

As to why gold royalty companies exhibit such strong operating margins relative to gold miners, one need only consider the differences in the operating models and review the financials of the mature players. Royalty companies are not in the business of mining, meaning they do not incur significant costs associated with operating a gold mine – operating heavy machinery with ongoing fuel and maintenance costs, cash costs associated with maintaining and powering mine infrastructure, managing overburden removal to mention a few key expenses. In addition, because royalty companies are essentially specialty financiers, they do not have the same labour cost burden carried by gold miners, who often have large personnel requirements that in turn carry large wage commitments. As a result, the small teams at royalty companies typically have outsized per-person contributions to the top line.

Because of their simple and non-labour-intensive operating model, gold royalty companies typically only have a few major recurring expenses: cost of sales (typically inclusive of depletion-related expenses), SG&A costs, financing costs, and taxes. As we have already discussed, labour is not a large expense for royalty companies and as a result SG&A is typically a minor component of the overall cost structure. As financiers of mining companies, royalty companies do incur financing costs on debt that they take on to support the upfront financing they provide to miners. However, a survey of the recent earnings of the big three royalty companies demonstrates that financing costs are a small component of overall operating expenses, which is owed to the fact that these companies have low leverage levels and have low interest costs on what debt they hold.

The largest cost bucket of gold royalty companies is their cost of sales. Within that category, depletion is a non-cash expense and does not impact operating cash flows. Furthermore, the key advantage of the royalty business model helps keep cash costs per ounce fixed and typically lower than the market pricing on delivered ounces. As we discussed earlier, the majority of royalty deals are usually streams, where miners agree to sell production to royalty companies at either a fixed cost or a cost at significant discount to spot pricing. As a result of the streaming structure, most royalty companies can either achieve substantial cost of sales visibility over the medium to long term or secure a consistent cash operating margin regardless of the pricing environment. Because of this advantage, royalty companies possess an intrinsic price hedge that explains their outperformance of not only gold miners but also the gold spot pricing itself.

Royalty Companies' Profitability Versus Gold Miners

Company	LTM Revenue	LTM EBITDA	LTM Net Profit	EBITDA Margin	Net Margin	FCF/ Revenue
Franco Nevada Corp.	$ 1,265,940,000	$ 1,015,430,000	$ 341,640,000	80.21%	26.99%	57.57%
Wheaton Precious Metals Corp.	$ 1,343,204,200	$ 909,000,300	$ 556,539,100	67.67%	41.43%	64.56%
Royal Gold Inc.	$ 685,002,500	$ 523,237,000	$ 306,577,700	76.38%	44.76%	38.10%
Company	**LTM Revenue**	**LTM EBITDA**	**LTM Net Profit**	**EBITDA Margin**	**Net Margin**	**FCF/ Revenue**
Newmont Corp.	$ 14,404,000,000	$ 6,838,000,000	$ 3,116,100,000	47.47%	21.63%	27.78%
Barrick Gold Corp.	$ 15,860,000,000	$ 8,476,000,000	$ 3,939,000,000	53.44%	24.84%	22.53%
Newcrest Mining Ltd.	$ 5,098,600,000	$ 2,385,500,000	$ 841,100,000	46.79%	16.50%	16.90%

Source: Public Disclosures, Couloir Capital

Of course, whilst a strong margin spread relative to miners as well as margin stability are attractive features, it is also important to consider these profits from the lens of returns on the original capital investment. Whilst royalty companies can typically achieve strong operating margins on a consistent basis, a key factor to monitor is whether these profits are backed by proportional free cash flows, and whether these cash flows represent adequate returns on the originally disbursed capital. With that disclaimer aside, however, we do note that consistent operating profits due to locked-in margins significantly improve the life-of-mine returns trajectory, because cash returns are likely to be generated on a recurring basis (even if an economic return is not achieved). With a consistent positive return locked-in (to a degree) once the mine starts producing, the chances of long-term accretive cash returns are more likely than in the case of gold mining, where exposure on the top line to spot pricing and on the cost side to mine cash cost floors do invariably lead to losses and negative cash flows at various points in time.

Apart from the stability of free cash flows more generally in the Royalties industry, we also note that royalties don't experience ongoing capital costs associated with mining assets. Operating a mine comes with shouldering the ongoing sustaining capital costs associated with maintaining the integrity of the mine infrastructure and mining fleet. Whilst this may not always impact the income statement of a miner, these are capital costs that are paid in cash and therefore impact free cash flow generation. Royalty companies by contrast can largely expect the vast majority of CAPEX to be disbursed at the start of a mines development, upon financing the miner. This makes for improved cash management and reduces the impact the investment's returns trajectory.

In table below, we outline a number of metrics related to capital costs, CAPEX intensity and cash flow generation, and how they differ between royalty companies and miners.

Royalty Companies Versus Gold Miners: CAPEX and Cash Flow Metrics

Company	LTM FCF	LTM CFO	LTM CAPEX	Revenue/ CAPEX	EBITDA/ CAPEX	FCF/ CAPEX
Franco Nevada Corp.	$ 728,780,000	$ 964,860,000	$ 236,080,000	$ 5.36	$ 4.30	$ 3.09
Wheaton Precious Metals Corp.	$ 867,198,800	$ 896,151,100	$ 28,952,300	$ 46.39	$ 31.40	$ 29.95
Royal Gold Inc.	$ 260,959,400	$ 472,764,500	$ 211,805,100	$ 3.23	$ 2.47	$ 1.23

Company	LTM FCF	LTM CFO	LTM CAPEX	Revenue/ CAPEX	EBITDA/ CAPEX	FCF/ CAPEX
Newmont Corp.	$4,001,400,000	$ 5,735,600,000	$ 1,734,200,000	$ 8.31	$ 3.94	$ 2.31
Barrick Gold Corp.	$3,573,700,000	$ 6,045,000,000	$ 2,471,300,000	$ 6.42	$ 3.43	$ 1.45
Newcrest Mining Ltd.	$ 861,900,000	$ 1,912,300,000	$ 1,050,400,000	$ 4.85	$ 2.27	$ 0.82

Source: Public Disclosures, Couloir Capital

Another strength of the royalty model is the intrinsic diversification benefit – especially in the case of the larger royalty companies, the royalty portfolio can comprise royalty contracts of different types, across different minerals, across different geographies, and even different stages of the development cycle. As an example, a gold royalty company may have royalties on producing mines, near-production projects, and earlier-stage properties. With multiple assets at different stages of development, a royalty company has some insulation away from developmental risk specific to a particular mine, i.e. the delay of cash flows from a given gold mine due to production delays or permitting holdups.

Furthermore, as we have earlier discussed, larger royalty companies tend to build their valuations on additional royalty accumulation and existing royalty maturation. Earlier, we mentioned this from the perspective of compounding organic asset growth, but we also believe that there are de-risking aspects to royalty portfolio building given that risk becomes increasingly spread out and less concentrated in single royalty holdings. As royalty companies de-risk with the build in royalty holdings, we see the effect being analogous to net asset valuation discount rates being reduced, leading to higher perceived intrinsic value.

Competitive landscape and a table outlining key majors

In the table below, we outline key metrics and financial indicators for the major precious metal royalty companies, ranging from the big three down to medium-sized players that have achieved substantial cash flow and earnings milestones. As may have become apparent, scale is an important segregating factor in the royalties industry, with the largest royalty companies having the asset base and recurring cash flows to support multi-billion market capitalizations.

Major Gold Royalty Companies: Financial Data and Multiples

Company	Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Net Profit
Franco Nevada Corp.	$ 30,456,745,066	$ 29,849,905,066	$ 1,265,940,000	$ 1,015,430,000	$ 341,640,000
Wheaton Precious Metals Corp.	$ 23,883,750,105	$ 24,244,715,905	$ 1,343,204,200	$ 909,000,300	$ 556,539,100
Royal Gold Inc.	$ 9,071,020,152	$ 8,885,874,152	$ 685,002,500	$ 523,237,000	$ 306,577,700
Osisko Gold Royalties Ltd.	$ 2,690,320,545	$ 2,951,205,545	$ 200,102,000	$ 106,601,000	$ (142,931,000)
Sandstorm Gold Ltd.	$ 1,754,336,124	$ 1,657,448,424	$ 113,521,200	$ 74,722,700	$ 11,217,700
Maverix Metals Inc.	$ 997,185,800	$ 1,005,772,300	$ 59,294,300	$ 55,738,800	$ 9,276,800

Company	EBITDA Margin	Net Margin	FCF/ Revenue	LTM Ounces (Au Eq.)
Franco Nevada Corp.	80.21%	26.99%	57.57%	527,484
Wheaton Precious Metals Corp.	67.67%	41.43%	64.56%	680,278
Royal Gold Inc.	76.38%	44.76%	38.10%	316,200
Osisko Gold Royalties Ltd.	53.27%	-71.43%	-94.09%	67,763
Sandstorm Gold Ltd.	65.82%	9.88%	34.40%	52,494
Maverix Metals Inc.	94.00%	15.65%	1.28%	27,176

Company	LTM FCF	LTM CFO	LTM CAPEX	Revenue/ CAPEX	EBITDA/ CAPEX	FCF/ CAPEX
Franco Nevada Corp.	$ 728,780,000	$ 964,860,000	$ 236,080,000	$ 5.36	$ 4.30	$ 3.09
Wheaton Precious Metals Corp.	$ 867,198,800	$ 896,151,100	$ 28,952,300	$ 46.39	$ 31.40	$ 29.95
Royal Gold Inc.	$ 260,959,400	$ 472,764,500	$ 211,805,100	$ 3.23	$ 2.47	$ 1.23
Osisko Gold Royalties Ltd.	$ (188,277,000)	$ 92,549,000	$ 280,826,000	$ 0.71	$ 0.38	$ (0.67)
Sandstorm Gold Ltd.	$ 39,050,700	$ 79,924,000	$ 40,873,300	$ 2.78	$ 1.83	$ 0.96
Maverix Metals Inc.	$ 761,800	$ 45,462,300	$ 44,700,500	$ 1.33	$ 1.25	$ 0.02

Company	Book Value	Assets	Debt	D/E	D/A
Franco Nevada Corp.	$ 6,799,650,000	$ 6,988,150,000	$ -	-	-
Wheaton Precious Metals Corp.	$ 7,216,739,400	$ 7,918,543,100	$ 633,750,000	0.09	0.08
Royal Gold Inc.	$ 3,072,187,300	$ 3,636,343,100	$ 351,904,800	0.11	0.10
Osisko Gold Royalties Ltd.	$ 1,638,178,000	$ 2,200,070,000	$ 421,590,000	0.26	0.19
Sandstorm Gold Ltd.	$ 780,263,900	$ 791,372,400	$ -	-	-
Maverix Metals Inc.	$ 360,752,600	$ 423,014,800	$ 45,500,000	0.13	0.11

Company	P/S	EV/ EBITDA	P/E	P/FCF	FCF Yield	P/B	EV/ Ounces
Franco Nevada Corp.	24.06	29.40	89.15	41.79	2.39%	4.48	$ 56,589
Wheaton Precious Metals Corp.	17.78	26.67	42.91	27.54	3.63%	3.31	$ 35,639
Royal Gold Inc.	13.24	16.98	29.59	34.76	2.88%	2.95	$ 28,102
Osisko Gold Royalties Ltd.	13.44	27.68	(18.82)	(14.29)	-7.00%	1.64	$ 43,552
Sandstorm Gold Ltd.	15.45	22.18	156.39	44.92	2.23%	2.25	$ 31,574
Maverix Metals Inc.	16.82	18.04	107.49	1,308.99	0.08%	2.76	$ 37,010

Source: Couloir Capital, Public Disclosures

Though large-scale royalty companies typically attract the interest given their broadened portfolios of diverse, cash flow accretive assets and operating track record, we believe there are opportunities in up-and-coming gold royalty companies that are showing growth potential. There has been a spate of junior gold royalty companies that have been building portfolios, and amidst the strength in gold, have attracted significant investor interest. We believe ELY is strong upcoming royalty company and will highlight the company as a benchmark example of smaller royalty companies that are well primed to grow further, from a valuation perspective.

ELY Business Model & Royalty Portfolio Overview

ELY is young gold royalty company that is currently considered to be part of the junior subsegment of the royalty space. Whilst a small-scale company at this point in time, with nascent cash flows and a negligible revenue base, ELY is exhibiting a number of promising factors that we believe may signal the company's readiness to advance to the next tier. The company's operating focus is on royalties and property options in the U.S. state of Nevada, a premier gold mining jurisdiction and one of the most mining-friendly regions globally. That in and of itself is a strength for ELY, as we think it is unlikely that operators financed by ELY will experience major external roadblocks related to permitting or other development processes, given Nevada's miner-friendly regulations. ELY has over 100 mineral asset interests in its portfolio, and the company has publicly expressed its desire to target production and near-production assets with IRRs of 20% or higher. The key flagship assets under ELY royalty contracts are summarized below.

ELY Key Royalty Assets and Operators

Project Name	Operator	2021 Est Payment	2022 Est Payment	2023 Est Payment	Status	Royalty
Isabella Pearl (Leased w/ GRR)	Gold Resource	$288,750	$288,750	$1,288,750	Producing	0.75%-2.5%
Jerritt Canyon (PTR)	Jerritt Canyon Gold LLC	$462,000	$462,000	$462,000	Producing	PTR
Jerritt Canyon (NSR)	Jerritt Canyon Gold LLC	$1,925,000	$1,925,000	$1,925,000	Producing	0.50%
Rawhide (NPI)	Rawhide Mining LLC	$750,000	$750,000	$750,000	2021 Revenue	15.00%
Fenelon (NSR)	Wallbridge Mining	$2,286,900	$2,286,900	$2,286,900	2021 Production	2.00%
Lincoln Hill (NSR)	Coeur Mining	$40,000	$40,000	$2,310,000	2023 Production	2.00%
Marigold (Leased w/ NSR)	SSR Mining	$79,886	$975,000	$975,000	2022 Production	0.75%
REN (Leased w/ NSR)	Nevada Gold Mines	$233,580	$238,252	$243,017	Drifting to Property	1.50%
REN NPI (Leased w/ NPI)	Nevada Gold Mines	$0	$0	$0	Drifting to Property	3.50%
Hog Ranch (Leased w/ NSR)	REX Minerals Ltd	$40,000	$40,000	$40,000	Permittting	1.50%
Gold Rock (NSR)	Fiore Gold	$0	$0	$529,375	2023 Production	0.50%

Source: Ely Gold Royalties Inc.

As demonstrated, apart from focusing on near-term cash flowing assets in a miner-friendly jurisdiction, ELY also has a focus on royalty agreements signed with strong counterparties. This is another relative strength that we see as an advantage for ELY, as counterparty risk can lead to significant impacts on the royalty holder. Having strong counterparties with proven track records of taking exploration assets through to producing mines is vital for royalty companies, who take cash flow visibility risk when financing non-production mining assets. Furthermore, if the counterparty should have any internal issues, such as poor liquidity or a complex pipeline of development assets that could distract the miner from developing the asset under royalty, this too could negatively impact the royalty holder. As seen below, ELY's portfolio features a diverse mix of counterparties with strong track records and brand recognition.

ELY Royalty Counterparties

Source: Ely Gold Royalties Inc.

With jurisdiction focus and counterparty strength as two notable features of ELY, we believe the royalty assets themselves are also reasons to consider ELY an emergent royalty player poised for growth. At this point in time, ELY has three production royalties and nine royalties considered near production. These royalties alone are expected to pay ELY almost $11 million in 2023, though based on the company's public disclosures, ELY expects to have closer to $17-18 million in portfolio-wide revenue by 2023. Whilst ELY's share price has roared in 2020 to reflect the strength of its asset base, we still believe that the portfolio's intrinsic value still has yet to be priced in, and we will outline our valuation thesis for ELY in the next section.

How royalty companies are valued, how it differs from miners

As we have already discussed, we see intrinsic valuations for royalty companies exhibiting positive returns to scale. In other words, whilst there is the face value valuation accretion on the acquisition of new royalties or property options, we believe there is additional value accretion due to the compounding of costless internal asset growth as well as diversification benefits. Because of this phenomenon, we believe we can build a preliminary valuation framework for ELY based on our outlook surrounding the growth prospects for both its existing royalties as well as its potential external growth avenues.

Because of the positive scaling effect we have discussed, we believe ELY should see its multiples expand to resemble those of larger royalty companies. Whilst the timing of this accretive effect isn't possible to any degree of accuracy, in our framework we base our multiples-derived valuation on the exit 2023 revenue ELY has forecasted (the latest company forecasts go). As the company is still in its early stages, ELY is a loss maker and not cash flow positive, which we attribute to its positioning in the royalty accumulation phase. It also does not have the same margin performance as larger royalty companies as result. Because of this, and our belief the company will become significantly more profitable and cash flow positive with scale, we apply peer profitability metrics to ELY's 2023 revenue forecast to arrive at pro-forma 2023 exit financials upon which we apply our multiples-based valuation.

ELY 2023 Forecasted Financials Based on Peer Metrics Application

2023 Exit Revenue	$	17,000,000
Peer Average EBITDA Margin		72.89%
Peer Average Net Margin		27.74%
Peer Average FCF Margin		39.18%
Implied ELY 2023 EBITDA	$	12,392,147
Implied ELY 2023 Net Profit	$	4,715,916
Implied ELY 2023 FCF	$	6,660,961
Peer Average P/S		16.80
Peer Average EV/ EBITDA		23.49
Peer Average P/E		67.79
Peer Average P/FCF		37.25
ELY 2023 Valuation (P/S)	$	285,594,970
ELY 2023 Valuation (EV/ EBITDA)	$	303,377,427
ELY 2023 Valuation (P/E)	$	319,669,391
ELY 2023 Valuation (P/FCF)	$	248,149,978
ELY Implied Value (P/S)	$	236,028,901
ELY Implied Value (EV/EBITDA)	$	250,725,146
ELY Implied Value (P/E)	$	264,189,580
ELY Implied Value (P/FCF)	$	205,082,626
ELY Implied Value (Average)	**$**	**239,006,563**
ELY Current Market Capitalization	$	179,569,991
Implied Upside		33.10%
ELY Share Count		158,911,496
ELY Current Stock Price	$	1.13
Implied ELY Fair Value	**$**	**1.50**

Source: ELY Gold Royalties Inc., Public Disclosures, Couloir Capital

As we've outlined above, the preliminary valuation framework we've built around ELY suggests that the company has significant upside yet to be realized. In addition to this, we believe that there could be additional blue sky growth potential in the company's development and exploration royalties maturing to an advanced stage, which would have the impact of increasing forecasted cash flows used in our multiples valuation.

Whilst we have used the example of ELY in this report to outline key opportunities for investors in the royalties space, we believe that generally the small-scale precious metal royalty companies pose interesting value accretion opportunities. Though there are of course considerations regarding royalty portfolio quality, asset concentration and balance sheet health to be considered with all small royalty companies, we believe the inherent multiples expansion effect we have discussed provides this subsegment with significant built-in growth potential. As a result, assuming capability to finance, solid counterparties and sufficient cash flow visibility, smaller gold royalty companies can experience explosive valuation growth as their asset base compounds on itself. Moving forward, we expect smaller royalty companies like ELY evolve in scale, offering investors an attractive opportunity to gain exposure to precious metals via an alternative route to mining equities.

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